



# HEMPALTA™

HEMPALTA INC.  
CONDENSED INTERIM FINANCIAL STATEMENTS  
(UNAUDITED)

FOR THE THREE MONTHS ENDED DECEMBER 31, 2023

(Expressed in Canadian dollars)

*The accompanying condensed interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management and have not been reviewed by the Corporation's independent auditor.*

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**HEMPALTA INC.**  
**STATEMENT OF FINANCIAL POSITION**  
(Unaudited)

<i>(Expressed in Canadian dollars)</i>	Note	December 31, 2023	September 30, 2023
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		119,523	560,681
Accounts receivable	6	89,632	40,086
Inventory	7	444,385	347,929
Prepays		12,423	214,553
		<b>665,963</b>	1,163,249
<b>Non-current Assets</b>			
Property, plant and equipment	8	2,189,805	1,980,660
Right-of-use assets	9	1,063,123	1,101,011
Intangible assets	10	410,504	397,051
<b>TOTAL ASSETS</b>		<b>4,329,395</b>	4,641,971
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		255,391	223,027
Promissory note	12	300,000	300,000
Current portion of lease liabilities	11	145,239	143,597
Current portion of long-term debt	12	190,629	191,653
		<b>891,259</b>	858,277
<b>Non-current liabilities</b>			
Long-term lease liabilities	11	947,586	984,517
Long-term debt	12	630,389	675,811
Convertible debenture	13	480,923	447,044
<b>TOTAL LIABILITIES</b>		<b>2,950,157</b>	2,965,649
<b>EQUITY</b>			
Share capital	14	4,638,241	4,489,263
Contributed surplus	14	538,148	487,261
Convertible debenture - equity	13	83,928	83,928
Deficit		<b>(3,881,079)</b>	(3,384,130)
<b>TOTAL EQUITY</b>		<b>1,379,238</b>	1,676,322
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4,329,395</b>	4,641,971

See accompanying notes to the unaudited interim financial statements.  
Subsequent events – Note 20

**HEMPALTA INC.**  
**STATEMENT OF LOSS AND COMPREHENSIVE LOSS**  
(Unaudited)

<i>(Expressed in Canadian dollars)</i>	Notes	Three Months Ended December 31,	
		<b>2023</b>	<b>2022</b>
<b>PRODUCT SALES</b>		<b>119,821</b>	98,368
<b>COST OF SALES</b>		<b>135,247</b>	79,304
<b>GROSS LOSS</b>		<b>(15,426)</b>	19,064
<b>EXPENSES</b>			
Depreciation and Amortization	8,9,10	<b>107,092</b>	116,996
Financing costs	11,12,13	<b>65,365</b>	18,204
General and administrative costs	15	<b>278,120</b>	238,456
Share-based compensation	14	<b>50,887</b>	48,281
		<b>501,464</b>	421,937
<b>OTHER INCOME</b>			
Other income		<b>6,307</b>	-
Government grant	16	<b>13,634</b>	6,133
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(496,949)</b>	(396,740)
<b>NET LOSS PER SHARE</b>			
Basic and diluted		<b>\$(0.01)</b>	\$(0.01)
Weighted average number of shares basic and diluted		<b>47,509,960</b>	41,839,688

*See accompanying notes to the unaudited interim financial statements.*

**HEMPALTA INC.**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Unaudited)

<i>(Expressed in Canadian dollars)</i>	Note	Share capital	Contributed Surplus	Convertible Debenture	Deficit	Total
Balance, September 30, 2022		3,266,911	152,673	-	(1,541,396)	1,878,188
Private placement	14	1,299,840	69,154	-	-	1,368,994
Share issue costs	14	(85,988)	-	-	-	(85,988)
Convertible debenture	13	-	-	83,928	-	83,928
Convertible debenture issuance costs		-	44,414	-	-	44,414
Options exercised	14	8,500	(3,500)	-	-	5,000
Stock based compensation	14	-	224,520	-	-	224,520
Net and comprehensive loss		-	-	-	(1,842,734)	(1,842,734)
Balance, September 30, 2023		4,489,263	487,261	83,928	(3,384,130)	1,676,322
<b>Private placement</b>	<b>14</b>	<b>200,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200,000</b>
<b>Share issue costs</b>	<b>14</b>	<b>(51,022)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(51,022)</b>
<b>Stock based compensation</b>	<b>14</b>	<b>-</b>	<b>50,887</b>	<b>-</b>	<b>-</b>	<b>50,887</b>
<b>Net and comprehensive loss</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(496,949)</b>	<b>(496,949)</b>
<b>Balance, December 31, 2023</b>		<b>4,638,241</b>	<b>538,148</b>	<b>83,928</b>	<b>(3,881,079)</b>	<b>1,379,238</b>

See accompanying notes to the unaudited interim financial statements.

**HEMPALTA INC.**  
**STATEMENT OF CASH FLOWS**  
(Unaudited)

<i>(Expressed in Canadian dollars)</i>	Note	<b>Three Months Ended December 31,</b>	
		<b>2023</b>	<b>2022</b>
<b>OPERATING ACTIVITIES</b>			
Net loss		<b>(496,949)</b>	(396,740)
Items not affecting cash and cash equivalents:			
Amortization	8,9,10	<b>107,092</b>	116,996
Financing costs	11,12,13	<b>46,589</b>	6,726
Share based compensation	14	<b>50,887</b>	48,281
		<b>(292,381)</b>	(224,737)
Changes in non-cash working capital balances			
Accounts receivable		<b>(49,546)</b>	(18,615)
Inventory		<b>(96,456)</b>	(48,311)
Prepaid expenses		<b>202,130</b>	(13,356)
Accounts payable and accrued liabilities		<b>32,365</b>	177
Net change in non-cash working capital related to operations		<b>88,493</b>	(80,105)
Cash flows used in continuing operating activities		<b>(203,888)</b>	(304,842)
<b>FINANCING ACTIVITIES</b>			
Proceeds from the issuance of shares (net of issuance costs)	14	<b>148,978</b>	976,274
Repayment of long-term debt	12	-	-
Lease liabilities settled	11	-	(45,000)
<b>Net cash provided by financing activities</b>		<b>-</b>	931,274
		<b>(46,446)</b>	
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant, and equipment	8	<b>(48,000)</b>	(54,661)
Additions to intangible assets	10	<b>54,532</b>	-
<b>Net cash used in investing activities</b>			(54,661)
<b>Increase in cash during the period</b>		<b>(261,802)</b>	571,771
Cash – beginning of period		<b>(30,000)</b>	129,266
<b>Cash – end of period</b>		<b>(291,802)</b>	701,037

See accompanying notes to the unaudited interim financial statements.

**HEMPALTA INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTHS ENDED DECEMBER 31, 2023**  
*(Unaudited)*  
*(Expressed in Canadian dollars)*

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## **NOTES TO FINANCIAL STATEMENTS**

### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Hempalta Inc. (the “Company” or “Hempalta”) is a private company incorporated on November 12, 2021, in the province of Alberta as 2387761 Alberta Ltd. and changed its name to Hempalta Inc. on January 7, 2022. The Company’s head office is located at 1560 Hastings Crescent SE, Calgary, Alberta, Canada, T2G 4E1.

The Company is engaged in hemp processing and manufacturing hemp products from industrial hemp grown in Southern Alberta at the Company’s production facility in Calgary, Alberta, Canada.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations, and do not include any adjustments to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

Details of deficit and working capital of the Company are as follows:

	<b>December 31, 2023</b>	September 30, 2023
Deficit	<b>(3,881,079)</b>	(3,384,130)
Working Capital	<b>(225,296)</b>	304,972

The Company is currently in the initial start up stages of its operations. Cash flows and future operations are dependent upon the continued availability of equity and debt financing and favourable trade credit and the Company’s ability to achieve profitable operations. Should the Company be unable to attain profitable operations, debt and equity financing, or favourable trade credit, there is a material uncertainty about the Company’s ability to continue as a going concern.

### **2. BASIS OF PRESENTATION**

#### **STATEMENT OF COMPLIANCE**

These condensed interim financial statements (the “Interim Financial Statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting.

The Interim Financial Statements should be read in conjunction with the audited annual financial statements of Hempalta for the years ended September 30, 2023 and 2022 and the notes thereto (the “Annual Financial Statements”). The Interim Financial Statements have been prepared on a basis consistent with the accounting, estimation and valuation policies described in the Annual Financial Statements.

These financial statements were authorized for issue by the Board of Directors, on March 28, 2024.

#### **BASIS OF MEASUREMENT**

These financial statements are prepared on a historic cost basis; except for financial instruments which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies.

**HEMPALTA INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTHS ENDED DECEMBER 31, 2023**  
*(Unaudited)*  
*(Expressed in Canadian dollars)*

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## **FUNCTIONAL AND PRESENTATION CURRENCY**

The functional currency of the Company is the Canadian dollar, which is also the presentation currency of the financial statements.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The Company's significant accounting policies under IFRS are presented in Note 3 to the Annual Financial Statements. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with IFRS have been condensed or omitted in the Interim Financial Statement.

## **4. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The significant judgments, estimates and assumptions considered by management in preparing the financial statements include:

- **Assets' carrying values and impairment charges** - In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- **Contingencies** - Contingencies can be either possible assets or possible liabilities arising from past events, which, by their nature, will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential impact of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.
- **Depreciation rates** - All plant and equipment are depreciated over a term, which the Company believes is the best approximation of the asset utility to the Company. If the estimated life had been longer than management's estimate, the carrying amount of the asset would have been higher. The Company applies significant estimates to determine the useful lives, considering technological advancements, past experience, expected use and review of useful lives.
- **Share-based payments** - Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.
- **Income taxes, value added, withholding and other taxes** - The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for

**HEMPALTA INC.**  
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taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

- Discount rate used in determination of the Company's lease liabilities, right-of-use assets, and net investment in lease depends on certain assumptions, which include the selection of the discount rate. The discount rate is set by reference to the Company's incremental borrowing rate. Significant assumptions are required to be made when determining which borrowing rates to apply in this determination. Changes in the assumptions used may have a significant effect on the Company's financial statements.

## **5. ACQUISITIONS**

On December 24, 2021, the Company acquired assets of Canadian Greenfield Technologies Corp. relating to their hemp processing and manufacturing of hemp products located in Calgary, Alberta. The Company paid \$2,463,000 in cash and issued a convertible debenture for \$300,000 to the seller. The acquisition had a closing date of December 30, 2021. The Debenture had been converted into 3,000,000 common shares on December 30, 2021.

This acquisition was accounted for using the acquisition method, with the operating results included in the Company's financial and operating results commencing on the closing date of the acquisition.

<b>Fair value of net asset acquired, and liabilities assumed</b>	
Inventory	100,000
Hemp Train Advanced Processing Plant	2,200,000
Other equipment and physical assets	88,000
Right-of-Use ("ROU") assets	715,719
Intellectual Property	375,000
ROU liability	(715,719)
	<b>2,763,000</b>
<b>Consideration</b>	
Cash	2,463,000
Convertible Debenture	300,000
	<b>2,763,000</b>

As at September 30, 2022, transaction costs comprised of legal fees of \$50,633 were expensed.

**HEMPALTA INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTHS ENDED DECEMBER 31, 2023**  
*(Unaudited)*  
*(Expressed in Canadian dollars)*

**6. ACCOUNTS RECEIVABLE**

Total carrying amount of accounts receivable are as follows:

	<b>December 31, 2023</b>	September 30, 2023
Accounts receivable	<b>81,237</b>	32,180
GST recoverable	<b>8,395</b>	8,474
	<b>89,632</b>	40,654

**7. INVENTORY**

Total carrying amount of inventory is as follows:

	<b>December 31, 2023</b>	September 30, 2023
Raw materials	<b>96,713</b>	71,679
Work in progress	<b>239,118</b>	198,033
Finished goods	<b>108,554</b>	78,217
	<b>444,385</b>	347,929

Cost of Inventory is recognized as an expense when sold and included in cost of goods sold. During the period ended December 31, 2023, the Company recognized \$84,977 (year ended September 30, 2023 - \$324,751) of inventory expensed to cost of goods sold.

**8. PROPERTY, PLANT AND EQUIPMENT**

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	<b>Furniture and fixtures</b>	<b>Processing Equipment</b>	<b>Plant and Buildings</b>	<b>Vehicles</b>	<b>Total</b>
<b>Cost</b>					
September 30, 2023	43,820	2,200,000	36,005	25,000	2,304,825
Additions	3,422	67,269	15,287	-	85,978
September 30, 2023	47,242	2,267,269	51,292	25,000	2,390,803
<b>Additions</b>	<b>881</b>	<b>-</b>	<b>260,921</b>	<b>-</b>	<b>261,802</b>
<b>December 31, 2023</b>	<b>48,123</b>	<b>2,267,269</b>	<b>312,213</b>	<b>25,000</b>	<b>2,652,605</b>
<b>Accumulated depreciation</b>					
September 30, 2022	6,573	165,000	5,731	3,750	181,054
Amortization	8,134	209,666	7,039	4,250	229,089
September 30, 2023	14,707	374,666	12,770	8,000	410,143
<b>Amortization</b>	<b>1,671</b>	<b>48,843</b>	<b>1,293</b>	<b>850</b>	<b>52,657</b>
<b>December 31, 2023</b>	<b>16,378</b>	<b>423,509</b>	<b>14,063</b>	<b>8,850</b>	<b>462,800</b>
<b>Net Book Value</b>					
At September 30, 2022	32,535	1,892,603	38,522	17,000	1,980,660
<b>At December 31, 2023</b>	<b>31,745</b>	<b>1,843,760</b>	<b>298,150</b>	<b>16,150</b>	<b>2,189,805</b>

**HEMPALTA INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTHS ENDED DECEMBER 31, 2023**  
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*(Expressed in Canadian dollars)*

## 9. RIGHT-OF-USE ASSETS

A reconciliation of the changes in the carrying amount of right-of-use assets is as follows:

<b>Cost</b>	
September 30, 2023	715,719
Lease extension	679,155
<b>September 30, 2023</b>	<b>1,394,874</b>
<b>Lease extension</b>	<b>-</b>
<b>December 31, 2023</b>	<b>1,394,874</b>
<b>Accumulated amortization</b>	
September 30, 2023	128,829
Amortization	165,034
September 30, 2023	293,863
<b>Amortization</b>	<b>37,888</b>
<b>December 31, 2023</b>	<b>331,751</b>
<b>Net book value</b>	
September 30, 2023	1,101,011
<b>December 31, 2023</b>	<b>1,063,123</b>

## 10. INTANGIBLE ASSETS

A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	<b>Intellectual Property</b>	<b>Licences</b>	<b>Trademarks</b>	<b>Total</b>
At September 30, 2022	346,875	-	83,491	430,366
Additions	-	30,000	-	30,000
Amortization	(37,500)	(125)	(25,690)	(63,315)
At September 30, 2023	309,375	29,875	57,801	397,051
<b>Additions</b>	<b>-</b>	<b>30,000</b>	<b>-</b>	<b>30,000</b>
<b>Amortization</b>	<b>(9,375)</b>	<b>(750)</b>	<b>(6,422)</b>	<b>(16,547)</b>
<b>At December 31, 2023</b>	<b>300,000</b>	<b>59,125</b>	<b>51,379</b>	<b>410,504</b>

## 11. LEASE LIABILITIES

Under IFRS 16, operating leases are recognized lease liabilities for right-of-use assets using an estimated discount rate of 4.554%. The Company has lease agreements in place for the office and processing facility. As part of the acquisition that closed on December 30, 2021, the Company assumed the facility lease agreement. The Lease agreement expires in February 2026, with an option to renew for a five-year term.

Effective June 1, 2023, the Company signed and extension to the lease for a further 5 years.

**HEMPALTA INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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The changes in lease liabilities are as follows:

	<b>December 31, 2023</b>	September 30, 2023
Beginning of period	<b>1,128,114</b>	603,471
Lease extension	-	679,155
Interest expense	<b>12,711</b>	34,488
Lease payments	<b>(48,000)</b>	(189,000)
End of period	<b>1,092,825</b>	1,128,114
Finance charges	<b>12,711</b>	34,488
Current portion	<b>145,239</b>	143,597
Long-term portion	<b>947,586</b>	984,517
Lease Liabilities	<b>1,092,825</b>	1,128,114

The total undiscounted amount of the estimated future cash flows to settle the lease liabilities over the remaining lease term is \$1,279,856.

The following is a reconciliation from the undiscounted lease payments to the lease liabilities for fiscal years ended September 30:

2024	144,000
2025	192,000
2026	175,984
2027	164,544
2028	172,543
2029 and later	430,785
<b>Total contractual cash flows</b>	<b>1,279,856</b>
Less: interest	(187,032)
<b>Lease liabilities</b>	<b>1,092,824</b>

## **12. LONG-TERM DEBT**

### **CREDIT FACILITY WITH FARM CREDIT CANADA**

Effective December 16, 2021, the Company, secured a new credit facilities in the amount of \$1.0 million (the "FCC Facility") from Farm Credit Canada.

The FCC Facility contemplates a five-year term, maturing December 1, 2026, including interest-only payments until January 1st, 2023. Amounts drawn on the main facility bear interest at a rate of 4.554% per annum. The FCC Facility is subject to compliance with financial covenants starting in 2023. The credit facility is secured by the machinery and equipment of the Company with a net book value of \$1,843,760 as well as a \$500,000 personal guarantee of the Chief Executive Officer of the Company. The proceeds of the FCC Facility were used to finance the acquisition of machinery and equipment.

Transactions costs comprised of processing fees of \$1,000 were expensed in the period ending September 30, 2022.

**HEMPALTA INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTHS ENDED DECEMBER 31, 2023**  
*(Unaudited)*  
*(Expressed in Canadian dollars)*

The changes in the credit facility are as follows:

	<b>December 31, 2023</b>	September 30, 2023
Beginning of period	<b>867,464</b>	1,000,000
Proceeds	-	-
Interest	<b>9,561</b>	42,845
Payments made	<b>(56,007)</b>	(175,381)
End of period	<b>821,018</b>	867,464

  

	<b>December 31, 2023</b>	September 30, 2023
Current portion of long-term debt	<b>190,629</b>	191,653
Long-term portion of long-term debt	<b>630,389</b>	675,811
	<b>821,018</b>	867,464

Principal payments for fiscal years ended September 30 are as follows:

2024	<b>145,265</b>
2025	<b>197,471</b>
2026	<b>206,575</b>
2027	<b>271,707</b>
<b>Total payments</b>	<b>821,018</b>

**PROMISSORY NOTE**

On June 7, 2023, the Company received a promissory note of \$75,000 from its Chief Executive Officer and Director, the loan is repayable on demand and bears interest of 10%. This note is secured by the 2014 Chevrolet Silverado and utility trailer with a net book value of \$10,200. This is considered a related party transaction.

On September 15, 2023, the Company amended the promissory note agreement with its Chief Executive Officer and Director, and the loan was increased to \$300,000. The loan bears interest at 12% and matures on the earlier of March 15, 2024 and the date of listing of the common shares of the Company on a recognised exchange.

The changes in the promissory note are as follows:

	<b>December 31, 2023</b>	September 30, 2022
Balance at September 30, 2022	<b>300,000</b>	-
Proceeds	-	300,000
Interest	<b>9,074</b>	3,612
Payments made	<b>(9,074)</b>	(3,612)
Balance at December 31, 2023	<b>300,000</b>	300,000

**HEMPALTA INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTHS ENDED DECEMBER 31, 2023**  
*(Unaudited)*  
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**13. CONVERTIBLE DEBENTURES**

A summary of the convertible debentures outstanding at December 31, 2023 is as follows:

<b>Issue dated</b>	<b>Debt component</b>	<b>Equity component</b>
July 31, 2023	151,842	29,709
September 29, 2023	329,081	54,219
<b>Total</b>	<b>480,923</b>	<b>83,928</b>

On July 31, 2023, the Company issued Unsecured Subordinated Convertible Debentures (“Debentures”) for total proceeds of \$200,000. The Debentures bear interest of 12% and mature on July 31, 2025 (“Maturity Date”). The Debentures are convertible at the discretion of the Debenture holders at a price of \$0.16 per Common share (“Conversion Price”).

If a liquidity event occurs prior to the Maturity Date at a transaction price equal to or greater than the Conversion Price, the outstanding Debentures shall automatically convert into Common Shares at the Conversion Price concurrent with, and subject to the closing of the liquidity event.

As part of the Debenture issuance the Company granted 625,000 warrants to the Debenture holders to purchase up to 625,000 common shares, at an exercise price of \$0.20 per share, exercisable on or before July 31, 2025.

The warrants vested and are exercisable as of the grant date. The warrants were valued using the Black-Sholes method and the fair value of \$44,414 was recorded as deferred financing costs. This amount will be amortized through the profit and loss over the life of the convertible debenture.

The changes in the convertible debenture are as follows:

	<b>December 31, 2023</b>	September 30, 2023
Balance, beginning of the period	<b>136,263</b>	-
Initial proceeds from debt	-	200,000
Deferred financing costs	-	(44,414)
Transfer of conversion component to equity	-	(29,709)
Amortization of deferred financing costs	<b>5,552</b>	3,701
Accrued interest	<b>6,016</b>	4,011
Accretion on convertible debentures	<b>4,011</b>	2,674
<b>Balance, end of the period</b>	<b>151,842</b>	136,263

	<b>Maturity</b>	<b>December 31, 2023</b>	September 30, 2022
Debt component	July 31, 2025	<b>151,842</b>	-
Equity component	July 31, 2025	<b>29,709</b>	-

On September 29, 2023, the Company issued Unsecured Subordinated Convertible Debentures (“Debentures”) for total proceeds of \$365,000. The Debentures bear interest of 12% and mature on September 30, 2025 (“Maturity Date”). The Debentures are convertible at the discretion of the Debenture holders at a price of \$0.16 per Common share (“Conversion Price”).

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If a liquidity event occurs prior to the Maturity Date at a transaction price equal to or greater than the Conversion Price, the outstanding Debentures shall automatically convert into Common Shares at the Conversion Price concurrent with, and subject to the closing of the liquidity event.

The changes in the convertible debenture are as follows:

	December 31, 2023	September 30, 2022
Balance, beginning of the period	310,781	-
Initial proceeds from debt	-	365,000
Transfer of conversion component to equity	-	(54,219)
Accrued interest	10,980	-
Accretion on convertible debentures	7,320	-
<b>Balance, end of the period</b>	<b>329,081</b>	<b>310,781</b>

	Maturity	December 31, 2023	September 30, 2022
Debt component	September 30, 2025	329,081	-
Equity component	September 30, 2025	54,219	-

## 14. SHARE CAPITAL

### AUTHORIZED

The Company is authorized to issue an unlimited number of voting common shares, without par value. The Company is authorized to issue an unlimited number of Preferred Shares (issuable in series).

### ISSUED AND OUTSTANDING COMMON SHARES

A reconciliation of the number and dollar amount of outstanding shares is shown below.

Common Shares	Number	Amount
Balance, September 30, 2022	38,000,000	3,266,911
Private placements	9,126,627	1,299,840
Share issue costs	-	(85,988)
Options exercised	50,000	8,500
Balance, December 31, 2023	47,176,627	4,489,263
<b>Private placements</b>	<b>1,333,333</b>	<b>200,000</b>
<b>Share issue costs</b>	<b>-</b>	<b>(51,022)</b>
<b>Balance, December 31, 2023</b>	<b>48,509,960</b>	<b>4,638,241</b>

On December 8, 2023, the Company closed a private placement financing by issuing 1,333,333 shares at a price of \$0.15 per share for gross proceeds of \$200,000.

On June 28, 2023, the Company closed a private placement financing by issuing 1,000,000 shares at a price of \$0.15 per share for gross proceeds of \$150,000.

On June 27, 2023, the Company closed a private placement financing by issuing 1,333,333 units at a price of \$0.15 per unit for gross proceeds of \$200,000. Each unit consist of 1 share and 0.75 share purchase warrants.

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With each warrant entitling the holder to acquire one common share for \$0.10 per warrant share until four years from the date of issuance. The warrants vested and are exercisable as of the grant date.

On April 28, 2023, the Company issued 50,000 shares on exercise of options at \$0.10 per share for gross proceeds of \$5,000.

On November 9, 2022, the Company closed a private placement financing by issuing 6,793,294 common shares at a price of \$0.15 per share for gross proceeds of \$1,018,994.

**SHARE PURCHASE WARRANTS**

On September 30, 2023, the Company granted 100,000 warrants to a service provider to purchase up to 100,000 common shares, at an exercise price of \$0.16 per share, exercisable on or before September 30, 2025. The warrants vested and are exercisable as of the grant date.

On July 31, 2023, the Company granted 625,000 warrants to a service provider to purchase up to 625,000 common shares, at an exercise price of \$0.20 per share, exercisable on or before July 31, 2025. The warrants vested and are exercisable as of the grant date.

On June 27, 2023, the Company granted 1,000,000 warrants, as part of the private placement financing, to purchase up to 1,000,000 common shares, at an exercise price of \$0.10 per share, exercisable on or before June 27, 2027. The warrants vested and are exercisable as of the grant date.

On January 25, 2023, the Company granted 150,000 warrants to a service provider to purchase up to 150,000 common shares, at an exercise price of \$0.15 per share, exercisable on or before January 25, 2026. The warrants vested and are exercisable as of the grant date.

On November 9, 2022, the Company granted 206,964 warrants to a service provider to purchase up to 206,964 common shares, at an exercise price of \$0.15 per share, exercisable on or before November 9, 2027. The warrants vested and are exercisable as of the grant date.

A continuity of the share purchase warrants is summarized as follows:

	December 31, 2023		September 30, 2023	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
Warrants outstanding, beginning of period	<b>2,629,964</b>	<b>0.13</b>	548,000	0.11
Issued November 9, 2022	-	-	206,964	0.15
Issued January 25, 2023	-	-	150,000	0.15
Issued June 27, 2023	-	-	1,000,000	0.10
Issued July 31, 2023	-	-	625,000	0.20
Issued September 30, 2023	-	-	100,000	0.16
Warrants outstanding, end of period	<b>2,629,964</b>	<b>0.13</b>	2,629,964	0.13

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As at December 31, 2023, the Company had outstanding warrants as follows:

<b>Expiry date</b>	<b>Exercise price</b>	<b>Remaining life (years)</b>	<b>Warrants outstanding</b>	<b>Warrants exercisable</b>
February 7, 2025	0.10	1.36	468,000	468,000
August 8, 2025	0.15	1.86	80,000	80,000
November 9, 2027	0.15	4.11	206,964	206,964
January 25, 2026	0.15	2.32	150,000	150,000
June 27, 2027	0.10	3.74	1,000,000	1,000,000
July 31, 2025	0.20	1.84	625,000	625,000
September 30, 2025	0.16	2.00	100,000	100,000
	0.13		2,629,964	2,629,964

The fair value of warrants was estimated using the Black-Scholes Option Pricing Model based on the date of grant and using the following assumptions:

<b>Grant date</b>	<b>Risk-free interest rate</b>	<b>Expected stock price volatility</b>	<b>Expected life</b>	<b>Fair value Warrant price</b>
February 7, 2022	1.43%	100%	3	0.06
August 8, 2022	3.12%	100%	3	0.09
November 9, 2022	3.60%	100%	5	0.11
January 25, 2023	3.30%	100%	3	0.08
June 27, 2023	3.53%	100%	4	0.07
July 31, 2023	4.67%	100%	2	0.07
September 30, 2023	4.87%	100%	2	0.07

All warrant grants have an expected dividend yield of 0% and a forfeiture rate of 0%.

**STOCK OPTIONS**

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, and consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares.

On October 3, 2023, the Company granted 325,000 stock options to an employee to purchase up to 325,000 common shares, at an exercise price of \$0.16 per share, exercisable on or before October 3, 2028. The options will vest over a 36-month period, in 12 month increments with ¼ vesting upon issuance.

On August 2, 2023, the Company granted 100,000 stock options to an employee to purchase up to 100,000 common shares, at an exercise price of \$0.16 per share, exercisable on or before August 2, 2028. The options will vest over a 36-month period, in 12 month increments with ¼ vesting upon issuance.

On January 25, 2023, the Company granted 2,075,000 stock options to an employee to purchase up to 2,075,000 common shares, at an exercise price of \$0.15 per share, exercisable on or before January 25, 2028. The options will vest over a 36-month period, in 12 month increments with ¼ vesting upon issuance.

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A summary of the Company's stock option transactions is presented below:

	December 31, 2023		September 30, 2023	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	4,375,000	0.13	2,900,000	0.10
Granted	325,000	0.16	2,175,000	0.15
Exercised	-	-	(50,000)	0.10
Cancelled	-	-	(650,000)	0.12
Options outstanding, end of period	4,700,000	0.13	4,375,000	0.13
Options exercisable, end of period	1,725,000	0.12	1,643,750	0.12

The share options outstanding as at December 31, 2023 are as follows:

Grant date	Number of options outstanding	Exercise price	Expiry date	Number of options exercisable
February 7, 2022	1,950,000	0.10	February 7, 2027	975,000
March 9, 2022	250,000	0.10	March 9, 2027	125,000
January 25, 2023	2,075,000	0.15	January 25, 2028	518,750
August 2, 2023	100,000	0.16	August 2, 2028	25,000
October 3, 2023	325,000	0.16	October 3, 2028	81,250
	4,700,000	0.13		1,725,000

The fair value of options was estimated using the Black-Scholes Option Pricing Model based on the date of grant and using the following assumptions:

Grant date	Risk-free interest rate	Expected stock price volatility	Expected life	Forfeiture rate	Fair value Option price
February 7, 2022	1.68%	100%	5	5%	0.07
March 9, 2022	1.65%	100%	5	5%	0.07
January 25, 2023	2.88%	100%	5	5%	0.11
August 2, 2023	3.97%	100%	5	5%	0.11
October 3, 2023	4.42%	100%	5	5%	0.12

All option grants have an expected dividend yield of 0%.

### CONTRIBUTED SURPLUS

The Contributed Surplus account records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

The Company recognized \$50,887 in share-based compensation on options and warrants during the period ended December 31, 2023 (2022 - \$48,281).

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**15. GENERAL AND ADMINISTRATIVE**

The following table provides a breakdown of general and administrative expense:

	<b>Three Months Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Accounting and legal	<b>50,856</b>	7,260
Advertising and marketing	<b>21,794</b>	38,963
Bank service charges	<b>441</b>	3,117
Office and sundry	<b>26,140</b>	30,170
Salaries and benefits	<b>306,377</b>	238,657
Travel and business development	<b>4,854</b>	6,692
<b>Gross general and administrative costs</b>	<b>410,462</b>	324,859
<b>Conversion costs transferred to COGS and inventory</b>	<b>(132,342)</b>	(86,403)
<b>Net general and administrative costs</b>	<b>278,120</b>	238,456

**16. GOVERNMENT GRANT**

In the period ended December 31, 2023, the Company received \$13,634 (2022 - \$6,133), in government grants from the Alberta Government as per Alberta Jobs Now Program. This grant program covers 25% of eligible new hires salaries for the first 52 weeks of their employment.

**17. RELATED PARTY TRANSACTIONS**

**KEY MANAGEMENT PERSONNEL COMPENSATION**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation directly or indirectly, including any directors (executive and non-executive) of the Corporation.

Payments made to key management personnel was comprised of:

	<b>For the period ended December 31, 2023</b>	<b>For the year ended September 30, 2023</b>
Salaries and benefits	<b>30,000</b>	90,000
Stock based compensation	<b>15,778</b>	82,122
	<b>45,778</b>	172,122

Included in accounts payable and accrued liabilities is \$Nil (September 30, 2023-\$91,047) due to the Chief Executive Officer and Director of the Corporation.

**18. CAPITAL MANAGEMENT**

The Company considers its capital structure to consist of shareholders' equity, long-term debt and leases. The Company manages its capital structure and makes adjustments based on the funds available to support the development of its operations. The board of directors has not established quantitative return on capital criteria for management and relies on the expertise of management and the board of directors to sustain future development of the business.

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The Company is dependent upon external financing to fund its activities. To continue to carry out the Company's planned development and funding of ongoing administrative expenses the Company will utilize its existing working capital and will raise additional capital as appropriate.

The management and board of directors of the Company review its capital management approach on an ongoing basis and believe it reflects a reasonable approach given the relative size of the Company's assets.

**19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgement.

**FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE**

The Company uses quoted market prices when available to estimate fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Management's judgement as to the significance of a particular input may affect placement within the fair value hierarchy levels.

The fair value hierarchy is 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 the asset or liability either directly or indirectly; and,
- Level 3 – Inputs that are not based on observable market data.

The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

<b>Financial Instruments</b>	<b>Fair Value Method</b>
<b>Measured at Amortized Cost</b>	
Cash, accounts receivable, and accounts payable and accrued liabilities	Measured initially at fair value, then at amortized cost after initial recognition. Fair value approximates carrying value due to their short-term nature. (Level 1)
Long-term debt	Measured initially at fair value, then at amortized cost after initial recognition using the effective interest method. Fair value is determined using discounted cash flows at the current market interest rate. (Level 2)

**MARKET RISK**

The Company's activities expose it to a variety of market risks, including foreign currency risk, interest rate risk, credit risk, and liquidity risk.

Management has overall responsibility for the establishment of risk management strategies and objectives. The Company's risk management policies are established to identify the risks faced, to set appropriate risk limits, and to monitor adherence to risk limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Company's activities.

**Foreign Currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has limited foreign currency transactions and management is of the opinion that the foreign currency risk is low and is not material.

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**Interest rate risk**

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is not exposed to significant interest rate risk, as the Company's long-term debt has a fixed interest rate.

**Credit risk**

The Company is exposed to credit risk if a customer or counterparty fails to meet its contractual obligations. The maximum credit risk that the Company is exposed to is the carrying value of cash and accounts receivable. At December 31, 2023 two customers (2022 – one customer) accounted for 69% (2022 – 73%) of accounts receivable.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity risk is managed through cash, debt and equity management strategies, when available.

The table below summarizes the Company's contractual obligations as at December 31, 2023:

	<b>Recognized in Financial Statements</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>More than 5 years</b>
Accounts payable and accrued liabilities <sup>1</sup>	Yes-Liability	255,391	255,391	-	-	-
Note payable	Yes-Liability	300,000	300,000	-	-	-
Long-term debt	Yes-Liability	821,018	145,265	404,046	271,707	-
Minimum lease payments	Yes-Liability	1,279,856	144,000	367,984	337,087	430,785
Interest payable <sup>2</sup>	No	72,912	26,019	44,007	2,887	-

1) Accounts payable and accrued liabilities exclude interest payable on long-term debt.

2) Excludes interest payable on lease liabilities

**20. SUBSEQUENT EVENTS**

On March 19, 2024, Hempalta Corp. ("**TBV**") (formerly capital pool company Trail Blazing Ventures Ltd.) completed the acquisition of all of the issued and outstanding securities of the Company.

The Transaction constituted TBV's "Qualifying Transaction" (as defined by Policy 2.4 – *Capital Pool Companies* of the TSX Venture Exchange) and was completed according to the terms of an amalgamation agreement dated November 15, 2023 (the "**Amalgamation Agreement**"), pursuant to which, among other things, TBV acquired all of the issued and outstanding securities of the Company by way of a three-cornered amalgamation with a wholly-owned subsidiary of TBV under the *Business Corporations Act* (Alberta).

Prior to the completion of the Transaction, TBV: (i) completed a consolidation on the basis of one (1) post-consolidation common share of TBV ("**TBV Share**") for every 1.7 pre-consolidation TBV Shares; and (ii) changed its name from "Trail Blazing Ventures Ltd." to "Hempalta Corp."

Pursuant to the Amalgamation Agreement, the issued and outstanding common shares of the Company ("**Company Shares**") were exchanged for TBV Shares on a 1:1 basis in connection with the Transaction. Pursuant to the Transaction: (i) an aggregate of 58,914,763 TBV Shares were issued in exchange for the outstanding Company Shares, which included the Company Shares issued upon the conversion of Subscription Receipts (as defined herein), as well as 3,531,250 Company Shares issued upon the conversion of the \$565,000 outstanding principal amount of 12% unsecured subordinated convertible debentures of the Company ("**Company Debentures**") and 223,732 Company Shares issued in payment of interest accrued and payable on the Company

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Debentures; (ii) warrants exercisable to acquire 2,629,964 TBV Shares were issued in exchange for the outstanding Company Share purchase warrants of the Company; (iii) broker warrants exercisable to acquire 154,859 TBV Shares were issued in exchange for the outstanding broker warrants of the Company ("**Broker Warrants**") which were issued in connection with the Subscription Receipt Financing (as defined herein); and (iv) stock options exercisable to acquire 4,700,000 TBV Shares were issued in exchange for the outstanding stock options of the Company.

On January 19, 2024, the Company completed a brokered private placement (the "**Subscription Receipt Financing**") led by Canaccord Genuity Corp. (the "**Agent**"), pursuant to which the Company issued and sold 6,473,351 subscription receipts of the Company ("**Subscription Receipts**"). Additionally, in connection with the Subscription Receipt Financing, the Company (i) paid to the Agent a cash corporate finance fee in the amount of \$25,000, (ii) issued to the Agent a total of 176,470 Subscription Receipts in satisfaction of a Subscription Receipts corporate finance fee with a value of \$30,000, (iii) issued to the Agent 154,859 Broker Warrants exercisable into Company Shares at an exercise price of \$0.17 per share, (iv) paid to the Agent, in connection with the Escrow Release (as defined herein), \$20,375.99 in cash commission, and (v) paid the Agent's expenses in connection with the Subscription Receipt Financing.

Prior to the completion of the Transaction, each of the 6,649,821 Subscription Receipts was automatically converted into one Company Share (the "**Escrow Release**"). Each such Company Share was exchanged pursuant to the Transaction for one TBV Share. The escrowed proceeds derived from the Subscription Receipt Financing, less the fees paid to the Agents in connection with the Agents' services rendered in connection with the Subscription Receipt Financing and other applicable deductions, were released in accordance with the provisions of the subscription receipt agreement that governed the Subscription Receipts.

TSXV: HEMP



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