



HempNova Lifetech Corporation

Consolidated Financial Statements

For the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars)

Management's Responsibility for Financial Reporting

The consolidated financial statements are the responsibility of the Board of Directors and management. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect management's best judgments on information currently available. In the opinion of management, the accounting policies utilized are appropriate in the circumstances and the consolidated financial statements fairly reflect the financial position and results of operations of HempNova Lifetech Corporation within reasonable limits of materiality.

The Audit Committee of the Board of Directors is composed of three Directors and meets with management to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by Davidson & Company LLP, who was appointed by the shareholders. The auditor's report outlines the scope of their examination and their opinion on the consolidated financial statements.

Dr. Ken Cai
President and CEO

Melinda Hsu, CPA, CGA
Chief Financial Officer

Vancouver, Canada
September 30, 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
HempNova Lifetech Corporation

Opinion

We have audited the accompanying consolidated financial statements of HempNova Lifetech Corporation (the "Company"), which comprise the consolidated statement of financial position as at June 30, 2020 and December 31, 2019, and the consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the six month-period ended June 30, 2020 and year ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2020, and its financial performance and its cash flows for the periods then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits 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 Consolidated 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 consolidated 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Catherine Tai.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

September 30, 2020

HempNova Lifetech Corporation
Consolidated Statements of Financial Position
(Expressed in Canadian dollars, unless otherwise stated)

	As at June 30, 2020	As at December 31, 2019
	\$	\$
Assets		
Current assets		
Cash (note 4)	1,810,931	1,349,032
Accounts receivable (note 6)	-	4,422,325
Other receivables (note 8)	276,016	13,913
Inventory (note 7)	1,705,835	213,676
Prepaid expenses and deposits	12,736	56,393
	3,805,518	6,055,339
Non-current assets		
Deposits	206,970	39,828
Property and equipment (note 10)	7,530,801	2,958,740
Right-of-use assets (note 9)	3,143,671	2,982,675
Total assets	14,686,960	12,036,582
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	309,722	164,517
Customer advance	-	26,036
Due to related parties (note 11)	686,062	510,668
Lease obligations, current (note 9)	172,201	319,246
	1,167,985	1,020,467
Non-current liabilities		
Deferred tax liabilities (note 14)	21,000	1,230,575
Lease obligations, non-current (note 9)	3,113,058	2,732,793
Total liabilities	4,302,043	4,983,835
Shareholders' equity		
Share capital (note 12a)	17,109,312	10,548,862
Reserves	1,880,856	1,768,454
Accumulated other comprehensive income (loss)	82,654	(164,899)
Deficit	(8,687,905)	(5,099,670)
Total shareholders' equity	10,384,917	7,052,747
Total shareholders' equity and liabilities	14,686,960	12,036,582

Nature and continuance of operations (note 1)

Commitments and contingency (note 13)

Approved by the Board of Directors:

(Signed) Shawn Dang Director

(Signed) Michael Doggett Director

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

HempNova Lifetech Corporation

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Expressed in Canadian dollars, unless otherwise stated)

	For the Six Months Ended June 30, 2020	For the Twelve Months Ended December 31, 2019
	\$	\$
Revenue (note 15)	439,290	7,042,932
Cost (note 15)	(146,767)	(1,205,940)
Gross profit	292,523	5,836,992
Operating expenses		
Audit and accounting	48,684	23,050
Amortization (note 9,10)	455,825	227,449
Consulting and management fees	387,627	331,038
Directors' fees	4,000	5,500
Equipment rental and freight	37,946	-
Farm expenses	197,166	-
Interest expense (note 9)	132,093	130,263
Legal, filing and transfer agent fees	195,218	118,095
Lab supplies	41,238	-
Office and miscellaneous	111,214	189,729
Rent	55,533	77,452
Salaries and benefits	458,957	296,517
Share-based compensation (note 12c)	112,402	-
Travel	46,906	129,655
Utilities	19,594	-
	2,304,403	1,528,748
Operating (loss) / income before the following items:	(2,011,880)	4,308,244
Foreign exchange loss	(11,169)	(7,757)
Provision for doubtful accounts (note 5)	-	(238,497)
Inventory write-down (note 7)	(2,775,393)	-
Interest income	632	10,785
(Loss) / income before income taxes	(4,797,810)	4,072,775
Income tax recovery (expense), deferred (note 14)	1,209,575	(1,230,575)
Net (loss) / income after taxes	(3,588,235)	2,842,200
Other comprehensive income (loss):		
Exchange gain (loss) on translating foreign operations	247,553	(164,899)
Comprehensive (loss) / income	(3,340,682)	2,677,301
(Loss) / earning per share - basic and diluted	(0.07)	0.08
Weighted average number of common shares outstanding		
- basic and diluted	50,379,617	35,261,538

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

HempNova Lifetech Corporation

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars, unless otherwise stated)

	Number of outstanding shares	Share capital	Reserve	Deficit	Accumulated comprehensive income	Total
	#	\$	\$	\$	\$	\$
Balance, December 31, 2018	24,325,853	6,754,150	1,768,454	(7,941,870)	-	580,734
Issuance of shares, net of finder's fees (note 12)	20,975,000	3,794,712	-	-	-	3,794,712
Net income for the year	-	-	-	2,842,200	-	2,842,200
Other comprehensive loss	-	-	-	-	(164,899)	(164,899)
Balance, December 31, 2019	45,300,853	10,548,862	1,768,454	(5,099,670)	(164,899)	7,052,747
Balance, December 31, 2019	45,300,853	10,548,862	1,768,454	(5,099,670)	(164,899)	7,052,747
Common shares issued as incentive payment (note 12)	1,115,000	223,000	-	-	-	223,000
Issuance of shares, net of finder's fees	16,167,500	6,337,450	-	-	-	6,337,450
Share-based compensation (note 12c)	-	-	112,402	-	-	112,402
Net loss for the period	-	-	-	(3,588,235)	-	(3,588,235)
Other comprehensive income	-	-	-	-	247,553	247,553
Balance, June 30, 2020	62,583,353	17,109,312	1,880,856	(8,687,905)	82,654	10,384,917

The accompany notes are an integral part of these consolidated financial statements

HempNova Lifetech Corporation

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars, unless otherwise stated)

	For the Six Months ended June 30, 2020	For the Twelve Months ended December 31, 2019
	\$	\$
Operating activities		
Net (loss) / income for the period	(3,588,235)	2,842,200
Adjustments for:		
Amortization	455,825	227,449
Common shares issued as incentive payment	223,000	-
Foreign exchange loss	11,169	-
Interest expense (note 9)	132,093	130,263
Provision for doubtful account	-	238,497
Deferred income tax (recovery) / expense	(1,209,575)	1,230,575
Share-based compensation (note 12c)	112,402	-
Inventory write-down	2,775,393	-
Changes in items of working capital		
Accounts payable and accrued liabilities	(62,845)	14,193
Accounts receivable	376,769	(4,422,325)
Customer advance	(27,302)	26,036
Due from (to) related parties	175,394	509,559
Inventory	(4,095)	(143,154)
Prepaid expenses and deposits	45,892	(56,393)
Other receivables	(262,103)	14,781
Cash (used in) / generated from operating activities	(846,218)	611,681
Financing activities		
Issuance of common shares	6,337,450	3,794,712
Payment of lease obligations (note 9)	(211,586)	(174,005)
Cash generated from financing activities	6,125,864	3,620,707
Investing activities		
Purchase of property and equipment	(4,543,880)	(3,101,004)
Payment of deposit	(165,323)	(39,828)
Cash used in investing activities	(4,709,203)	(3,140,832)
Effect of exchange rate on cash	(108,544)	(106,521)
Increase in cash	461,899	985,035
Cash, beginning of the period	1,349,032	363,997
Cash, end of the period	1,810,931	1,349,032
Supplemental non-cash transactions:		
Property and equipment expenditures included in accounts payable	196,243	100,979

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

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

1. Nature and continuance of operations

HempNova Lifetech Corporation (the “Company”) was incorporated in British Columbia in October 1989 and changed its name from Pacific Link Mining Corp. on May 2, 2019. The registered head office principal address and the records office of the Company are located at 2060 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 3P3.

The Company, through its wholly owned subsidiary HempNova Lifetech (USA) Corp (formerly HempNova Lifetech (Oregon) Corp.), is engaged in industrial hemp related products and services. HempNova Lifetech (USA) Corp. was incorporated in Delaware, USA.

These consolidated financial statements have been prepared on the going concern basis, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has started its industrial hemp business since 2019. The Company believes the financial resource on hand is adequate to support the Company’s operation in the next twelve months.

These consolidated financial statements do not give effect to any adjustments that might be required should the Company be unable to continue as a going concern and therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts differing from those reflected in the financial statements.

Since February 2020, the coronavirus (“COVID-19”) has threatened a slowdown in the global economy as well as caused volatility in the global financial markets. While the full impact of COVID-19 on the global economy is uncertain, rapid spread of COVID-19 may have an adverse effect on the Company’s financial position, results of operations and cash flows in future periods.

2. Basis of presentation

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

These consolidated financial statements were approved by the board of directors for issue on September 30, 2020.

Change in year end

On April 28, 2020, the Company changed its fiscal year end from December 31 to June 30 effective immediately to better reflect the seasonality of its operations. The Company’s transition period is the six months ended June 30, 2020, and the comparative period is the twelve months ended December 31, 2019.

3. Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Consolidation and subsidiaries

These consolidated financial statements include the accounts of the Company and its subsidiaries, HempNova Lifetech (USA) Corp. (“HempNova USA”), HempNova Oregon LLC (“HempNova Oregon”), HempNova Asset Management LLC (“HempNova Asset”), HNL2 Holding LLC (“HNL2”), HNL3 Holding LLC (“HNL3”), HempNova Eugene LLC (“HempNova Eugene”), and HempNova 238 LLC (“HempNova 238”).

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant accounting policies (continued)

Consolidation and subsidiaries (continued)

Information of the Company's subsidiaries as at June 30, 2020 is as follows:

Name	Principal activities (ownership interest)	Country of Incorporation
HempNova USA	Holding company (100%)	USA
HempNova Oregon	Holding company (100%)	USA
HempNova Asset	Holding company (100%)	USA
HNL2	Asset holding company (100%)	USA
HNL3	Asset holding company (100%)	USA
HempNova Eugene	Industrial hemp business (100%)	USA
HempNova 238	Industrial hemp business (100%)	USA

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Foreign currency

(i) Functional and presentation currency

The financial statements of each entity in the group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars.

The functional currency determinations were conducted through an analysis of the consideration factors identified in International Accounting Standard ("IAS") 21, *the effect of changes in foreign exchange rates*.

The functional currency of the Company is the Canadian dollar. The functional currency of its wholly owned subsidiaries is the U.S. Dollar.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of an entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of operations and comprehensive income (loss).

The results and financial position of all the consolidated entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows: (i) assets and liabilities for each statement of financial position presented are translated at the rate of exchange in effect as at the date of statement of financial position; (ii) income and expense items for each statement of operations are translated at the average rates of exchange in effect during the reporting period; and (iii) all resulting exchange differences are recognized in accumulated other comprehensive income (loss).

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant accounting policies (continued)

Financial instruments

Following is the accounting policy for financial instruments under IFRS 9:

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 (“FVTOCI”), or at amortized cost. The Company determines the classification at initial recognition.

Financial liabilities of the Company are measured at amortized cost unless they are required to be measured at FVTPL, or the Company has opted to measure them at FVTPL. The Company’s cash, accounts receivable, other receivables, accounts payable, due to related parties, and lease obligations are classified as amortized cost financial instruments.

The Company does not have any financial assets or financial liabilities classified as FVTPL or FVTOCI.

Measurement

The Company’s financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs respectively, and subsequently measured at amortized cost using the effective interest rate less any impairment.

Impairment of financial assets

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. The Company recognizes in the consolidated statements of operations 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.

During the year ended December 31, 2019, the Company recorded a loss allowance totaling \$238,497 in connection with amounts due from Aibeida (note 5).

Property, plant and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The carrying amount of a replaced asset is derecognized when replaced.

The major categories of property and equipment are depreciated as follows:

Machinery and equipment	5 years declining balance
Office equipment and furniture	5 years declining balance
Vehicles	5 years declining balance
Greenhouse and barn	10 years straight line
Leasehold improvement	10 years straight line

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant accounting policies (continued)

Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of returns and discounts.

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a good or service to a customer. Storage income is recognized as the service is delivered, to the extent that collection is reasonably assured.

Impairment of assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value-in-use and fair value less costs of disposal. Determining the value-in-use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU").

Deferred revenue

Payments received for future delivery of goods and services is recognized as deferred revenue.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Earnings (loss) per share

Basic earnings (loss) per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method.

Share-based payments

The stock option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payments expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to share capital. The fair value is measured at grant date and each tranche is recognized over the period during which the options vest.

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant accounting policies (continued)

Share-based payments (continued)

The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Share capital

The Company records proceeds from share issuances net of issue costs and any tax effects. Common shares issued for consideration other than cash are valued based on their market value at the date the agreement to issue shares was concluded.

Warrants issued in equity financing transactions:

The Company engages in equity financing transactions to obtain the funds necessary to continue operations. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction. Warrants that are part of units are assigned a value based on the residual value, if any, and included in reserves.

Warrants that are issued as payment for agency fees or other transaction costs are assigned a value based on the Black-Scholes pricing model and included in reserves. When warrants are exercised, any reserves related to those warrants are reclassified from reserves to share capital.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences do not result in deferred tax assets or liabilities: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant accounting policies (continued)

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost includes all expenses related to purchasing and transferring the finished goods and is determined by use of weighted average method. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. The Company periodically reviews the value of items in inventory and provides writ-downs or write-offs of inventory based on its assessment of market conditions.

Significant accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates.

Key Sources of estimation uncertainty

Allowance for doubtful accounts

The Company makes an assessment of whether accounts receivable are collectible from customers. Accordingly, the Company establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer credit-worthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected.

Valuation of inventory

The Company reviews the net realizable value of, and demand for, its inventory regularly to provide assurance that recorded inventory is stated at the lower of cost or net realizable value. Factors that could impact estimated demand and selling prices include competitor actions, supplier prices and economic trends.

Useful lives of property and equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the non-current assets. In addition, the assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant accounting policies (continued)

Key Sources of estimation uncertainty (continued)

Share-based payment transactions and warrants

The Company measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Impairment of non-financial assets

Non-financial assets include property equipment and right-of- use assets. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model.

Critical judgment in applying accounting policies

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. The factors considered by management are disclosed in Note 1.

Provisions for taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

4. Cash

Cash was comprised of cash on hand deposited in the banks with a breakdown by original currency as following:

	June 30, 2020	December 31, 2019
	\$	\$
Amount denominated in RMB	692,749	-
Amount denominated in Canadian dollars	148,416	309,835
Amount denominated in USD	969,766	1,039,197
	1,810,931	1,349,032

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5. Aibeida transaction

On September 18, 2018, the Company entered into a share exchange agreement (the “Definitive Agreement”) with Aibeida Lifetech Limited (“Aibeida”), Hang Zhou Aibeida Technologies Co. Ltd. (“HZAT”), Clever Splendor Limited (“Clever Splendor”) and H.K. Gimaras Industrial Co. Ltd. (“Gimaras”) pursuant to which the Company would acquire all of the issued and outstanding shares of Aibeida from Clever Splendor and Gimaras.

During the year ended December 31, 2018, the Company advanced a loan of \$200,000 (the “Loan”) to Aibeida. The Loan was interest free and repayable on demand. Aibeida shareholders had pledged all outstanding shares of Aibeida as security for repayment of the Loan. During fiscal 2018, the Company had also advanced \$38,497 to Aibeida and its subsidiary for Aibeida’s expenses. This advance was non-interest bearing, unsecured and payable on demand. As at December 31, 2019, the Company provided a valuation allowance totalling \$238,497 for the recovery of the Loan and the advance. However, the Company is pursuing legal collateral action to recover the Loan. A notice of the Loan collection was sent to Aibeida on November 25, 2019. As at June 30, 2020, the Company has not received the recovery of the Loan and the advance.

6. Accounts receivable

The Company’s business is seasonal in nature. As at June 30, 2020, the Company had \$Nil (December 31, 2019: \$4,422,325) in accounts receivable which was mainly from the drying and storage services provided to customers during the 2019 harvest season.

During the six months ended June 30, 2020, the Company put various liens on customers’ hemp biomasses against their outstanding account receivables. As at June 30, 2020, the Company took ownership of 746,524 pounds of hemp biomasses from its customers by exercising its right to foreclosure liens. As such, the related outstanding accounts receivable balance of \$4,253,450 (US\$3,121,111) was transferred to inventory as the cost of these hemp biomasses.

7. Inventory

The Company’s inventory is comprised of hemp biomasses taken over through foreclosure liens (note 6, above) and split from its customers, as well as packing material and others for future production. As at June 30, 2020, the biomass inventory was recorded at the lower of its cost and net realisable value. During the period ended June 30, 2020, the Company recorded an inventory write-down of \$2,775,393 (December 31, 2019: \$Nil).

As at June 30, 2020, the Company’s inventory of \$1,705,835 (December 31, 2019: \$213,676) comprised of packing material and others in an amount of \$47,308 or US\$34,714 (December 31, 2019 - \$41,285 or US\$31,714) and hemp biomass of \$1,658,527 or US\$1,217,000 (December 31, 2019 - \$172,391, or US\$132,427) for future sale. A summary is as follows:

	June 30, 2020		December 31, 2019	
	Pounds	\$	Pounds	\$
Hemp biomass	746,524	1,658,527	14,032	172,391
Packing material and others	-	47,308	-	41,285
	746,524	1,705,835	14,032	213,676

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8. Other receivables

During the period ended June 30, 2020, the Company entered into various agreements (the “Agreements”) with Creekside Hemp Inc. and NV Farms LLC (collectively the “Sellers”) to acquire a 90% interest in all the assets related to an integrated hemp operation located in Oregon, USA. The Company paid \$408,840(US\$300,000) as a refundable deposit to the Sellers. In April 2020, upon the completion of extensive due diligence, the Company decided to terminate the Agreements. As at June 30, 2020, the Company received \$136,280 (US \$100,000) from the Sellers. The balance of \$272,560 (US \$200,000) was included in other receivable as at June 30, 2020.

	June 30, 2020	December 31, 2019
	\$	\$
Deposit receivable	272,560	1,313
GST receivable	3,456	12,600
	276,016	13,913

9. Lease

The Company’s recognized right-of-use assets and liabilities were comprised of the present values of all future lease payments of four leases located in Vancouver Canada, Beijing China, and Eugene and Medford in Oregon, USA.

The right-of-use asses and lease obligations were measured at the present value of the lease payments and discounted using an incremental borrowing rate of 8%.

Facility lease in Eugene, USA

This lease, located in Eugene, has an initial term of five years with the option to renew for two additional five-year terms (ending May 31, 2034) with monthly rent of US\$13,738 and annual increment of 1.5%. A deposit of \$26,584 (US\$18,738) has been placed in connection with this lease, which will be refundable within 30 days after expiration of the lease term.

Facility lease in Medford, USA

This lease, located in Medford, has an initial term of three years with the option to renew for two additional five-year terms (ending August 14, 2032) with monthly rent of US\$7,500 and an annual increment of 3% at the extension of the term. A deposit of \$21,929 (US\$15,457) has been placed in connection with this lease, which will be refundable within 30 days after expiration of the lease term.

Shared office lease in Vancouver, Canada

This lease is for a shared office with other companies related by virtue of certain directors and management in common. Such office lease will expire on April 30, 2023. The Company started sharing this lease from January 1, 2020.

Shared office lease in Beijing, China

This lease is for a shared office with Minco China Corporation (“Minco China”), a wholly owned subsidiary of Minco Silver Corporation (“Minco Silver”). The Company and Minco Silver are related by virtue of certain directors and management in common. Minco China entered into a lease agreement with its CEO who is also the Company’s CEO for the use of an office in Beijing, China with an expiry date on August 31, 2021. The Company started to share 20% of this lease on January 1, 2020.

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9. Lease (continued)

a) Right-of-use assets

The continuity of the right-of-use assets as at June 30, 2020 and December 31, 2019 is as follows:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Right-of-use assets, as at January 1, 2019	-	-	-	-	-
Addition	-	-	2,030,349	1,065,432	3,095,781
Amortization	-	-	(78,957)	(34,149)	(113,106)
Right-of-use assets, as at December 31, 2019	-	-	1,951,392	1,031,283	2,982,675
Addition	99,030	67,713	-	-	166,743
Amortization	(14,855)	(19,680)	(71,665)	(42,382)	(148,582)
Foreign exchange and others	-	(2,386)	111,601	33,620	142,835
Right-of-use assets, as at June 30, 2020	84,175	45,647	1,991,328	1,022,521	3,143,671

b) Lease obligation

The continuity of the lease obligation as at June 30, 2020 and December 31, 2019 is as follows:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Lease liability recognized, January 1, 2019	-	-	-	-	-
Addition	-	-	2,030,349	1,065,432	3,095,781
Interest accretion	-	-	94,749	35,514	130,263
Lease payments	-	-	(125,188)	(48,817)	(174,005)
Lease obligation recognized, as at December 31, 2019	-	-	1,999,910	1,052,129	3,052,039
Addition	99,030	67,713	-	-	166,743
Interest accretion	3,642	2,174	83,455	42,822	132,093
Lease payments	(16,408)	(20,946)	(112,803)	(61,429)	(211,586)
Foreign exchange and others	-	(2,392)	113,805	34,557	145,970
Lease obligation, June 30, 2020	86,264	46,549	2,084,367	1,068,079	3,258,259
Lease obligation, current	27,674	39,631	65,447	39,449	172,201
Lease obligation, non-current	58,590	6,918	2,018,920	1,028,630	3,113,058

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(Expressed in Canadian dollars, unless otherwise stated)

9. Lease (continued)

b) Lease obligation (continued)

The maturity analysis of the Company's contractual undiscounted lease liabilities as at June 30, 2020 is as follows:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Less than one year	33,356	41,645	228,321	122,652	425,974
One to three years	62,790	6,941	466,968	248,677	785,376
Four to five years	-	-	481,081	263,505	744,586
Beyond five years	-	-	2,327,867	1,068,940	3,396,807
	96,146	48,586	3,504,237	1,703,774	5,352,743

c) Amounts recognized in Statement of Loss

Short-term leases represented staff dormitory and low-value leases represented parking and storage.

For the year ended June 30, 2020:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Interest on lease obligation	3,642	2,174	83,455	42,822	132,093
Rent related to short-term leases	-	-	43,669	2,177	45,846
Rent related to low-value and variable leases	2,586	3,897	2,180	1,024	9,687
Amortization	14,855	19,680	71,665	42,382	148,582

For the year ended December 31, 2019:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Interest on lease obligation	-	-	94,749	35,514	130,263
Rent related to short-term leases	9,560	-	47,126	-	56,686
Rent related to low-value and variable leases	-	-	20,766	-	20,766
Amortization	-	-	78,957	34,149	113,106

10. Property and equipment

During the six months ended June 30, 2020, the Company acquired all assets of the Seven Oaks Hemp Centre located at Oregon, USA for US \$2.03 million. As at June 30, 2020 and December 31, 2019, the Company had the following property and equipment.

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10. Property and equipment (continued)

Cost	Farmland	Machinery and equipment	Furniture and office equipment	Vehicle	Green house and barn	Leasehold improvement	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
December 31, 2018	-	-	-	-	-	-	-	-
Additions	-	2,028,218	75,692	96,723	-	1,001,350	-	3,201,983
Foreign exchange	-	(39,246)	(1,464)	(1,871)	-	(19,376)	-	(61,957)
December 31, 2019	-	1,988,972	74,228	94,852	-	981,974	-	3,140,026
Additions	953,960	1,221,604	18,057	15,874	913,076	283,970	1,333,582	4,740,123
Foreign exchange	-	93,218	3,479	4,445	-	46,024	-	147,166
June 30, 2020	953,960	3,303,794	95,764	115,171	913,076	1,311,968	1,333,582	8,027,315

Accumulated amortization

December 31, 2018	-	-	-	-	-	-	-	-
Amortization	-	152,117	5,677	7,254	-	19,817	-	184,865
Foreign exchange	-	(2,946)	(110)	(140)	-	(383)	-	(3,579)
December 31, 2019	-	149,171	5,567	7,114	-	19,434	-	181,286
Amortization	-	228,540	7,803	9,465	15,243	46,192	-	307,243
Foreign exchange	-	6,611	248	318	(25)	833	-	7,985
June 30, 2020	-	384,322	13,618	16,897	15,218	66,459	-	496,514

Net carrying value

June 30, 2020	953,960	2,919,472	82,146	98,274	897,858	1,245,509	1,333,582	7,530,801
December 31, 2019	-	1,839,801	68,661	87,738	-	962,540	-	2,958,740

During the six months ended June 30, 2020, the Company recorded an amortization expense of \$307,243. During the year ended December 31, 2019, the amortization was \$184,865, of which \$70,522 has been directly added to the Company's cost of goods sold and \$114,343 was expensed as operating expenses.

11. Related party transactions

(a) Shared office expenses

The Company, Minco Silver, Minco Capital Corp. ("Minco Capital"), and Minco Base Metals Corporation ("MBM") have certain directors and management in common. These four companies share certain offices and administrative expenses.

During the six months ended June 30, 2020, the Company incurred \$98,014 (for the year ended December 31, 2019 - \$17,031) to Minco Capital for reimbursement of shared office expenses and rent for the head quarter in Vancouver and incurred \$24,658 (for the year ended December 31, 2019 - \$Nil) to Minco China for reimbursement of shared office rent in Beijing, China. During the six months ended June 30, 2020, the Company also incurred \$495,837 (for the year ended December 31, 2019 - \$Nil) to Minco Base Metals for reimbursement of equipment purchase and other expenses in China.

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(Expressed in Canadian dollars, unless otherwise stated)

11. Related party transactions (continued)

(b) Key management compensation

Key management includes the Company's directors and senior management. During the six months ended June 30, 2020 and the year ended December 31, 2019, the following compensation was charged by the key management.

	For the six months ended June 30, 2020	For the twelve months ended December 31, 2019
	\$	\$
Senior management remuneration	395,650	269,581
Directors' fees (i)	24,000	5,500
Share base compensation	84,630	-
Total	504,280	275,081

(i) During the period ended June 30, 2020, the Company paid \$4,000 of directors' fees and \$20,000 of incentive bonus. As at June 30, 2020, the Company also paid to a director \$20,767 for a recruiting service and \$3,000 for other services.

(c) Due to related parties

As at June 30, 2020 and December 31, 2019, the Company's amount payable to related parties are as follow:

	As at June 30, 2020	As at December 31, 2019
	\$	\$
MBM, for labor and equipment purchase	495,837	303,938
Minco Capital, for reimbursement of the shared expenses	458	3,808
Minco Silver, for reimbursement of the shared expenses	125,805	-
A company owned by the CEO, for service fees	55,026	152,000
A company owned by the President (former CFO), for service fees	8,936	50,922
Total due to related parties	686,062	510,668

Amounts due to related parties are unsecured, non-interest bearing and without specific terms of repayment.

(d) Minco Silver participated in the Company's private placement

During the period ended June 30, 2020, Minco Silver participated in the Company's private placement closed on May 12, 2020 by purchasing 7,950,000 common shares at the price of \$0.40 per share for a total investment amount of \$3,180,000, which represented approximately 12.7% of the issued and outstanding common shares of the Company after closing of the Company's private placement.

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12. Share capital

(a) Share capital

Authorized share capital - unlimited number of common shares without par value.

Six months ended June 30, 2020

In February 2020, the Company approved \$347,545 of incentive payments to directors, officers, employees and consultants. The Company issued 1,115,000 common shares at \$0.20 per share for a total of \$223,000 and paid \$124,545 in cash for the settlement.

In May 2020, the Company closed a non-broker private placement of 16,167,500 common shares at a price of \$0.40 per share for gross proceeds of \$6,467,000. A finder's fee of \$129,550 was paid in connection with this financing.

Year ended December 31, 2019

In March 2019, the Company received share subscriptions for 7,500,000 common shares for gross proceeds of \$1,500,000 (\$0.20 per share). The Company issued these 7,500,000 shares in September 2019 and finders' fees of \$75,000 were paid.

In April 2019, the Company issued 2,975,000 common shares for exercise of warrants at \$0.08 per share for gross proceeds of \$238,000.

In May 2019, the Company issued 9,500,000 common shares at \$0.20 per share through a non-brokered private placement for proceeds of \$1,900,000. The Company paid \$20,000 finder's fee in connection with this private placement.

In August 2019, the Company issued 1,000,000 common shares for \$264,969 (US \$200,000 at US\$0.20 per share) through a private placement. Finders' fees of \$13,257 (US\$10,000) were paid.

(b) Warrants

The Company's outstanding warrants' continuity is as follow:

	Number outstanding	Weighted average
	#	\$
Balance, December 2018	5,000,000	0.08
Expired	(2,025,000)	0.08
Exercised	(2,975,000)	0.08
Balance, December 31, 2019 and June 30, 2020	-	-

(c) Options

The Company has an incentive stock option plan (the "Plan") whereby the Company may grant stock options to eligible employees, officers, directors and consultants at an exercise price to be determined by the board of directors, provided the exercise price is not lower than the market value at time of issue less any discount allowed by the stock exchange upon which the common shares are listed. The Plan provides for the issuance of up to 10% of the Company's issued common shares as at the date of grant with each stock option having a maximum term of five years. The board of directors has the exclusive power over the granting of options and their vesting provisions.

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12. Share capital (continued)

(c) Options (continued)

The Company did not have any stock options outstanding as at December 31, 2019. During the period ended June 30, 2020, the Company granted 3,500,000 stock options to certain of its directors, employees and consultants at an exercise price of \$0.20 per common share. These options vest 1/3 each year over three years from the grant date and exercisable for a period of five years.

During the period ended June 30, 2020, the Company granted 200,000 stock options to a senior officer at an exercise price of \$0.40 per common share. These options vest 1/3 each year over three years from the grant date and exercisable for a period of five years.

During the six months ended June 30, 2020, the Company recorded \$112,402 (2019 - \$Nil) share-based compensation for stock options granted and vested. A continuity of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price
	#	\$
Balance, December 31, 2019 and 2018	-	-
Grant	3,700,000	0.21
Forfeited	(130,000)	0.20
Balance, June 30, 2020	3,570,000	0.21

As at June 30, 2020, there was \$421,400 (December 31, 2019 - \$Nil) of total unrecognized compensation cost relating to unvested options.

Options outstanding			Options exercisable		
exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$	#		\$	#	\$
0.20	3,370,000	4.66	0.20	-	-
0.40	200,000	4.73	0.40	-	-
	3,570,000	4.66	0.21	-	-

The Company uses the Black-Scholes option pricing model to determine the fair value of the options.

	2020	2019
Risk-free interest rate	0.74% - 1.19%	-
Dividend yield	-	-
Volatility	95% - 108%	-
Forfeiture rate	-	-
Estimated expected lives	5 years	-

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12. Share capital (continued)

(c) Options (continued)

Option pricing models require the use of subjective estimates and assumptions including the expected stock price volatility. In the absence of a volatility of the Company's share price, the Company has used the annual volatility of the share prices of three Canadian comparable companies to estimate the Company's share price volatility for use in the Black-Scholes option pricing model. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

13. Commitments and contingency

(a) As at June 30, 2020, the Company has four leases commitment (see note 9) with a breakdown as follows

	\$
2020	212,790
2021	414,126
2022	391,994
2023 – 2034	4,333,833
	<u>5,352,743</u>

(b) The Company has been notified of a third-party legal claim, relating to a contract with a customer. However, in the opinion of the management, this claim is without merit and no provision has been made for it in the accounts.

14. Income tax

A reconciliation of income tax at statutory rates with the report taxes is as follows:

	As at June 30, 2020	As at December 31, 2019
	\$	\$
(Loss) / Income before taxes	(4,797,810)	4,072,775
Expected income tax (recovery) / expense	(1,295,000)	1,100,000
Permanent differences	30,000	42,000
Share issue cost	(35,000)	-
Adjustment to prior years provision versus statutory tax returns	(11,000)	
Change in unrecognized deductible temporary differences	5,000	98,000
Change in statutory, foreign tax, foreign exchange rates and other	96,425	(9,425)
Total income tax (recovery) / expense	<u>(1,209,575)</u>	<u>1,230,575</u>

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14. Income tax (continued)

Deferred taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of deferred tax assets and liabilities as at June 30, 2020 and December 31, 2019 are as follows:

Deferred tax assets (liabilities)	As at June 30, 2020	As at December 31, 2019
	\$	\$
Accounts receivable	728,000	(1,185,000)
Start-up costs and others	207,000	109,425
Property and equipment	(1,197,000)	(531,000)
Non-capital losses	241,000	376,000
Net deferred tax liability	(21,000)	(1,230,575)

At June 30, 2020, the Company has non-capital losses available for deduction against future taxable income amounting to approximately \$3,863,000 (December 31, 2019 - \$3,032,000). These losses, if not utilized, will expire between 2026 and 2040. Subject to certain restrictions, the Company also has mineral property expenditures of approximately \$135,000 and capital losses of approximately \$105,500 available to reduce taxable income in future years. The Company has not recognized any future benefit for these tax losses and resource deductions as it is not considered likely that they will be utilized.

15. Segment information

The Company defines its major operating segment as its industrial hemp processing in Oregon, USA and all of the Company's property, plant and equipment are located in Oregon, USA. The geographical division of the Company's assets is as follows:

As at June 30, 2020	Canada	USA	Total
	\$	\$	\$
Current assets	594,129	3,211,389	3,805,518
Non-current assets	129,821	10,751,621	10,881,442
As at December 31, 2019	Canada	USA	Total
	\$	\$	\$
Current assets	527,091	5,528,248	6,055,339
Non-current assets	-	5,981,243	5,981,243

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(Expressed in Canadian dollars, unless otherwise stated)

15. Segment information (continued)

The following table summarizes the sale during the six months ended June 30, 2020 and the year ended December 31, 2019:

	For the six months ended June 30, 2020	For the twelve months ended December 31, 2019
	\$	\$
Service revenue	439,290	7,042,932
Service cost:		
Depreciation	-	(70,522)
Production and service costs	(146,767)	(1,135,418)
Gross profit	292,523	5,836,992

16. Financial instruments

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is the risk of liquidity of cash of \$1,810,931 as at June 30, 2020 (December 31, 2019 - \$1,349,032) and accounts receivable of \$Nil as at June 30, 2020 (December 31, 2019 - \$4,422,325). As the Company's policy is to limit cash holdings to instruments issued by major Canadian banks, or investments of equivalent or better quality, the credit risk related to cash is considered by management to be negligible.

Significant management estimates are used to determine the allowance for doubtful accounts. The Company considers the probability of default on a specific account basis, which involves assessing whether there was a significant increase in credit risk. Indicators include actual or expected changes in the debtor's ability to pay based on information that is available each reporting period, monitoring past due accounts and other external factors. The Company believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk associated with the Company's accounts receivable. The Company monitors the credit quality of the customers it deals with on an ongoing basis.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company's primary exposure to liquidity risk from financial instruments is its need to meet accounts payable and accrued liabilities obligations of \$309,722 at June 30, 2020 (December 31, 2019 - \$164,517). The Company did maintain sufficient cash balances to meet these needs at June 30, 2020.

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. The Company is exposed to interest rate risk on its cash which is not considered to be significant.

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For the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

16. Financial instruments (continued)

Fair Value of Financial Instruments

The fair value of the Company's financial assets and liabilities approximates the carrying amount due to the short-term nature.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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 following table summarizes the carrying value of financial instruments as at June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Financial assets, amortized cost:	\$	\$
Cash	1,810,931	1,349,032
Account receivables	-	4,422,325
Other receivables	276,016	13,913
Financial liabilities, amortized cost:		
Accounts payable and accrued liabilities	309,722	164,517
Customer advance	-	26,036
Due to related parties	686,062	510,668
Lease obligations, current	172,201	319,246
Lease obligations, non-current	3,113,058	2,732,793

17. Capital management

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders through expansion correspondingly to the level of risk.

The Company defines its shareholders' equity as capital and sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, sell assets, reduce debt or increase its debt.