



# **HempNova Lifetech Corporation**

## **Condensed Consolidated Interim Financial Statements**

**For the three months ended September 30, 2021 and 2020**

(Expressed in Canadian dollars)

## **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of condensed interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of HempNova Lifetech Corporation have been prepared by, and are the responsibility of, the Company's management. The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

HempNova Lifetech Corporation's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of condensed consolidated interim financial statements by an entity's auditor.

Dr. Ken Cai  
Chief Executive Officer

Melinda Hsu, CPA, CGA  
Chief Financial Officer

Vancouver, Canada  
November 24, 2021

# HempNova Lifetech Corporation

## Condensed Consolidated Interim Statements of Financial Position

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	September 30, 2021	June 30, 2021
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalent	450,912	579,831
Accounts receivable (note 3)	109,729	73,314
Inventory (note 4)	3,209,269	4,100,959
Other receivables	649	9,288
Prepaid expenses and advance	5,579	6,070
	3,776,138	4,769,462
<b>Non-current assets</b>		
Deposits	66,089	73,832
Property, plant and equipment, net (note 6)	8,606,136	8,662,347
Right-of-use assets (note 5a)	2,836,952	2,799,752
<b>Total assets</b>	<b>15,285,315</b>	<b>16,305,393</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	594,610	570,595
Due to related parties (note 7)	373,705	233,780
Lease obligations, current (note 5b)	187,589	172,622
Loan from related party (note 7f)	648,127	470,903
	1,804,031	1,447,900
<b>Non-current liabilities</b>		
Convertible debenture (note 9)	3,913,800	3,878,865
Lease obligations, non-current (note 5b)	2,934,941	2,875,837
<b>Total liabilities</b>	<b>8,652,772</b>	<b>8,202,602</b>
<b>Shareholders' equity</b>		
Share capital (note 8a)	17,109,312	17,109,312
Reserves	2,165,132	2,130,245
Equity portion of convertible debenture (note 9)	303,539	303,539
Accumulated other comprehensive loss	(734,474)	(1,081,412)
Deficit	(12,210,966)	(10,358,893)
<b>Total shareholders' equity</b>	<b>6,632,543</b>	<b>8,102,791</b>
<b>Total shareholders' equity and liabilities</b>	<b>15,285,315</b>	<b>16,305,393</b>

*Nature and continuance of operations (note 1)*

*Subsequent event (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

### Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	Three months ended September 30,	
	2021	2020
	\$	\$
Revenue, net of discounts and commission (note 12)	607,738	-
Inventory expensed to cost of sales, before fair value adjustment (note 4)	(352,315)	-
Production costs (note 12)	(149,328)	-
Gross profit before fair value adjustments	106,095	-
Unrealized fair value adjustment of biological assets (note 4)	(826,842)	-
	(720,747)	-
<b>Operating expenses</b>		
Amortization and depreciation (note 5 & 6)	445,196	189,040
General and administrative expenses (note 10)	280,499	322,365
Interest expense (note 5, 7 & 9)	215,100	63,313
Rent	13,029	25,752
Research and development	108,618	116,033
Sales and marketing	34,586	-
Share-based compensation	34,887	79,526
	1,131,915	796,029
<b>Operating loss before the following items:</b>	(1,852,662)	(796,029)
Foreign exchange gain (loss)	(5,980)	14,340
Interest and other income (loss)	6,569	(2,412)
<b>Net loss</b>	(1,852,073)	(784,101)
<b>Other comprehensive income (loss):</b>		
Exchange gain (loss) on translating foreign operations	346,938	(238,878)
<b>Comprehensive loss</b>	(1,505,135)	(1,022,979)
<b>Loss per share - basic and diluted</b>	(0.03)	(0.01)
<b>Weighted average number of common shares outstanding</b>		
- basic and diluted	62,583,353	62,583,353

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

## HempNova Lifetech Corporation

### Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	Number of outstanding shares	Share capital	Subscription received in advance	Reserve	Deficit	Accumulated comprehensive (loss) / income	Total
	#	\$	\$	\$	\$	\$	\$
<b>Balance, June 30, 2020</b>	62,583,353	17,109,312	-	1,880,856	(8,687,905)	82,654	10,384,917
Share-based compensation	-	-	-	79,526	-	-	79,526
Net loss for the period	-	-	-	-	(784,101)	-	(784,101)
Other comprehensive loss	-	-	-	-	-	(238,878)	(238,878)
<b>Balance, September 30, 2020</b>	62,583,353	17,109,312	-	1,960,382	(9,472,006)	(156,224)	9,441,464
<b>Balance, June 30, 2021</b>	62,583,353	17,109,312	2,130,245	303,539	(10,358,893)	(1,081,412)	8,102,791
Share-based compensation	-	-	34,887	-	-	-	34,887
Net loss for the period	-	-	-	-	(1,852,073)	-	(1,852,073)
Other comprehensive income	-	-	-	-	-	346,938	346,938
<b>Balance, September 30, 2021</b>	62,583,353	17,109,312	2,165,132	303,539	(12,210,966)	(734,474)	6,632,543

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

# HempNova Lifetech Corporation

## Condensed Consolidated Interim Statements of Cash Flows

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	Three months ended September 30,	
	2021	2020
	\$	\$
<b>Operating activities</b>		
Net loss for the period	(1,852,073)	(784,101)
Adjustments for:		
Amortization and depreciation	445,196	189,040
Unrealized fair value adjustment on biological assets	826,842	-
Foreign exchange loss (gain)	5,980	(14,340)
Interest expense (note 5, 6 &9)	215,100	63,313
Share-based compensation	34,887	79,526
Changes in items of working capital		
Accounts payable and accrued liabilities	(56,582)	23,725
Account receivable	(33,982)	-
Due from (to) related parties	100,891	(676,310)
Inventory	182,405	(396,563)
Prepaid expenses and advance	654	(28,139)
Other receivables	(649)	268,258
Cash used in operating activities	(131,331)	(1,275,591)
<b>Financing activities</b>		
Loan from related party	157,601	-
Convertible debenture subscription received	-	4,198,600
Payment of lease obligations (note 5)	(105,089)	(104,407)
Cash generated from financing activities	52,512	4,094,193
<b>Investing activities</b>		
Purchase of property and equipment	(90,556)	(1,850,003)
Refund (Payment) of deposit	9,703	(1,897)
Cash used in investing activities	(80,853)	(1,851,900)
<b>Effect of exchange rate on cash</b>	30,753	(33,903)
<b>(Decrease) / increase in cash</b>	(128,919)	932,799
<b>Cash, beginning of the period</b>	579,831	1,810,931
<b>Cash, end of the period</b>	450,912	2,743,730
<b>Supplemental disclosures of cash flows:</b>		
Cash paid for tax instalment payment	1,684	2,747
Change in deposit with respect to property and equipment	-	133,206
Change in accounts payable with respect to property and equipment	-	(157,144)
Amortization capitalized in inventory	13,115	117,298

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

# Hempnova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

**For the three months ended September 30, 2021 and 2020**

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

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## 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) 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 condensed consolidated interim 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 condensed consolidated interim 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 impacts the Company’s business depends 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 condensed consolidated interim 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 applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended June 30, 2021 which were prepared in accordance with IFRS as issued by the IASB.

These condensed consolidated interim financial statements were approved by the board of directors for issue on November 24, 2021.

In preparing these condensed consolidated interim financial statements, management has made judgments and estimates that affect the application of the Company’s accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amounts incurred by the Company may differ from these values.

# Hempnova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

## 2. Basis of presentation (continued)

### Significant accounting policies

The Company's accounting policies and significant judgements and estimates applied in these condensed consolidated interim financial statements are consistent with those of the audited consolidated financial statements for the year ended June 30, 2021, six months transition year ended June 30, 2020 and the year ended December 31, 2019.

### Consolidation and subsidiaries

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries, 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 September 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.

## 3. Accounts receivable

The Company's business is seasonal in nature. As at September 30, 2021, the Company had \$109,729 (June 30, 2021 - \$73,314) in accounts receivable which was mainly from the sale of hemp flowers.

## 4. Inventory

### (a) Smokable flowers, isolate and others

The Company's inventory is comprised of 2020 season harvested and dried smokable hemp flowers, hemp crude oil and hemp derived oil, etc. As at September 30, 2021, the inventory was recorded at the lower of its cost and net realisable value, and consists of the following:

# Hempnova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

## 4. Inventory (continued)

### (a) Smokable flowers, isolate and others (continued)

	Smokable flowers		Hemp Biomass	Isolate and others	Total
	Capitalized costs	Fair value adjustment			
	\$	\$	\$	\$	\$
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 <sup>(i)</sup>	(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
Production costs capitalized to inventory	19,704	-	-	106,299	126,003
Inventory write-down <sup>(i)</sup>	(768)	(935,009)	-	-	(935,777)
Cost of sales	(173,604)	(203,544)	-	(178,711)	(555,859)
Foreign exchange adjustment	41,733	54,346	-	2,609	98,688
Carrying amount, September 30, 2021	1,439,514	1,312,092	-	52,278	2,803,884

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

### b) 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. Such fair value then becomes the basis for the cost of finished goods inventories after harvest. The changes in the carrying value of biological assets are as follows:

	Biological assets
	\$
Carrying amount, June 30, 2020	-
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
Production costs capitalized	57,788
Net change in fair value less costs of sale due to biological transformation	312,479
Foreign exchange adjustment	4,988
Carrying amount, September 30, 2021	405,385

# Hempnova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

## 5. 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 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 \$23,874 (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 \$19,693 (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 2021, the expiry date had been extended to August 31, 2026 from August 31, 2021.

### **a) Right-of-use assets**

The continuity of the right-of-use assets as at September 30, 2021 and June 20, 2021 is as follows:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
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
Amortization	(10,019)	(8,442)	(33,074)	(20,791)	(72,326)
Foreign exchange and others	-	37,684	46,690	25,152	109,526
Right-of-use assets, as at September 30, 2021	63,460	167,967	1,694,499	911,026	2,836,952

## Hempnova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

### 5. Lease (continued)

#### b) Lease obligation

The continuity of the lease obligation as at September 30, 2021 and June 30, 2021 is as follows:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
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, June 30, 2021	78,082	142,095	1,836,109	992,173	3,048,459
Interest accretion	1,421	3,457	36,865	19,911	61,654
Lease payments	(11,291)	(10,515)	(53,499)	(29,784)	(105,089)
Foreign exchange and others	-	38,618	51,220	27,668	117,506
Lease obligation, September 30, 2021	68,212	173,655	1,870,695	1,009,968	3,122,530
Lease obligation, current	41,882	30,029	71,835	43,843	187,589
Lease obligation, non-current	26,330	143,626	1,798,860	966,125	2,934,941
	68,212	173,655	1,870,695	1,009,968	3,122,530

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

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Less than one year	45,530	42,552	217,474	122,260	427,816
One to two years	26,857	42,552	220,736	125,928	416,073
Two to three years	-	42,552	224,047	129,706	396,305
Three to four years	-	42,552	227,407	133,598	403,557
Beyond five years	-	39,006	2,118,936	1,026,330	3,184,272
	72,387	209,214	3,008,600	1,537,822	4,828,023

#### c) Amounts recognized in Statement of Loss

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

For the three months ended September 30, 2021:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Interest on lease obligation	1,421	3,457	36,865	19,911	61,654
Rent related to low-value, short-term and variable leases	3,953	-	9,076	-	13,029
Amortization	10,019	8,442	33,074	20,791	72,326

# Hempnova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

## 5. Lease (continued)

### c) Amounts recognized in Statement of Loss (continued)

For the three months ended September 30, 2020:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Interest on lease obligation	1,625	797	40,273	20,618	63,313
Rent related to low-value, short-term and variable leases	3,679	1,868	20,205	-	25,752
Amortization	7,427	9,772	34,965	20,678	72,842

## 6. Property and equipment

As at September 30, 2020 and June 30, 2020, the Company had the following property and equipment.

Cost	Farmland	Machinery and equipment	Furniture and office equipment	Vehicle	Barn, green house and fixture	Leasehold improvement	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
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
Additions	-	90,556	-	-	-	-	-	90,556
Foreign exchange	24,290	127,845	2,655	4,351	81,864	43,774	-	284,779
September 30, 2021	891,870	4,748,512	97,485	159,760	3,005,834	1,607,266	-	10,510,727
<b>Accumulated amortization</b>								
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
Depreciation	-	232,532	4,820	7,900	109,175	31,558	-	385,985
Foreign exchange	-	30,377	866	1,161	8,433	4,724	-	45,561
September 30, 2021	-	1,254,996	34,683	47,367	375,160	192,385	-	1,904,591
<b>Net carrying value</b>								
September 30, 2021	891,870	3,493,516	62,802	112,393	2,630,674	1,414,881	-	8,606,136
June 30, 2021	867,580	3,538,024	65,833	117,103	2,666,418	1,407,389	-	8,662,347

During the three months ended September 30, 2021, the depreciation expense was \$385,985 (three months ended September 30, 2020 - \$233,496), of which \$13,115 (three months ended September 30, 2020 - \$117,298) was capitalized into the inventory.

# Hempnova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

## 7. 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 three months ended September 30, 2021, the Company incurred \$62,429 (2020 - \$49,842) to Minco Capital for reimbursement of shared office expenses and rent for the head quarter in Vancouver and incurred \$10,515 (2020 - \$12,270) to Minco China for reimbursement of shared office rent in Beijing, China. During the three months ended September 30, 2021, the Company also incurred \$114,012 (2020 - \$114,142) to MBM for reimbursement of labour, travel and other expenses in China.

### (b) Key management compensation

Key management includes the Company’s directors and senior management. During the three months ended September 30, 2021 and 2020, the following compensation was charged by the key management.

	Three months ended September 30,	
	2021	2020
	\$	\$
Senior management remuneration	103,995	105,335
Directors’ fees	-	3,000
Share base compensation	27,838	61,200
<b>Total</b>	<b>131,833</b>	<b>169,535</b>

### (c) Due to related parties

As at September 30, 2021 and June 30, 2021, the Company’s amount payable to related parties are as follow:

	As at September 30, 2021	As at June 30, 2021
	\$	\$
MBM	14,588	7,000
Minco Capital, for reimbursement of the shared expenses	172,232	114,290
Minco Silver, for reimbursement of the shared expenses	56,132	25,565
Key management, for service fees and expenses reimbursement	130,753	86,925
<b>Total due to related parties</b>	<b>373,705</b>	<b>233,780</b>

### (d) Participated in the Company’s private placement

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 debenture subscription (See note 9, below).

# Hempnova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

**For the three months ended September 30, 2021 and 2020**

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

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## 7. Related party transactions (continued)

### (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 \$18,672 in service fees were charged by Minco International during the three months ended September 30, 2021 (2020 - \$16,154). As at September 30, 2021, the amount held by Minco International is \$157,390 (June 30, 2021 - \$192,189).

### (f) Loan arrangement

The Company signed a loan agreement effective December 1, 2020 with MBM to borrow \$254,820 (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 September 30, 2021, \$22,176 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 “2<sup>nd</sup> Loan”). The Company has agreed to pledge its fixed assets as security for the 2<sup>nd</sup> 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. As at September 30, 2021, \$12,852 of interest was accrued and included in the carrying amount of the 2<sup>nd</sup> Loan from related party.

The Company signed a loan agreement effective September 13, 2021 with MBM to borrow a total of \$157,601 (RMB 800,000) (the “3<sup>rd</sup> Loan”) and received the loan accordingly. The Company has agreed to pledge its fixed assets as security for the 3<sup>rd</sup> 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. As at September 30, 2021, \$678 of interest was accrued and included in the carrying amount of the 3<sup>rd</sup> Loan from related party.

## 8. Share capital

### (a) Share capital

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

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

# Hempnova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

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## 8. Share capital (continued)

### (b) 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.

The Company did not grant any stock options during the three months ended September 30, 2021 and year ended June 30, 2021. A continuity of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price
	#	\$
Balance, June 30, 2020	3,570,000	0.21
Forfeited	(250,000)	0.20
<b>Balance, June 30, 2021 and September 30, 2021</b>	<b>3,320,000</b>	<b>0.21</b>

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	3.41	0.20	1,040,000	0.20
0.40	200,000	3.48	0.40	66,667	0.40
	<b>3,320,000</b>	<b>3.66</b>	<b>0.21</b>	<b>1,106,667</b>	<b>0.21</b>

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

During the three months ended September 30, 2021, the Company recorded \$34,887 (2019 - \$79,526) share-based compensation for stock options granted and vested.

## Hempnova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

### 9. 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	-
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
Accretion expense	34,935
Carrying amount, September 30, 2021	3,913,800
Interest payable, as at September 30, 2021	396,854
Interest payable, as at June 30, 2021	291,026

### 10. General and administrative expenses

	Three months ended September 30,	
	2021	2020
	\$	\$
Audit and accounting	8,499	9,098
Consulting and management fees	71,214	87,783
Legal, filing and transfer agent fees	16,951	16,603
Office and miscellaneous	43,557	71,008
Salaries and benefits <sup>(i)</sup>	134,371	117,006
Travel and others	5,907	20,867
	280,499	322,365

# Hempnova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

## 11. 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 September 30, 2021	Canada	USA	Total
	\$	\$	\$
Current assets	4,095	3,772,043	3,776,138
Non-current assets	63,460	11,445,717	11,509,177

  

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

The following table summarizes the revenue and production in USA during the three months ended September 30, 2021 and 2020:

	Three months ended September 30,	
	2021	2020
Revenue	\$ 607,738	\$ -
Cost of goods sold:		
Inventory expensed to cost of sales, before fair value adjustment	(352,315)	-
Production costs	(149,328)	-
Gross profit before fair value adjustments	106,095	-

## 12. 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 \$450,912 as at September 30, 2021 (June 30, 2021 - \$579,831) and accounts receivable of \$109,729 as at September 30, 2021 (June 30, 2021 - \$73,314). 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.

# Hempnova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2021 and 2020

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

## 12. 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 \$594,610 at September 30, 2021 (June 30, 2021 - \$570,595). The Company did not maintain sufficient cash balances to meet these needs at September 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 September 30, 2021 and June 30, 2021:

	September 30, 2021	June 30, 2021
<b>Financial assets, amortized cost:</b>	\$	\$
Cash	450,912	579,831
Accounts receivable	109,729	73,314
Other receivables	649	9,288
<b>Financial liabilities, amortized cost:</b>		
Accounts payable and accrued liabilities	594,610	570,595
Convertible debenture	3,913,800	3,878,865
Due to related parties	373,705	233,780
Lease obligations, current	187,589	172,622
Lease obligations, non-current	2,934,941	2,875,837
Loan from related party	648,127	470,903

## **Hempnova Lifetech Corporation**

Notes to the Condensed Consolidated Interim Financial Statements

**For the three months ended September 30, 2021 and 2020**

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

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### **13. Subsequent Event**

(a) Lease agreement

The Company entered into a commercial lease agreement (“Lease”) with a hemp company (“Tenant”) on October 8, 2021 to lease out a portion of the Company’s greenhouse to Tenant with a monthly rent of \$25,482 (US \$20,000) plus utilities. The Lease shall be automatically renewed month by month until it is terminated. To terminate the Lease, either the Company or Tenant shall give 15-days written notice to the other party.