



HempNova Lifetech Corporation

Consolidated Financial Statements

For the year ended June 30, 2021, 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
Chief Executive Officer

Melinda Hsu, CPA, CGA
Chief Financial Officer

Vancouver, Canada
October 4, 2021

INDEPENDENT AUDITOR'S REPORT

To the Directors of
HempNova Lifetech Corporation

Opinion

We have audited the accompanying consolidated financial statements of HempNova Lifetech Corporation (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2021, 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 twelve months ended June 30, 2021, six months ended June 30, 2020, and twelve months 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, 2021, June 30, 2020 and December 31, 2019 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has started its industrial hemp business since 2019 and continues to incur losses. The continuation of the Company as a going concern is dependent upon the hemp sale market, the continued financial support from its shareholders, and the ability of the Company to obtain necessary equity financing to fund on-going operating expenditures. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information 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.

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

October 4, 2021

HempNova Lifetech Corporation

Consolidated Statements of Financial Position

(Expressed in Canadian dollars, unless otherwise stated)

	As at June 30, 2021	As at June 30, 2020	As at December 31, 2019
	\$	\$	\$
Assets			
Current assets			
Cash	579,831	1,810,931	1,349,032
Accounts receivable (note 5)	73,314	-	4,422,325
Inventory (note 6)	4,100,959	1,705,835	213,676
Other receivables (note 7)	9,288	276,016	13,913
Prepaid expenses and advance	6,070	12,736	56,393
	4,769,462	3,805,518	6,055,339
Non-current assets			
Deposits	73,832	206,970	39,828
Property, plant and equipment (note 9)	8,662,347	7,530,801	2,958,740
Right-of-use assets (note 8a)	2,799,752	3,143,671	2,982,675
Total assets	16,305,393	14,686,960	12,036,582
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	570,595	309,722	164,517
Customer advance	-	-	26,036
Due to related parties (note 10c)	233,780	686,062	510,668
Lease obligations, current (note 8b)	172,622	172,201	319,246
Loan from related party (note 10f)	470,903	-	-
	1,447,900	1,167,985	1,020,467
Non-current liabilities			
Deferred tax liabilities (note 15)	-	21,000	1,230,575
Convertible debenture (note 12)	3,878,865	-	-
Lease obligations, non-current (note 8b)	2,875,837	3,113,058	2,732,793
Total liabilities	8,202,602	4,302,043	4,983,835
Shareholders' equity			
Share capital (note 11a)	17,109,312	17,109,312	10,548,862
Reserves	2,130,245	1,880,856	1,768,454
Equity portion of convertible debenture (note 12)	303,539	-	-
Accumulated other comprehensive income (loss)	(1,081,412)	82,654	(164,899)
Deficit	(10,358,893)	(8,687,905)	(5,099,670)
Total shareholders' equity	8,102,791	10,384,917	7,052,747
Total shareholders' equity and liabilities	16,305,393	14,686,960	12,036,582
<i>Nature and continuance of operations (note 1)</i>			
<i>Commitments and contingency (note 13)</i>			
<i>Subsequent event (note 19)</i>			

Approved by the Board of Directors:

(Signed) Shawn Dang Director

(Signed) Michael Doggett Director

HempNova Lifetech Corporation

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Expressed in Canadian dollars, unless otherwise stated)

	For the twelve months ended June 30, 2021	For the six months ended June 30, 2020	For the twelve months ended December 31, 2019
	\$	\$	
Revenue, net of discounts and commission (note 16)	1,560,898	439,290	7,042,932
Inventory expensed to cost of sales, before fair value adjustment (note 6)	(657,080)	-	-
Production costs (note 16)	(500,480)	(146,767)	(1,205,940)
Gross profit before fair value adjustments	403,338	292,523	5,836,992
Unrealized fair value adjustment of biological assets (note 6)	2,479,233	-	-
Gross profit	2,882,571	292,523	5,836,992
Operating expenses			
Amortization and depreciation (note 8 & 9)	762,953	455,825	227,449
Farm expenses and equipment rental	-	235,112	-
General and administrative expenses (note 14)	933,512	1,272,200	1,093,584
Interest expense (note 8, 10 & 12)	657,302	132,093	130,263
Rent	183,312	55,533	77,452
Research and development	237,906	41,238	-
Sales and marketing	184,113	-	-
Share-based compensation (note 11c)	249,389	112,402	-
	3,208,487	2,304,403	1,528,748
Operating (loss) / income before the following items:	(325,916)	(2,011,880)	4,308,244
Foreign exchange gain (loss)	45,565	(11,169)	(7,757)
Inventory write-down (note 6)	(1,586,029)	(2,775,393)	-
Interest income	62,124	632	10,785
Provision for doubtful accounts (note 5)	-	-	(238,497)
(Loss) / Income before income taxes	(1,804,256)	(4,797,810)	4,072,775
Income tax recovery (expenses) (note 15)	133,268	1,209,575	(1,230,575)
Net (loss) / income after taxes	(1,670,988)	(3,588,235)	2,842,200
Other comprehensive income (loss):			
Exchange (loss) / gain on translating foreign operations	(1,164,066)	247,553	(164,899)
Comprehensive (loss) / income	(2,835,054)	(3,340,682)	2,677,301
(Loss) / Income per share - basic and diluted	(0.03)	(0.07)	0.08
Weighted average number of common shares outstanding			
- basic and diluted	62,583,353	50,379,617	35,261,538

The accompanying 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	Equity portion of convertible debenture	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	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
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	-	-	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
Convertible debenture, net of tax	-	-	-	303,539	-	-	303,539
Share-based compensation	-	-	249,389	-	-	-	249,389
Net loss for the year	-	-	-	-	(1,670,988)	-	(1,670,988)
Other comprehensive loss	-	-	-	-	-	(1,164,066)	(1,164,066)
Balance, June 30, 2021	62,583,353	17,109,312	2,130,245	303,539	(10,358,893)	(1,081,412)	8,102,791

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 twelve months ended June 30, 2021	For the six months ended June 30, 2020	For the twelve months ended December 31, 2019
	\$	\$	\$
Operating activities			
Net (loss) / income for the year	(1,670,988)	(3,588,235)	2,842,200
Adjustments for:			
Amortization	762,953	455,825	227,449
Common shares issued as incentive payment	-	223,000	-
Foreign exchange (gain) / loss	(45,565)	11,169	-
Interest expense	657,302	132,093	130,263
Unrealized fair value adjustment on biological assets	(2,479,233)	-	-
Provision for doubtful account	-	-	238,497
Deferred income tax expense (recovery)	(133,268)	(1,209,575)	1,230,575
Forgiveness of government loan (note 14)	(209,138)	-	-
Share-based compensation	249,389	112,402	-
Inventory write-down	1,586,029	2,775,393	-
Changes in items of working capital			
Accounts payable and accrued liabilities	163,700	(62,845)	14,193
Accounts receivable	(75,851)	376,769	(4,422,325)
Customer advance	-	(27,302)	26,036
Due from (to) related parties	(482,644)	175,394	509,559
Inventory	(1,222,853)	(4,095)	(143,154)
Prepaid expenses and deposits	5,702	45,892	(56,393)
Other receivables	251,336	(262,103)	14,781
Cash used in operating activities	(2,643,129)	(846,218)	611,681
Financing activities			
Issuance of common shares	-	6,337,450	3,794,712
Convertible debenture subscription received	4,198,600	-	-
Forgiveness of government loan (note 14)	209,138	-	-
Loan from related party	447,880	-	-
Payment of lease obligations (note 8)	(403,514)	(211,586)	(174,005)
Cash generated from financing activities	4,452,104	6,125,864	3,620,707
Investing activities			
Purchase of property, plant and equipment	(2,989,476)	(4,543,880)	(3,101,004)
Payment of deposit	(9,873)	(165,323)	(39,828)
Cash used in investing activities	(2,999,349)	(4,709,203)	(3,140,832)
Effect of exchange rate on cash	(40,726)	(108,544)	(106,521)
(Decrease) increase in cash	(1,231,100)	461,899	985,035
Cash, beginning of the year	1,810,931	1,349,032	363,997
Cash, end of the year	579,831	1,810,931	1,349,032
Supplemental non-cash transactions:			
Property and equipment expenditures (paid through) / included in accounts payable	(184,649)	196,243	100,979

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

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the year ended June 30, 2021, 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. (“HempNova (USA)”) and HempNova (USA)’s wholly owned subsidiaries, is engaged in industrial hemp related products and services. HempNova (USA) was incorporated in Delaware, USA and its wholly owned subsidiaries operate in Oregon, 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 and continues to incur losses. The continuation of the Company as a going concern is dependent upon the hemp sale market, the continued financial support from its shareholders, and the ability of the Company to obtain necessary equity financing to fund on-going operating expenditures. The outcome of these matters cannot be predicted at this time. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

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 March 2020, the coronavirus (“COVID-19”) has slowed down the global economy and caused volatility in the global financial markets. The extent to which COVID-19 may impact the Company’s business will depend on the duration of the outbreak, travel restrictions, the effectiveness of actions and vaccine taken to contain and treat the disease. Although it is not possible to reliably estimate the financial impact, COVID-19 has 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 October 4, 2021.

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. As such, the consolidated financial statements for the fiscal year ended June 30, 2021 have the comparative figures to its six months transition year ended June 30, 2020 and its fiscal year ended December 31, 2019.

3. Significant accounting policies

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

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the year ended June 30, 2021, 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

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”).

Information of the Company’s subsidiaries as at June 30, 2021 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 year ended June 30, 2021, 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, loan from related party, convertible debenture, 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 income (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 (See Note 4, below).

Property, plant and equipment

Property, plant 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. Since January 1, 2021, the Company has changed certain depreciation methods and useful life of property and equipment. The major changes are as follows:

Categories	Effective on January 1, 2021	Prior to January 1, 2021
Machinery and equipment	5 years straight line	5 years declining balance
Office equipment and furniture	5 years straight line	5 years declining balance
Vehicles	5 years straight line	5 years declining balance
Greenhouse and barn	10 years straight line	10 years straight line
Leasehold improvement	Remaining lease term	10 years straight line

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the year ended June 30, 2021, 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 year ended June 30, 2021, 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 year ended June 30, 2021, 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)

Biological assets

Biological assets are valued in accordance with IAS 41 – *Agriculture* (“IAS 41”) and are presented at their fair values less costs to sell up to the point of harvest. The Company’s biological assets are primarily smokable hemp flowers, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3).

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 write-downs or write-offs of inventory based on its assessment of market conditions.

Government grant

Government grant is recognized when there is reasonable assurance that the Company will comply with any conditions attached to the grant and the grant will be received. Government grant is recognized in profit or loss to offset the corresponding expenses on a systematic basis over the periods in which the Company recognizes expenses for the related costs for which the grants are intended to compensate, which in the case of grants related to assets requires setting up the grant as deferred income or deducting it from the carrying amount of the asset.

Leases

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease is recognized as a right-of-use (“ROU”) asset and corresponding lease liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and an interest expense in profit or loss. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

Convertible Debenture

A convertible debenture is a compound financial instrument that is accounted for based on its components of financial liability and equity. The financial liability component represents the Company’s future obligation to pay coupon interest and principal. The liability component is initially measured at its net present value and subsequently measured at its amortized cost. After the net present value of the financial liability is determined, any residual amount is reported as an equity instrument at the convertible debentures’ issuance date.

When valuing the financial liability component of the convertible notes, the Company used specific interest rates assuming no conversion features existed. The resulting liability component is accreted to its face value over the convertible debenture’s term until its maturity date.

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(Expressed in Canadian dollars, unless otherwise stated)

3. Significant accounting policies (continued)

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 biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the industrial hemp plants to the point of harvest, harvesting costs, and selling costs. In calculating final inventory values, management is required to determine an estimate of obsolete inventory and an estimate for any 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, plant and equipment

The Company estimates the useful lives of property, plant 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, plant 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, plant 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.

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.

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the year ended June 30, 2021, 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)

Impairment of non-financial assets

Non-financial assets include property, plant, 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, above.

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. 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, 2021, the Company has not received the recovery of the Loan and the advance.

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the year ended June 30, 2021, the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

5. Accounts receivable

The Company's business is seasonal in nature. As at June 30, 2021, the Company had \$73,314 (2020 - \$nil) in accounts receivable which was mainly from the sale of flowers during the year ended June 30, 2021.

As at December 31, 2019, the Company had \$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.

6. Inventory

a) Smokable flowers and isolate

The Company's inventory is comprised of 2019 hemp biomasses split from its customers and taken over through foreclosure liens on certain customers against their outstanding account receivables. In addition, the Company harvested and dried smokable hemp flowers during the year ended June 30, 2021. As at June 30, 2021, June 30, 2020 and December 31, 2019, the inventory was recorded at the lower of its cost and net realisable value and consists of the following:

	Smokable flowers				Total
	Capitalized costs	Fair value adjustment	Hemp Biomass	Isolate and others	
	\$	\$	\$	\$	\$
Carrying amount, December 31, 2018	-	-	-	-	-
Acquisition	-	-	175,794	42,100	217,894
Foreign exchange adjustment	-	-	(3,403)	(815)	(4,218)
Carrying amount, December 31, 2019	-	-	172,391	41,285	213,676
Addition	-	-	4,253,450	2,201	4,255,651
Inventory write-down ⁽ⁱ⁾	-	-	(2,775,393)	-	(2,775,393)
Foreign exchange adjustment	-	-	8,079	3,822	11,901
Carrying amount, June 30, 2020	-	-	1,658,527	47,308	1,705,835
Acquisition	2,693	-	-	-	2,693
Production costs capitalized to inventory	1,244,718	-	-	439,078	1,683,796
Fair value transferred from biological assets	736,240	6,169,677	-	-	6,905,917
Inventory write-down ⁽ⁱ⁾	(77,679)	(3,137,461)	(1,508,350)	-	(4,723,490)
Cost of sales	(299,794)	(552,983)	-	(357,286)	(1,210,063)
Foreign exchange adjustment	(53,729)	(82,934)	(150,177)	(7,019)	(293,859)
Carrying amount, June 30, 2021	1,552,449	2,396,299	-	122,081	4,070,829

(i) The inventory write-down is related to the impairment of the unrealized fair value component and write-down the capitalized cost of lost and damaged smokable flowers.

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the year ended June 30, 2021, the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

6. Inventory(continued)

b) Biological assets

The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on selling prices less the costs to sell at harvest. Such fair value then becomes the basis for the cost of finished goods inventories after harvest. Subsequent expenditures incurred on these biological assets after harvest are capitalized in accordance with IAS 2 *Inventories*.

The Company started to its own cultivation in 2020 and the changes in the carrying value of biological assets are as follows:

	Biological assets
	\$
Carrying amount, June 30, 2020 and December 31, 2019	-
Net change in fair value less costs to sell	6,169,677
Production costs capitalized	766,370
Transferred to inventory upon harvest	(6,905,917)
Carrying amount, June 30, 2021	30,130

As at June 30, 2021, the Company's biological assets comprised of seeds purchased and land preparation costs for cultivation.

7. Other receivables

	June 30, 2021	June 30, 2020	December 31, 2019
	\$	\$	\$
Deposit receivable	-	272,560	1,313
GST receivable	9,288	3,456	12,600
	9,288	276,016	13,913

During the six months 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 the other receivable as at June 30, 2020, which was subsequently received by the Company.

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Notes to the Consolidated Financial Statements

For the year ended June 30, 2021, the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

8. Leases

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 assets 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 \$23,224 (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 \$19,157 (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 and the sharing percentage was changed to 36.5% from 27% effective on January 1, 2021.

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. The Company started to share 20% of this lease on January 1, 2020. During the year ended June 30, 2021, the expiry date has been extended to August 31, 2026 from August 31, 2021.

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Notes to the Consolidated Financial Statements

For the year ended June 30, 2021, the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

8. Leases (continued)

a) Right-of-use assets

The continuity of the right-of-use assets as at June 30, 2021, 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
Change to the lease term	24,197	131,203	-	56,114	211,514
Amortization	(34,893)	(28,424)	(134,637)	(82,130)	(280,084)
Foreign exchange and others	-	(9,701)	(175,808)	(89,840)	(275,349)
Right-of-use assets, as at June 30, 2021	73,479	138,725	1,680,883	906,665	2,799,752

b) Lease obligations

The continuity of the lease obligation as at June 30, 2021, June 30, 2020 and December 31, 2019 is as follows:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Lease obligation, as at 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, 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, as at June 30, 2020	86,264	46,549	2,084,367	1,068,079	3,285,259
Change to the lease term	24,197	131,203	-	56,114	211,514
Interest accretion	6,536	6,784	153,252	80,608	247,180
Lease payments	(38,915)	(32,628)	(214,833)	(117,138)	(403,514)
Foreign exchange and others	-	(9,813)	(186,677)	(95,490)	(291,980)
Lease obligation, as at June 30, 2021	78,082	142,095	1,836,109	992,173	3,048,459
Lease obligation, current	40,838	23,135	67,715	40,934	172,622
Lease obligation, non-current	37,244	118,960	1,768,394	951,239	2,875,837

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For the year ended June 30, 2021, the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

8. Leases (continued)

b) Lease obligation (continued)

The maturity analysis of the Company's contractual undiscounted lease liabilities as at June 30, 2021 is as follows:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Less than one year	45,311	33,444	210,761	118,052	407,568
One to two years	38,367	33,444	213,923	121,593	407,327
Two to three years	-	33,444	217,132	125,241	375,817
Three to four years	-	33,444	220,389	128,999	382,832
Beyond five years	-	39,018	2,117,081	1,031,353	3,187,452
	83,678	172,794	2,979,286	1,525,238	4,760,996

c) Amounts recognized in profit or loss

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

For the year ended June 30, 2021:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Interest on lease obligations	6,536	6,784	153,252	80,608	247,180
Rent related to low-value, short-term and variable leases	11,535	13,373	157,262	1,142	183,312
Amortization	34,893	28,424	134,637	82,130	280,084

For the six months ended June 30, 2020:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Interest on lease obligations	3,642	2,174	83,455	42,822	132,093
Rent related to low-value, short-term and variable leases	2,586	3,897	45,849	3,201	55,533
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 low-value, short-term and variable leases	9,560	-	67,892	-	77,452
Amortization	-	-	78,957	34,149	113,106

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(Expressed in Canadian dollars, unless otherwise stated)

9. Property, plant, and equipment

The Company has started its industrial hemp business during the year ended December 31, 2019. During the year ended June 30, 2021, the Company acquired all assets of the Seven Oaks Hemp Centre located at Oregon, USA for US \$2.03 million. As at June 30, 2021, June 30, 2020 and December 31, 2019, the Company had the following property, plant and equipment.

Cost	Farmland	Machinery and equipment	Furniture and office equipment	Vehicle	Barn, green house and fixture	Leasehold improvement	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
January 1, 2019	-	-	-	-	-	-	-	-
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
Additions	-	1,578,266	8,005	52,420	2,166,029	383,139	(1,254,803)	2,933,056
Foreign exchange	(86,380)	(351,949)	(8,939)	(12,182)	(155,135)	(131,615)	(78,779)	(824,979)
June 30, 2021	867,580	4,530,111	94,830	155,409	2,923,970	1,563,492	-	10,135,392

Accumulated amortization

January 1, 2019	-	-	-	-	-	-	-	-
Depreciation	-	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
Depreciation	-	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
Depreciation	-	664,803	17,188	23,733	252,147	98,973	-	1,056,844
Foreign exchange	-	(57,038)	(1,809)	(2,324)	(9,813)	(9,329)	-	(80,313)
June 30, 2021	-	992,087	28,997	38,306	257,552	156,103	-	1,473,045

Net carrying value

June 30, 2021	867,580	3,538,024	65,833	117,103	2,666,418	1,407,389	-	8,662,347
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 year ended June 30, 2021, the depreciation expenses of \$573,975 (for the six months ended June 30, 2020 - \$Nil and for the year ended December 31, 2019 - \$70,522) were capitalized to the inventory and \$482,869 (for the six months ended June 30, 2020 - \$307,243 and for the year ended December 31, 2019 - \$114,343) was expensed as operating expenses.

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10. Related party transactions

(a) Shared office expenses

The Company, Minco Silver and Minco Capital Corp. (“Minco Capital”) have certain directors and management in common. The Company’s CEO has a control interest in Minco Base Metals Corporation (“MBM”). These four companies share certain offices and administrative expenses.

During the year ended June 30, 2021, the Company incurred \$168,636 (for the six months ended June 30, 2020 - \$98,014 and 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 \$42,595 (for the six months ended June 30, 2020 - \$24,658 and for the year ended December 31, 2019 - \$Nil) to Minco China for reimbursement of shared office rent in Beijing, China. During the year ended June 30, 2021, the Company also incurred \$7,000 (for the six months ended June 30, 2020 - \$495,837 and for the year ended December 31, 2019 - \$Nil) to Minco Base Metals for reimbursement of equipment purchase and other expenses.

(b) Key management compensation

Key management includes the Company’s directors and senior management. During the year ended June 30, 2021, 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 twelve months ended June 30, 2021	For the six months ended June 30, 2020	For the twelve months ended December 31, 2019
	\$	\$	\$
Senior management remuneration	429,897	395,650	269,581
Directors’ fees ⁽ⁱ⁾	7,000	24,000	5,500
Share base compensation	197,427	84,630	-
Total	634,324	504,280	275,081

(i) During the year ended June 30, 2021, the Company paid \$7,000 of directors’ fees (for the six months ended June 30, 2020 - \$4,000 of directors’ fees and \$20,000 of incentive bonus, and for the year ended December 31, 2019 - \$5,500 of directors’ fees). During the year ended June 30, 2021, the Company also paid to a director \$9,588 of sales and commission fees (for the six months ended June 30, 2020 - \$20,767 for a recruiting service and \$3,000 for other services and for the year ended December 31, 2019 - \$Nil), which were not included in the table above.

(c) Due to related parties

Amounts due to related parties are unsecured, non-interest bearing and without specific terms of repayment. As at June 30, 2021, June 30, 2020 and December 31, 2019, the Company’s amount payable to related parties are as follow:

	As at June 30, 2021	As at June 30, 2020	As at December 31, 2019
	\$	\$	\$
MBM	7,000	495,837	303,938
Minco Capital, for reimbursement of the shared expenses	114,290	458	3,808
Minco Silver, for reimbursement of the shared expenses	25,565	125,805	-
Key management, for service fees and expenses reimbursement	86,925	63,962	202,922
Total due to related parties	233,780	686,062	510,668

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

For the year ended June 30, 2021, the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

10. Related party transactions (continued)

(d) Participated in the Company's private placements

During the year ended June 30, 2021, MBM and a person related to the Company's President participated in the Company's convertible note financing closed on October 20, 2020 and the Company received an aggregate of \$2,400,000 of convertible debt subscription (See note 12, below).

During the six months 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.

(e) Trust arrangements

The Company has been purchasing substantial amount of machinery, equipment, and construction parts from suppliers in China for its facilities in Oregon, USA. In order to facilitate such purchases, the Company entered into trust agreements in May and September 2020, respectively, with Minco International Mining Consulting Co. Ltd. ("Minco International"), MBM's wholly owned subsidiary registered in China, for holding the Company's funds in an exclusive bank account in China.

Minco International processed all of the purchase orders, shipment, and payments in China and provided related labour on behalf of the Company. For these services, Minco International charges 15% service fees on labour costs incurred. A total of \$80,698 in service fees were charged by Minco International during the year ended June 30, 2021 (for the six months ended June 30, 2020 - \$39,904 and for the year ended December 31, 2019 - \$Nil). As at June 30, 2021, the amount held by Minco International is \$192,189 (June 30, 2020 - \$692,749; December 31, 2019 - \$Nil).

In 2019, the Company entered into a trust agreement with Beijing Zhongjia Kailong Technology Development Co. Ltd. ("Zhongjia"), a Chinese registered entity controlled by a brother of the Company's CEO, for holding the Company's \$1,500,000 in Zhongjia bank account. Zhongjia processed the Company's equipment purchases in China on behalf of the Company. As at December 31, 2019, the amount held by Zhongjia on behalf of the Company was fully used.

(f) Loan arrangement

The Company signed a loan agreement effective December 1, 2020 with MBM to borrow \$247,880 (US \$200,000) (the "Loan"). The Loan was received on December 2, 2020. The Company has agreed to pledge its fixed assets as security for the Loan. The Loan will be repayable in full on or before November 30, 2021 and bear interest at the rate of 10% per annum, calculated and compounded monthly. As at June 30, 2021, \$15,450 of interest was accrued and included in the carrying amount of the loan from related party.

The Company signed a loan agreement effective February 1, 2020 with MBM to borrow a total of \$200,000 (the "2nd Loan"). The Company has agreed to pledge its fixed assets as security for the 2nd Loan. The Loan will be repayable in full on or before January 31, 2022 and bear interest at the rate of 10% per annum, calculated and compounded monthly. The Company received the loan during the year ended June 30, 2021 in connection with the 2nd Loan. As at June 30, 2021, \$7,573 of interest was accrued and included in the carrying amount of the 2nd loan from related party.

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(Expressed in Canadian dollars, unless otherwise stated)

11. Share capital

(a) Share capital

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

Year ended June 30, 2021

The Company did not issue any common shares during the year ended June 30, 2021.

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 exercise price
	#	\$
Balance, December 2018	5,000,000	0.08
Expired	(2,025,000)	0.08
Exercised	(2,975,000)	0.08
Balance, December 31, 2019, June 30, 2020 and 2021	-	-

(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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Notes to the Consolidated Financial Statements

For the year ended June 30, 2021, the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

11. Share capital (continued)

(c) Options (continued)

During the year ended June 30, 2021 and December 31, 2019, the Company did not grant any stock options to its directors, employees and consultants.

During the six months 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 six months 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 year ended June 30, 2021, the Company recorded \$249,389 (for the six months ended June 30, 2020 - \$112,402 and for the year ended December 31, 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
Forfeited	(250,000)	0.20
Balance, June 30, 2021	3,320,000	0.21

As at June 30, 2021, there was \$146,342 (June 30, 2020 - \$421,400 and 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	3,120,000	3.66	0.20	1,040,000	0.20
0.40	200,000	3.73	0.40	66,667	0.40
	3,320,000	3.66	0.21	1,106,667	0.21

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For the year ended June 30, 2021, the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

11. Share capital (continued)

(c) Options (continued)

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

	Twelve months ended June 30, 2021	Six months ended June 30, 2021	Twelve months ended December 31, 2021
Risk-free interest rate	-	0.74% - 1.19%	-
Dividend yield	-	-	-
Volatility	-	95% - 108%	-
Forfeiture rate	-	-	-
Estimated expected lives	-	5 years	-

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.

12. Convertible debenture

On October 20, 2020, the Company closed a \$4,198,600 convertible note financing (the "Notes"). The Notes are unsecured debt obligations of the Company and bear interest at a rate of 10% per annum to be paid annually in arrears on each of the first, second and third anniversary of the closing date. Subject to conversion, the principal amount of the Notes will mature and be repayable in full on the third anniversary of the closing date (the "Maturity Date").

The principal amount of the Notes may be converted, in whole or in part, into common shares of the Company at a conversion price of \$0.50 per common share until the second anniversary of the closing date and, thereafter, at a conversion price of \$0.60 per common share until the Maturity Date. The Company may redeem the Notes upon 30 days' notice to the purchaser at any time prior to the maturity date.

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

	Convertible debenture liability
	\$
June 30, 2020 and December 31, 2019	-
Cash received for convertible debenture	4,198,600
Equity portion of convertible debenture	(415,807)
Convertible debenture carrying amount	3,782,793
Accretion expense	96,073
Carrying amount, June 30, 2021	3,878,865
Interest payable, June 30, 2021	291,026
Total interest expense, for the year ended June 30, 2021	387,099

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Notes to the Consolidated Financial Statements

For the year ended June 30, 2021, the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

13. Commitments and contingency

(a) As at June 30, 2021, the Company has four leases commitment (see Note 8) with a breakdown as follows:

	\$
2022	407,568
2023	407,327
2024	375,817
2025	382,832
2026 – 2034	3,187,452
	<u>4,760,996</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. General and administrative expenses

	Twelve months ended June 30, 2021	Six months ended June 30, 2020	Twelve months ended December 31, 2021
	\$	\$	\$
Audit and accounting	55,317	48,684	23,050
Consulting and management fees	267,408	391,627	336,538
Legal, filing and transfer agent fees	204,919	195,218	118,095
Office and miscellaneous	183,410	130,808	189,729
Salaries and benefits ⁽ⁱ⁾	184,869	458,957	296,517
Travel and others	37,589	46,906	129,655
	<u>933,512</u>	<u>1,272,200</u>	<u>1,093,584</u>

(i) Salaries and benefits

In February 2021, the Company received loan proceeds in the aggregate amount of \$209,138 (USD \$163,097) from U.S. Small Business Administration (the “SBA”) under the Paycheck Protection Program (“PPP”). The PPP, established as part of the CARES Act within the United States of America in response to the COVID-19 pandemic, provides for loans to qualifying businesses. The entire loan proceeds and accrued interests are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. No collateral or guarantees were provided in connection with the PPP loans. The unforgiven portion of the PPP loans is payable on August 4, 2026 at an interest rate of 1% per year, fixed for the term.

The Company used the proceeds for purposes consistent with the PPP. For the year ended June 30, 2021, the Company had incurred eligible payroll cost which were fully offset against the loan balance.

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Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars, unless otherwise stated)

15. Income tax

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

	As at June 30, 2021	As at June 30, 2020	As at December 31, 2019
	\$	\$	\$
Loss before taxes	(1,804,609)	(4,797,810)	4,072,775
Expected income tax (recovery) / expense	(487,000)	(1,295,000)	1,100,000
Permanent differences	67,000	30,000	42,000
Share issue cost	-	(35,000)	-
Adjustment to prior years provision versus statutory tax returns	(627,000)	(11,000)	-
Change in unrecognized deductible temporary differences	-	5,000	98,000
Change in statutory, foreign tax, foreign exchange rates and other	246,000	96,425	(9,425)
Total income tax (recovery) / expense	(133,268)	(1,209,575)	1,230,575

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, 2021, June 30, 2020 and December 31, 2019 are as follows:

Deferred tax assets (liabilities)	As at June 30, 2021	As at June 30, 2020	As at December 31, 2019
	\$	\$	\$
Accounts receivable	(213,000)	728,000	(1,185,000)
Start-up costs and others	81,000	207,000	109,425
Exploration and evaluation assets	36,000	-	-
Allowable capital losses	46,000	-	-
Property and equipment	(1,778,000)	(1,197,000)	(531,000)
Non-capital losses	2,991,000	241,000	376,000
Net deferred tax liability	1,163,000	(21,000)	(1,230,575)

At June 30, 2021, the Company has non-capital losses available for deduction against future taxable income amounting to approximately \$11,313,000 (as at June 30, 2020 - \$3,863,000 and December 31, 2019 - \$3,032,000). These losses, if not utilized, will expire between 2026 and 2041. 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.

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Notes to the Consolidated Financial Statements

For the year ended June 30, 2021, the six months ended June 30, 2020 and the year ended December 31, 2019

(Expressed in Canadian dollars, unless otherwise stated)

16. 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. All of the Company's customers are located in USA. The geographical division of the Company's assets is as follows:

As at June 30, 2021	Canada	USA	Total
	\$	\$	\$
Current assets	20,539	4,748,923	4,769,462
Non-current assets	73,475	11,462,456	11,535,931
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

The following table summarizes the revenue and production in USA during the year ended June 30, 2021, the six months ended June 30, 2020 and the year ended June 30, 2019:

	For the twelve months ended June 30, 2021	For the six months ended June 30, 2020	For the twelve months ended December 31, 2021
	\$	\$	
Revenue	1,560,898	439,290	7,042,932
Cost of goods sold:			
Inventory expensed to cost of sales, before fair value adjustment	(657,080)	-	-
Production costs	(500,480)	(146,767)	(1,205,940)
Gross profit	403,338	292,523	5,836,992

17. 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 \$579,831 as at June 30, 2021 (June 30, 2020 - \$1,810,931 and December 31, 2019 - \$1,349,032) and accounts receivable of \$73,314 as at June 30, 2021 (June 30, 2020 - \$Nil and December 31, 2019 - \$4,422,325). As the Company's policy is to limit cash holdings to instruments issued by major banks, or investments of equivalent or better quality, the credit risk related to cash is considered by management to be negligible.

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17. Financial instruments (continued)

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 \$570,595 at June 30, 2021 (June 30, 2020 - \$309,722 and December 31, 2019 - \$164,517). The Company did not maintain sufficient cash balances to meet these needs at June 30, 2021 and would rely on the sales of inventory.

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 does not carry debt at variable rate and is exposed to interest rate risk on its cash which is not considered to be significant.

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, 2021 and June 30, 2020:

	June 30, 2021	June 30, 2020	December 31, 2019
Financial assets, amortized cost:	\$	\$	\$
Cash	579,831	1,810,931	1,349,032
Accounts receivable	73,314	-	4,422,325
Other receivables	9,288	276,016	13,913
Financial liabilities, amortized cost:			
Accounts payable and accrued liabilities	570,595	309,722	164,517
Convertible debenture	3,878,865	-	-
Customer advance	-	-	26,036
Due to related parties	233,780	686,062	510,668
Lease obligations, current	172,622	172,201	319,246
Lease obligations, non-current	2,875,837	3,113,058	2,732,793
Loan from related party	470,903	-	-

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Notes to the Consolidated Financial Statements

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18. 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.

19. Subsequent event

The Company signed a loan agreement effective September 13, 2021 with MBM to borrow a total of \$153,521 (RMB 800,000) (the "3rd Loan") and received the loan accordingly. The Company has agreed to pledge its fixed assets as security for the 3rd Loan. The Loan will be repayable in full on or before September 13, 2022 and bear interest at the rate of 10% per annum, calculated and compounded monthly.