

Consolidated financial statements of

KURE TECHNOLOGIES, INC.

for the years ended August 31, 2021 and 2020

(In thousands of Canadian dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Kure Technologies, Inc.

Opinion

We have audited the consolidated financial statements of Kure Technologies, Inc. (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Goertz.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

December 29, 2021



An independent firm
associated with Moore
Global Network Limited

KURE TECHNOLOGIES, INC.

Consolidated statements of financial position

(In thousands of Canadian dollars)

As at August 31,

	Note	2021	2020
Assets			
Current assets			
Cash		\$ 117	\$ 14
Accounts receivable and other receivables		-	4
Prepaid expenses and deposits		13	8
Current portion of settlements receivable	3	1	7
Total current assets		131	33
Settlements receivable	3	-	2
Total assets		\$ 131	\$ 35
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		\$ 424	\$ 348
Accrued liabilities	4	390	183
Short-term loans	5	185	114
Interest payable	7	1	-
Derivative liability	7	290	-
Total current liabilities		1,290	645
Convertible debentures	7	107	-
Total liabilities		1,397	645
Shareholders' equity (deficiency)			
Share capital	6	58,533	58,533
Deficit		(59,799)	(59,143)
		(1,266)	(610)
Total liabilities and shareholders' equity		\$ 131	\$ 35

Nature of operation and going concern 1

Approved by the Board of Directors:

(Signed) – *Alex Dolgonos*

Director and Chief Executive Officer

(Signed) – *Igor Keselman*

Director and Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

KURE TECHNOLOGIES, INC.

Consolidated statements of loss and comprehensive loss

(In thousands of Canadian dollars, except per share amounts)

For the years ended August 31,

	Note	2021	2020
Expense			
Compensation	8	\$ 265	\$ 63
General and administrative	9	120	129
		385	192
Loss for the year before the undernoted		(385)	(192)
Interest and finance charges	5, 7	(18)	(12)
Adjustment to settlement receivable	3	-	68
Change in fair value of derivative liability	7	(253)	-
Net and comprehensive loss for the year		(656)	(136)
Loss per share			
Basic and diluted		\$ (0.04)	\$ (0.01)
Weighted average number of shares outstanding			
Basic and diluted		15,097,800	15,097,800

The accompanying notes are an integral part of these consolidated financial statements.

KURE TECHNOLOGIES, INC.

Consolidated statements of changes in shareholders' equity (deficiency)

(In thousands of Canadian dollars)

	Share Capital			Total equity
	Shares	Amount	Deficit	(deficiency)
	#	\$	\$	\$
Balance, August 31, 2019	15,097,800	58,533	(59,007)	(474)
Net loss for the year	-	-	(136)	(136)
Balance, August 31, 2020	15,097,800	58,533	(59,143)	(610)
Net loss for the year	-	-	(656)	(656)
Balance, August 31, 2021	15,097,800	58,533	(59,799)	(1,266)

The accompanying notes are an integral part of these consolidated financial statements.

KURE TECHNOLOGIES, INC.

Consolidated statements of cash flows

(In thousands of Canadian dollars)

For the years ended August 31,

	2021	2020
Cash flows from operating activities		
Net loss for the year	\$ (656)	\$ (136)
Adjustment to settlements receivable	-	(68)
Interest expense	18	12
Change in fair value of derivative liability	253	-
Change in non-cash operating assets and liabilities		
Accounts receivable and other receivables	12	206
Prepaid expenses and deposits	(5)	2
Accounts payable and accrued liabilities	289	(30)
Cash used in operating activities	(89)	(14)
Cash flows from financing activities		
Short-term loan	52	26
Issuance of convertible debentures	140	-
Cash provided by financing activities	192	26
Increase in cash	103	12
Cash, beginning of year	14	2
Cash, end of year	\$ 117	\$ 14

The accompanying notes are an integral part of these consolidated financial statements.

KURE TECHNOLOGIES, INC.

Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the years ended August 31, 2021 and 2020

1. Nature of operation and going concern

Kure Technologies, Inc. (the “Company” or “Kure”) was incorporated June 1, 1998 under the Business Corporations Act of Ontario.

The Company is currently finalizing its restructuring process to facilitate a promising business opportunity. The Company’s shares are listed for trading on the NEX, a separate board of the TSX Venture Exchange, under the symbol “KUR.H”. The address of the Company’s head office and registered and records office is 120 Spinnaker Way, Unit 2, Concord, Ontario L4K 2P6.

References to “Kure” and the “Company” include the legal entity Kure Technologies, Inc. and its wholly owned subsidiary, UBS Wireless Services Inc.

Going concern

These consolidated financial statements were prepared on a going-concern basis of preparation, which assumes that the Company will continue operations for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities and commitments in the normal course of business. To date, the Company has an accumulated deficit of \$59,799 and a working capital deficiency of \$1,159. The Company’s ability to continue as a going concern is dependent on its ability to obtain additional financing and or achieve profitable operations in the future. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

The Company’s financing efforts to date, while substantial, are not sufficient in and of themselves to enable the Company to fund all aspects of its operations. Management will pursue funding initiatives if, as and when required to meet the Company’s requirements on an ongoing basis. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

Novel Coronavirus (“COVID-19”)

The Company’s operations have been significantly adversely affected by the effects of a widespread global outbreak of a respiratory illness caused by COVID-19. The Company cannot accurately predict the ultimate impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, the health crisis could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company’s operations and ability to finance its operations.

KURE TECHNOLOGIES, INC.

Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the years ended August 31, 2021 and 2020

2. Summary of significant accounting policies

These consolidated financial statements were approved for issue by the Board of Directors on December 29, 2021.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

(b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Canadian dollars.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiary, USB Wireless Services Inc. which was incorporated in Ontario.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intercompany balances, transactions, revenues and expenses have been eliminated.

(d) Financial instruments

The following is the Company’s accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

KURE TECHNOLOGIES, INC.

Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the years ended August 31, 2021 and 2020

2. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(i) Classification

The Company's classification of its financial instruments under IFRS 9 are as follows:

<u>Financial assets/liabilities</u>	<u>Classification</u>
Cash	FVTPL
Accounts receivable	Amortized cost
Settlements receivable	Amortized cost
Accounts payable	Amortized cost
Short term loan	Amortized cost
Convertible debenture	Amortized cost
Derivative liability	FVTPL

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise.

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

KURE TECHNOLOGIES, INC.

Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the years ended August 31, 2021 and 2020

2. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

(e) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute deferred tax assets and liabilities are measured at future anticipated tax rates which have been enacted or substantively enacted at the reporting date. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

With certain exceptions, deferred tax assets and liabilities are provided on all qualifying temporary differences at the end of the reporting period between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are only recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

KURE TECHNOLOGIES, INC.

Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the years ended August 31, 2021 and 2020

2. Summary of significant accounting policies (continued)

(f) Provisions and contingencies

Provisions are recognized when a legal or constructive obligation exists, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted using an appropriate current market-based pre-tax discount rate. The increase in the provision due to passage of time is recognized as interest expense.

When a contingency substantiated by confirming events can be reliably measured and is likely to result in an economic outflow, a liability is recognized as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

(g) Basic and diluted loss per share

Basic loss per share is computed by dividing the net loss applicable by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

(h) Share-based payments

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense in the consolidated financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period based on the Company's estimate of shares that will eventually vest. The number of forfeitures likely to occur is estimated on grant date. Any consideration paid by directors, officers and employees on exercise of equity-settled share-based payments is credited to share capital. Shares are issued from treasury upon the exercise of equity-settled share-based instruments.

Compensation expense on stock options granted to non-employees is measured at the fair value of the goods and services on the date when the goods or services are received and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received. When the fair value of the goods or services received from non-employees in exchange for the share-based payment cannot be reliably estimated, the fair value of the shares issued is measured by use of a Black-Scholes option pricing model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. No share-based payments were made during fiscal 2021 and 2020.

KURE TECHNOLOGIES, INC.

Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the years ended August 31, 2021 and 2020

2. Summary of significant accounting policies (continued)

(i) Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant management estimation is required in determining accrued liabilities and accrued restructuring liabilities due to related parties.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies. Factors considered in the assessment of the likelihood and value of the realizable deferred tax assets include the Company's forecast of the amount and timing of future net income before taxes, available tax planning strategies that could be implemented to realize the deferred tax assets and the remaining period of loss carry forwards. Significant judgment and estimates are also required in assessing the carrying value of accounts receivable and other receivables. Factors considered in assessment of carrying value included the ability of the counterparty to pay and the actions available to the Company to enforce collection. Estimation uncertainty relating to Settlements receivable is disclosed in note 3. Significant judgment and estimates are also required in the valuation of the convertible debenture components as disclosed in notes 7 and 12.

(j) Standards and amendments issued but not yet adopted

Amendment to IAS 1 Presentation of financial statements

IAS 1 has been revised to (i) clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability; (ii) clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and (iii) make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Had the Company adopted the amendment to IAS 1 at August 31, 2021, the convertible debentures would be classified as a current liability.

KURE TECHNOLOGIES, INC.

Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the years ended August 31, 2021 and 2020

3. Settlements receivable

On December 2, 2019, a settlement agreement between a former Chief Executive Officer (“CEO”) and a bankruptcy trustee in Ontario (“Trustee”), in which the Company was a claimant, was approved by the Ontario Superior Court of Justice. The Company was awarded an estimated \$144 as settlement of its claim against the former CEO. During fiscal 2020, \$41 was received after disbursement of \$94 in accrued legal expenses, and the balance of funds will be received over a 24-month period ending in December 2021. Funds are held by the Trustee and disbursed at their discretion. Funds totaling \$8 were received from the Trustee during the year ended August 31, 2021.

During the year ended August 31, 2020, the Company reversed accrued legal costs totaling \$68 to professional fees.

4. Accrued liabilities

The Company's accrued liabilities are summarized as follows:

	August 31, 2021	August 31, 2020
Compensation accruals ⁽¹⁾	\$ 194	\$ -
Professional expenses ⁽²⁾	65	47
Board fees	88	93
Other	43	43
	\$ 390	\$ 183

⁽¹⁾ Refer to Chief Executive Officer and Chief Financial Officer fees in note 8.

⁽²⁾ Includes mainly costs associated with the Company's legal, audit, tax reporting and annual general meeting requirements.

5. Short-term loans

Between November 30, 2018 and December 18, 2019, interim unsecured loans were extended to the Company by a director totaling \$105 inclusive of earned interest and legal fees associated with the loan execution. The loans were consolidated and renewed on December 18, 2019 at an annual interest rate of 12%.

During the year ended August 31, 2021, the Company executed additional unsecured demand loans payable with a director totaling \$52 (August 31, 2020 - \$26) at an annual interest rate of 12%.

Details of the balance on the loans are as follows:

	August 31, 2021	August 31, 2020
Balance, opening	\$ 114	\$ 76
Additional loans received	52	26
Accrued interest on unsecured loans	15	12
Legal fees	4	-
Balance, ending	\$ 185	\$ 114

Interest recorded on the loans during the year ended August 31, 2021 totaled \$15 (August 31, 2020 - \$12).

KURE TECHNOLOGIES, INC.

Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the years ended August 31, 2021 and 2020

6. Share capital

(a) Authorized

Unlimited common shares

Unlimited Class A non-voting shares

(b) Issued and outstanding

As at August 31, 2021 and 2020, 15,097,800 common shares in the Company were issued and outstanding.

(c) Stock option incentive plan

Kure's stock option plan (the "Option Plan") provides for the granting of stock options to employees, directors and consultants of Kure. Under the Option Plan, up to 1,976,560 common shares may be issued from treasury. The exercise price of the options is determined by the Board of Directors at the time of the grant of an option but cannot be lower than the closing market price of Kure's shares on the NEX on the business day immediately preceding the day on which an option is granted. In the absence of terms specifying otherwise, options vest annually over a three-year period and are exercisable during a period not to exceed 10 years from such grant.

As at August 31, 2021 and 2020, no stock options were issued or outstanding, and no stock options were granted or expired.

7. Convertible debentures

A continuity of the Company's convertible debentures is as follows:

	August 31, 2021
Balance, opening	\$ -
Issuance of Debentures	150
Fair value of derivative liability	(37)
Transaction costs	(7)
Interest accretion	1
Interest accrual	1
Balance, ending	\$ 108
Allocated as:	
Current	\$ 1
Non-current	\$ 107

On July 29, 2021, the Company completed a non-brokered private placement offering of unsecured convertible debentures (the "Debentures") which raised aggregate gross proceeds of \$150.

The Debentures bear interest at a rate of 8.5% per annum and will mature on July 29, 2023. The Debentures are convertible into units of the Company at a price of \$0.15 per unit during the first year and are convertible at the higher of \$0.15 and the trading price of the Company's common shares on the TSX Venture Exchange on the date of conversion. Each unit consists of one common share and one-half common share purchase warrant exercisable at \$0.18 for a period of one year. As the conversion feature may be settled in a variable number of common shares of the Company, it does not meet the fixed for fixed criteria and has been accounted for as a derivative liability. The Company paid cash issuance costs of \$10, of which \$7 has been allocated to the convertible debenture principal and \$3 has been allocated to the derivative liability and included as interest and finance charges in the statement of loss and comprehensive loss.

KURE TECHNOLOGIES, INC.

Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the years ended August 31, 2021 and 2020

7. Convertible debentures (continued)

The Company has the option to purchase all or any part of the principal amount (the “Repurchase Amount”) of the Debentures at any time. Within 20 business days’ notice, the holder shall elect to either convert the Repurchase Amount into Units, or to receive the Repurchase Amount plus any accrued interest in cash.

The following table is a continuity of the Company’s derivative liability:

	August 31, 2021
Balance, beginning	\$ -
Issuance of convertible debt	37
Change in fair value of derivative liability	253
Balance, ending	\$ 290

The valuation model used to estimate the fair value of the Debentures is a system of two coupled Black-Scholes Option Pricing equations and partial differential equations that are solved simultaneously using finite-difference methods, with the following assumptions:

	August 31, 2021	Issuance, on July 29, 2021
Expected volatility	60%	60%
Expected life	1.91	2
Risk free interest rate	0.416%	0.45%
Coupon interest rate	8.5%	8.5%
Expected dividend yield	Nil	Nil
Credit Spread	25%	25%
Underlying share price	\$0.40	\$0.16
Conversion price	\$0.15	\$0.15
Discount for lack of marketability	10.8%	10.8%

8. Related party transactions

(a) Compensation of key management personnel

The Company’s key management personnel included members of the executive team and the board of directors of the Company and its wholly owned subsidiaries.

Key management compensation is as follows:

	August 31,	
	2021	2020
Chief Executive Officer fees	\$ 157	\$ -
Chief Financial Officer fees	37	-
Director fees	13	30
	\$ 207	\$ 30

There are no ongoing contractual or other commitments arising from these transactions with related parties.

(b) Short-term loans payable

The Company executed loans payable with a director during fiscal 2019, 2020 and 2021. As at August 31, 2021, \$185 remained outstanding (August 31, 2020 - \$114) (note 5).

KURE TECHNOLOGIES, INC.

Notes to the consolidated financial statements

(In thousands of Canadian dollars, except per share amounts)

For the years ended August 31, 2021 and 2020

9. General and administrative

General and administrative expense includes mainly professional fees, board of director fees, general occupancy, and other administrative overheads for the Company. The breakdown is as follows:

	August 31,	
	2021	2020
Professional expenses	\$ 102	\$ 85
Office and general	18	44
Total general and administrative	\$ 120	\$ 129

10. Income taxes

The effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to loss before income taxes. These differences result from the following items:

	2021	2020
Loss before income taxes	\$ (656)	\$ (136)
Combined basic federal and provincial tax rates	27%	27%
Computed expected tax recovery	(177)	(36)
Increase resulting from:		
Current year loss and other differences not recognized	(34)	(168)
Change in unrecognized deferred assets	211	204
	\$ -	\$ -

The significant components of the Company's deductible temporary differences that have not been included on the consolidated statement of financial position are as follows:

	2021	2020
Non-capital loss carry forwards	\$ 5,788	\$ 5,655
SRED pool carry forwards	3,117	3,117
Capital loss carry forwards	3,447	3,447
Derivative liability	78	-
Non-tax deductible reserves	65	65
	12,495	12,284
Unrecognized deferred tax assets	(12,495)	(12,284)
	\$ -	\$ -

As at August 31, 2021, the Company had approximately \$22,000 in non-capital income tax losses with expiry dates between 2027 and 2041, SRED pool carry-forwards of \$11,545, capital loss carry-forwards of \$25,530, and non-tax deductible reserves of \$65.

Tax attributes are subject to review, and potential adjustment, by tax authorities.

KURE TECHNOLOGIES, INC.

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For the years ended August 31, 2021 and 2020

11. Management of capital

The Company's main objective when managing capital is to safeguard the Company's ability to continue as a going concern. As at August 31, 2021, the Company was not subject to any externally imposed capital requirements. The Company defines its capital as shareholders' equity plus convertible debentures and short-term loans.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. There were no significant changes to the Company's approach to capital management during the years ended August 31, 2021 and 2020.

12. Financial instruments and risk management

The Company's activities may expose it to a variety of financial risks: fair values, credit risk, liquidity risk and market risk (including interest rate and equity price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee, under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Fair values

As at August 31, 2021 and 2020, financial instruments consist of cash, accounts receivable and other receivables, settlements receivable, accounts payable, accrued liabilities, convertible debentures, derivative liabilities, short-term loans, and long-term loans. The fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Company classifies its financial instruments carried at fair value according to a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three levels of fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for assets and liabilities, either directly or indirectly;
- Level 3 – Inputs for assets or liabilities that are not based on observable market data.

As at August 31, 2021 and 2020, cash is recorded under at fair value under Level 1 within the fair value hierarchy and the derivative liability (Note 7) is classified as Level 3 within the fair value hierarchy.

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12. Financial instruments and risk management (continued)

The following table shows the valuation techniques used in measuring Level 3 fair values for the derivative liability as well as the significant unobservable inputs used.

Type	Valuation technique	Key inputs	Inter-relationship between significant inputs and fair value measurement
Derivative liability	The fair value of derivative liability at initial recognition and at period-end has been calculated using a system of two-coupled Black Scholes Option pricing equations and partial differential equations that are solved simultaneously using finite-difference methods.	<i>Key observable inputs</i> <ul style="list-style-type: none">• Share price• Risk free interest rate• Dividend yield <i>Key unobservable inputs</i> <ul style="list-style-type: none">• Expected volatility• Discount for lack of marketability	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none">• The share price was higher (lower)• The risk-free interest rate was higher (lower)• The dividend yield was lower (higher)• The expected volatility was higher (lower)• The discount for lack of marketability was lower (higher)

For the fair values of the derivative liability, reasonably possible changes to the expected volatility, the most significant unobservable input would have the following effects:

Derivative liability Comprehensive Loss	August 31, 2021	
	Increase	Decrease
Expected volatility (20% change vs. model input)	\$ (1)	\$ 1

The Company is exposed in varying degrees to a number of risks arising from financial instruments. Management's involvement in the operations allows for the identification of risks and variances from expectations. The Company does not participate in the use of financial instruments to mitigate these risks. The Board approves the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfillment of obligations and limit exposure to credit and market risks.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company is exposed to credit risk through its cash balance which is held at Canadian financial institutions. The Company believes its exposure to credit risk is not significant.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management believes the Company had no significant exposure to interest rate risk through its financial instruments as at August 31, 2021 and 2020.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements.

The Company coordinates this planning and budgeting process with its financing activities through the capital management process described in note 11, in normal circumstances.