



News Release

For Immediate Release

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HTC Extraction Systems Announces Acquisition of Saskatchewan based KF Hemp Corp.

Transaction includes an Industrial Hemp License (Qualified to Cultivate, Process, Dry, Store & Sell) and a Late Stage Application for a Health Canada Industrial Hemp Processing & Extraction License under the Cannabis Act

Regina, Saskatchewan - *HTC Extraction Systems* (also the "Corporation" and/or "HTC") (HTC: TSX-V) (OTCQB:HTPRF) is pleased to announce that it has entered into a share purchase agreement dated May 15, 2020 ("SPA") with KF Hemp Corp. ("KF Hemp"), a non-arm's length party to HTC. Pursuant to the SPA, and conditional upon TSX Venture Exchange Inc. and Disinterested Shareholders' (as defined below) approval, HTC will acquire all the issued and outstanding shares ("Purchased Shares") of KF Hemp, and upon completion of the acquisition, KF Hemp will be a wholly owned subsidiary of HTC (the "Proposed Transaction").

Pursuant to the SPA, HTC will acquire KF Hemp for a value of approximately \$20,000,000. The consideration for the Purchased Shares ("Consideration") consists of the following: (i) the issuance of HTC common voting shares ("HTC Shares") at a maximum value of \$9,000,000, not to exceed 95,000,000 HTC Shares; and (ii) the transfer of all the issued and outstanding shares ("Maxx Shares") of Maxx Group of Companies Corp. ("Maxx").

The share price of the HTC Shares to be issued to the KF Hemp shareholders, will be determined on a 20-day volume-weighted average price, calculated on the 20 days immediately preceding the execution of the SPA. All the KF Hemp shareholders of different classes of KF Hemp shares ("KF Hemp Shares") are to be considered equal. Furthermore, these HTC Shares will be subject to a 12-month Corporation imposed, pooling agreement, with the HTC Shares to be released in 3 equal tranches, each 4 months apart, calculated from the date of closing of the SPA ("Closing Date" or "Closing").

Prior to Closing, the Corporation, who currently owns 78% of Maxx, will acquire the remaining 22% of the issued and outstanding shares of Maxx, from an arm's length party, at fair market value, in order that Maxx will be a wholly owned subsidiary of HTC. The value implied for Maxx, based on this proposed acquisition, was also considered as part of the fairness of the terms of the Proposed Transaction, and it was concluded that the net asset value of Maxx was supportive of the current fair market value of the Maxx Shares. Maxx owns the Corporation's agricultural infrastructure assets, and with the disposition of the Maxx Shares to the KF Hemp shareholders, the Corporation will also dispose of these assets, as well as all the obligations and liabilities of Maxx, which will result in an estimated value of the Maxx Shares of \$12,210,000, representing the imputed transaction value of the Maxx Shares. Included in this transaction is the assumption of approximately \$16,000,000 in debt of Maxx, guaranteed by HTC. At Closing, HTC will be free of all its obligations to settle the \$16,000,000.

KF HEMP ASSETS

Under the SPA, HTC will acquire the following assets held by KF Hemp:

Industrial Hemp Licensee: KF Hemp is qualified to cultivate, process, dry, store and sell hemp under the Industrial Hemp Regulations of the *Cannabis Act* (Canada) (“**Hemp License**”).

Industrial Hemp Processing License under the Cannabis Act: KF Farmacy Ltd., a wholly owned subsidiary of KF Hemp, is a late stage applicant for an industrial hemp processing license under the *Cannabis Act* (“**Processing License**”). The Processing License is expected to be issued in the 3rd calendar quarter of 2020 and will authorize extraction of phytocannabinoids, derived from dried cannabis and industrial hemp, for manufacturing and sale of cannabis products. KF Hemp anticipates its extraction equipment will be in place and its evidence package submitted to Health Canada within the next month, which may allow for the issuance of the Processing License within the 3rd quarter of 2020. The Processing License will allow KF Hemp to extract, process, manufacture and sell cannabinoids derived from hemp.

Hemp Sorting, Processing, Drying, Facility and Equipment: KF Hemp has acquired hemp shredding, handling, drying and sorting equipment, which have been installed in its hemp drying facility, located in Lajord, Saskatchewan.

KF Farms Land Allocation & Farm Services and Rights to KF1899 Kambeitz Farms™: KF Hemp and KF Kambeitz Farms Inc. (“**KF Farms**”) have entered into an agreement pursuant to which KF Farms has allocated up to 5,000 production acres in 2019, and will allocate up to 25,000 acres in future years, for the production of IPGrow™ (identity preserved) industrial hemp, for a 20 year term.

Notwithstanding the above, the owners and operators of KF Farms created KF Hemp to leverage its experience as a large-scale agriculture producer, positioning KF Hemp as a player in the global Hemp CBD market. KF Farms, a fifth-generation family farming operation, manages operations of over 60,000 acres of grain, oil, pulse, and cereal crops and of that physically farms 48,000 acres within 80 kms of Regina, Saskatchewan. KF Farms was recognized internationally in 2015 as the North American farming representative at the Milan World Expo where the exhibition themes were: science for food safety, security and quality, innovation in the agri-food supply chain, technology for agriculture and biodiversity, and food for better lifestyles.

KF Farms and its Mega Hemp Joint Venture planted 10,000 acres of broad acre industrial hemp in 2019 and will increase acre production as required by the market in 2020. With the use of its agronomic expertise, KF Farms will select ideal ground for hemp production and implement the optimal fertility package and crop protection program for high yielding, high Cannabinoid hemp flower biomass.

KF Hemp has positioned itself to be amongst the largest growers of hemp for Cannabinoid biomass in North America and further obtained, under trademark license, the right to use the KF1899 Kambeitz Farms™ trademark.

Purely Canada Foods™: KF Hemp has contracted Purely Canada Foods™ to provide the sales and distribution for its Ingredient Cannabinoid market under the brand of Purely Canada Hemp™, Purely Canada Cannabinoids™, Purely Canada CBD™ and Purely Canada Foods™. KF Hemp

has also obtained the rights, under trademark license agreement, to use the trademark and logos and domain names, that include the term “Purely Canada”.

KF Hemp has secured seed and plant genetics, production acres, farming operations, biomass drying and storage facilities and equipment and is in the process of securing a Processing License and tolling and refining agreements. With these building blocks in place, KF Hemp will have the ability to control the hemp production value chain from seed to sale of high CBD biomass, CBD crude oil, CBD 75% FSO (full spectrum oil) distillate and CBD isolates.

ABOUT HTC

HTC Extraction Systems has developed proprietary extraction and purification systems designed for extraction from biomass, liquids and gas, and for the purification and distillation of ethanol and solvents used for extraction. The Corporation is working to establish hemp biomass supply opportunities and has recently entered into a hemp biomass tolling agreement involving the supply of hemp biomass for the 2019 crop year, from a minimum of 4,200 acres to a maximum of 5,000 acres of hemp grown in Saskatchewan, utilizing five varieties of Health Canada approved cultivars as the genetic foundation.

As HTC is a public company, HTC is subject to Multilateral Instrument 61-101 ("**MI 61-101**") governing, among other things, transactions between listed issuers and related parties of such issuers. In accordance with MI 61-101, the issuance of common shares by HTC would constitute a "related party transaction" for the purposes of MI 61-101 due to the fact that, pursuant to the SPA HTC will issue common shares to certain “related parties” who are also KF Hemp shareholders. In accordance with MI 61-101, absent an exemption, MI 61-101 would require HTC to receive a formal valuation of the subject matter and "majority of the minority" shareholder ("**Disinterested Shareholders**") approval to proceed with the issuance of such common shares to such related parties.

In 2019, the Corporation appointed a special independent committee, comprised exclusively of directors independent of management of HTC ("**Independent Committee**") for the purpose of, among other things, reviewing and assessing strategic alternatives. The Independent Committee appointed an independent third-party valuator ("**Independent Advisor**") to perform a comprehensive formal valuation as required under MI 61-101 ("**Valuation**"), of KF Hemp. In considering the Valuation and the terms of the SPA, the Independent Committee also considered the acquisition of the remaining 22% of the issued and outstanding shares of Maxx, from an arm's length party, at fair market value. The Independent Advisor, based on the Valuation and considering the terms of the SPA, provided a fairness opinion of the Proposed Transaction ("**Fairness Opinion**"). In addition to the Valuation establishing the value of KF Hemp, and in order to establish the value of Maxx, the Corporation's audited consolidated financial statements for the years ended December 31, 2017 and 2018 (audited by BDO Canada LLP); the Corporation's management discussion & analysis for the 9-month period ended September 30, 2019 and the year ended December 31, 2018; the management-prepared financial statements for the 9-months ended September 30, 2019; the management-prepared balance sheet and income statement for Maxx as at December 31, 2019; and HTC's forecast of net income for Maxx for the years ending December 31, 2020 and 2021. The Independent Advisor, in arriving at its conclusions in the Fairness Opinion, considered, amongst other considerations, the fair market value of the Consideration, the expected positive cash flow for KF Hemp in 2020 from the sale of its 2019 harvest, and the fact that the disposition of Maxx significantly reduces the debt load of HTC, which should free up operational cash flow to grow its hemp and extraction businesses. Based upon these considerations and other matters considered relevant, the Independent Advisor

found the Proposed Transaction to be fair from a financial point of view, to the Disinterested Shareholders, giving consideration to both the quantitative and qualitative factors. Having reviewed both the Valuation and the Fairness Opinion, the Independent Committee has approved the Proposed Transaction.

No finder's fee is payable in respect to the Proposed Transaction.

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HTC corporate developments can be followed on www.htcextraction.com and is traded under the symbol HTC

This press release contains "forward-looking statements" or "forward-looking information" (collectively referred to herein as "forward-looking statements") within the meaning of applicable securities legislation. Such forward-looking statements include, without limitation, forecasts, estimates, expectations and objectives for future operations that are subject to a number of assumptions, risks and uncertainties, many of which are beyond the control of HTC. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential" and similar expressions, or that events or conditions "will", "would", "may", "could" or "should" occur or be achieved. This press release contains forward-looking statements pertaining to, among other things, the Corporation's ability to close the Proposed Transaction as set out herein, KF Hemp obtaining the Processing License and the hemp crop, harvest, drying, extraction, refinement and sales.

Forward-looking information is based on current expectations, estimates and projections that involve a number of risks, which could cause actual results to vary and, in some instances, to differ materially from those anticipated by HTC and described in the forward-looking information contained in this press release.

Although HTC believes that the material factors, expectations and assumptions expressed in such forward-looking statements are reasonable based on information available to it on the date such statements were made, no assurances can be given as to future results, levels of activity and achievements and such statements are not guarantees of future performance.

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