



HempNova Lifetech Corporation

Consolidated Financial Statements

For the year ended June 30, 2022, and 2021

(Expressed in Canadian dollars, unless otherwise stated)

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 MSSL CPA LLP, Chartered Professional Accounts, and appointed by the Board of Directors. The auditor's report outlines the scope of their examination and their opinion on the consolidated financial statements.

Dr. Ken Cai
Chief Executive Officer

Meng Tang, CPA, CA
Chief Financial Officer

Vancouver, Canada
October 5, 2022

MSLL CPA LLP

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of HempNova Lifetech Corporation
Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated statements of HempNova Lifetech Corporation (the "Company") which comprise the consolidated statements of financial position as at June 30, 2022 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity (deficiency), and consolidated statements of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2022, and its consolidated financial performance and its consolidated cash flows for the year ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit 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 is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Company for the year ended June 30, 2021, were audited by another auditor who expressed an unmodified opinion on those statements on October 4, 2021.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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.

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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ying Xu, CPA, CA.

/s/ MSLL CPA LLP

Chartered Professional Accountants

Vancouver, Canada

October 5, 2022

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

	June 30, 2022	June 30, 2021
	\$	\$
Assets		
Current assets		
Cash and cash equivalent	92,418	579,831
Accounts receivable (note 4)	175,430	73,314
Inventory (note 5)	2,012,807	4,100,959
Other receivables (note 6)	40,169	9,288
Prepaid expenses and advance	5,324	6,070
	2,326,148	4,769,462
Non-current assets		
Deposits	42,695	73,832
Property, plant and equipment, net (note 8)	5,521,361	8,662,347
Right-of-use assets (note 7a)	467,056	2,799,752
Total assets	8,357,260	16,305,393
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	936,856	570,595
Due to related parties (note 9c)	464,573	233,780
Lease obligations, current (note 7b)	61,649	172,622
Loan from related party (note 9f)	817,439	470,903
	2,280,517	1,447,900
Non-current liabilities		
Convertible debenture (note 14)	4,017,467	3,878,865
Lease obligations, non-current (note 7b)	501,346	2,875,837
Total liabilities	6,799,330	8,202,602
Shareholders' equity		
Share capital (note 10a)	17,109,312	17,109,312
Reserves	2,179,459	2,130,245
Equity portion of convertible debenture (note 12)	303,539	303,539
Accumulated other comprehensive loss	(665,042)	(1,081,412)
Deficit	(17,369,338)	(10,358,893)
Total shareholders' equity	1,557,930	8,102,791
Total shareholders' equity and liabilities	8,357,260	16,305,393

Nature of operations and going concern (note 1)

Commitments and contingency (note 12)

Subsequent event (note 18)

Approved by the Board of Directors:

(Signed) Shawn Dang Director

(Signed) Michael Doggett Director

HempNova Lifetech Corporation

Consolidated Statements of Loss and Comprehensive Loss

Years ended June 30, 2022 and 2021

(Expressed in Canadian dollars, unless otherwise stated)

	2022	2021
	\$	\$
Revenue, net of discounts and commission (note 15)	3,150,167	1,560,898
Inventory expensed to cost of sales, before fair value adjustment (note 5)	(1,357,498)	(657,080)
Production costs (note 15)	(952,664)	(500,480)
Gross profit before fair value adjustments	840,005	403,338
Unrealized fair value adjustment of biological assets (note 5)	(2,776,740)	2,479,233
Gross profit (loss)	(1,936,735)	2,882,571
Operating expenses		
Amortization and depreciation (notes 7 & 8)	957,745	762,953
General and administrative expenses (note 13)	865,837	1,116,824
Interest expense (note 7, 9 & 11)	771,705	657,302
Research and development	223,252	237,906
Sales and marketing	189,198	184,113
Share-based compensation (note 10c)	49,214	249,389
	3,056,951	3,208,487
Operating loss before the following items:	(4,993,686)	(325,916)
Foreign exchange gain (loss)	(111)	45,565
Gain on termination of lease	207,554	-
Impairment of property, plant and equipment (note 8)	(2,240,762)	-
Inventory write-down (note 5)	-	(1,586,029)
Interest income	16,560	62,124
Loss before income taxes	(7,010,445)	(1,804,256)
Income tax recovery (note 14)	-	133,268
Net loss after taxes	(7,010,445)	(1,670,988)
Other comprehensive income (loss):		
Exchange gain (loss) on translating foreign operations	416,370	(1,164,066)
Comprehensive loss	(6,594,075)	(2,835,054)
Loss per share - basic and diluted	(0.11)	(0.03)
Weighted average number of common shares outstanding		
- basic and diluted	62,583,353	62,583,353

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

HempNova Lifetech Corporation

Consolidated Statements of Changes in Shareholders' Equity

Years ended June 30, 2022 and 2021

(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, 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
Share-based compensation	-	-	49,214	-	-	-	49,214
Net loss for the year	-	-	-	-	(7,010,445)	-	(7,010,445)
Other comprehensive loss	-	-	-	-	-	416,370	416,370
Balance, June 30, 2022	62,583,353	17,109,312	2,179,459	303,539	(17,369,338)	(665,042)	1,577,930

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

HempNova Lifetech Corporation

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

(Expressed in Canadian dollars, unless otherwise stated)

	2022	2021
	\$	\$
Operating activities	(7,010,445)	(1,670,988)
Net loss for the year		
Adjustments for:		
Amortization	957,745	762,953
Foreign exchange loss (gain)	111	(45,565)
Gain on termination of lease	(207,554)	-
Interest expense	771,705	657,302
Unrealized fair value adjustment on biological assets	2,776,740	(2,479,233)
Deferred income tax expense (recovery)	-	(133,268)
Forgiveness of government loan (note 13)	-	(209,138)
Share-based compensation	49,214	249,389
Impairment of property, plant, and equipment	2,240,762	-
Inventory write-down	-	1,586,029
Changes in items of working capital		
Accounts payable and accrued liabilities	(30,994)	163,700
Accounts receivable	(97,458)	(75,851)
Due from (to) related parties	306,854	(482,644)
Inventory	166,170	(1,222,853)
Prepaid expenses and deposits	34,438	5,702
Other receivables	(6,239)	251,336
Cash used in operating activities	(48,951)	(2,643,129)
Financing activities		
Convertible debenture subscription received	-	4,198,600
Forgiveness of government loan (note 13)	-	209,138
Loan from related party	269,360	447,880
Payment of lease obligations (note 7)	(357,453)	(403,514)
Cash generated from (used in) financing activities	(88,093)	4,452,104
Investing activities		
Purchase of property, plant and equipment	(240,327)	(2,989,476)
Payment of deposit	-	(9,873)
Cash used in investing activities	(240,327)	(2,999,349)
Effect of exchange rate on cash	(110,042)	(40,726)
Decrease in cash	(487,413)	(1,231,100)
Cash, beginning of the year	579,831	1,810,931
Cash, end of the year	92,418	579,831
Supplemental non-cash transactions:		
Income tax payable	-	-
Interest paid	-	-
Property and equipment expenditures paid through in accounts payable	-	(184,649)

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

HempNova Lifetech Corporation

Notes to Consolidated Financial Statements

Years ended June 30, 2022 and 2021

(Expressed in Canadian dollars, unless otherwise stated)

1. Nature of operations and going concerned

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 Company’s records office are located at 2060 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 3P3.

The Company, through 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, the USA, and its wholly owned subsidiaries operate in Oregon, USA.

These consolidated financial statements have been prepared on a going concern basis, assuming the Company will continue operation for the foreseeable future, realize its assets, and discharge its liabilities and commitments in the normal course of business. The Company started its industrial hemp business in 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 ongoing 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, and the effectiveness of actions and vaccines taken to contain and treat the disease. Although it is not possible or impossible to reliably estimate the financial impact, COVID-19 adversely affects the financial position, results of operations and cash flow 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”).

The board approved these consolidated financial statements of directors for issue on October 5, 2022.

3. Significant accounting policies

The significant accounting policies in preparing these consolidated financial statements are described below.

Consolidation and subsidiaries

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

HempNova Lifetech Corporation

Notes to Consolidated Financial Statements

Years ended June 30, 2022 and 2021

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant accounting policies (continued)

Information of the Company's subsidiaries as of June 30, 2022, 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 it is exposed to, or has rights to, variable returns from its involvement with the entity and can affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date 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 by analyzing 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 an entity's functional currency 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 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.

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 the 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 Consolidated Financial Statements
Years ended June 30, 2022 and 2021
(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 excluding GST receivable, accounts payable, due to related parties, loans from a related party, convertible debenture, and lease obligations are classified as amortized cost financial instruments.

The Company has no financial assets or 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 statements of income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) required to adjust the loss allowance at the reporting date to the amount needed to be recognized.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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 the useful life of property and equipment. Management has assessed the impact of changes in accounting policy and concluded that the net impact of those changes was immaterial. 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	Shorter of lease term and useful life	10 years straight line

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 the 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 over a period of time and to the extent that collection of service delivered is reasonably assured.

Impairment of long-lived 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 value-in-use and fair value less disposal costs. Determining the value-in-use requires the Company to estimate expected future cash flows associated with the assets and a reasonable discount rate to calculate the present value. For 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 are recognized as deferred revenue.

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 payment 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 the grant date, and each tranche is recognized over the period during which the options vest.

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.

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

Years ended June 30, 2022 and 2021

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant accounting policies (continued)

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 when 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 the 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.

Biological assets

The Company's biological assets are primarily smokable hemp flowers and are presented at their fair values less costs to sell in accordance with IAS 41 – *Agriculture* ("IAS 41"). Production costs are capitalized to biological assets and include all direct and indirect costs relating to biological transformation. While the Company's biological assets are within the scope of IAS 41, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. They include direct labor costs, cost of seeds and growing materials, and indirect costs such as utilities, supplies and equipment used in the growing and harvesting process. All production costs are capitalized as they are incurred and subsequently recorded within cost of goods sold on the consolidated statements of loss and comprehensive loss in the period that the related product is sold. Because there is no actively traded commodity market for plants or dried products, 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 using the 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.

Smokable hemp flowers farmed by the Company are included in inventory subsequent to the date of harvest. Such smokable hemp flowers are recognized in inventory at fair value less costs to sell at the time of harvest, which becomes the basis for the cost of biomass inventories after harvest. Net unrealized gain or losses arising from the changes in fair value less cost to sell during the year are included in the results of operations for the related year.

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

Years ended June 30, 2022 and 2021

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant accounting policies (continued)

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 nor 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.

Leases

The Company assesses whether a contract is or contains a lease at the 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.

A lease with a term of 12 months or less as of the commencement date, without a purchase option, is recorded as a short-term lease.

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)

Government grant

The 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. The government grant is recognized in profit or loss to offset the related 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.

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 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

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 is 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.

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3. Significant accounting policies (continued)

Share-based payment transactions and warrants

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

Impairment of non-financial assets

Non-financial assets include property, 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 are 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 concerned

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 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.

Share-based payment

Accounting standards issued but not yet effective

The following new and revised accounting standard, along with any consequential amendments was adopted by the Company for annual periods beginning on or after January 1, 2023.

IFRS 17 Insurance Contracts

In June 2020, the International Accounting Standards Board (IASB) issued IFRS 17. IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 with earlier adoption permitted as long as IFRS 9 is also applied. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The Company has not early adopted IFRS 17 and determined that the adoption of this standard will not have an impact on the Company's consolidated financial statements.

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

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4. Accounts receivable

The Company's business is seasonal in nature. As of June 30, 2022, the Company had \$175,430 (2021 - \$73,314) in accounts receivable, mainly from the sale of smokable flowers during the year ended June 30, 2022. There was \$Nil of allowance for doubtful accounts recognized during the years ended June 30, 2022 and 2021.

5. Inventory

The Company's inventory is comprised of season harvested and dried smokable hemp flowers, hemp crude oil and hemp-derived oil, etc. As of June 30, 2022, and 2021, the inventory was recorded at the lower of its cost and net realizable value and consists of the following:

	June 30, 2022	June 30, 2021
	\$	\$
Smokable flowers and others	1,932,859	4,070,829
Biological assets before harvest	79,948	30,130
	<u>2,012,807</u>	<u>4,100,959</u>

a) Smokable flowers and others

	Smokable flowers		Hemp Biomass	Other hemp products	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 ⁽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
Production costs capitalized to inventory	89,421	-	-	712,406	801,827
Fair value transferred from biological assets	155,183	572,810	-	-	727,993
Inventory write-down ⁽ⁱ⁾	(179,869)	(1,295,532)	-	-	(1,475,401)
Cost of sales	(923,401)	(552,981)	-	(837,097)	(2,313,479)
Foreign exchange adjustment	46,230	72,250	-	2,610	121,090
Carrying amount, June 30, 2022	<u>740,013</u>	<u>1,192,846</u>	<u>-</u>	<u>-</u>	<u>1,932,859</u>

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

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars, unless otherwise stated)

5. Inventory (continued)

b) Biological assets before harvest

The valuation of biological assets is based on a market approach where the 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 its cultivation in 2021, and 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	124,409
New production costs	78,541
Net change in fair value less costs of sale due to biological transformation	572,810
Transferred to inventory upon harvest	(727,993)
Foreign exchange adjustment	2,051
Carrying amount, June 30, 2022	79,948

As of June 30, 2022, the Company's biological assets before harvest comprised seeds purchased and land preparation costs for cultivation.

6. Other receivables

	June 30, 2022	June 30, 2021
	\$	\$
Insurance refund	33,930	-
GST receivable	6,239	9,288
	40,169	9,288

7. Leases

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

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

HempNova Lifetech Corporation

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7. Leases (continued)

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 a monthly rent of US \$13,738 and an annual increment of 1.5%. A deposit of \$24,146 (US \$18,738) has been placed in connection with this lease, which will be refundable within 30 days after the expiration of the lease term. On May 25, 2022, the lease agreement was terminated. The effective date of the termination was on June 28, 2022. The deposit was used to pay the June 2022 rental fee and cleaning expenses. The Company recognized a gain of \$207,554 (US \$163,958) as a result of this earlier lease termination.

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 a monthly rent of US\$7,500 and an annual increment of 3% at the extension of the term. A deposit of \$19,918 (US\$15,457) has been placed in connection with this lease, which will be refundable within 30 days after the expiration of the lease term. In February 2022, the landlord agreed to change the monthly rent from US\$7,500 to US\$5,000, retroactive from September 2021 to the end of the lease term.

Shared office lease in Vancouver, Canada

This lease is for a shared office with other companies related by certain directors and management in common. Such office lease will expire on April 30, 2023. The Company started sharing this lease on January 1, 2020, and the sharing percentage was changed to 36.5% from 27% effective on January 1, 2021. Starting from January 1, 2022, the Company shares 20% of the Vancouver office lease. See Note 9.

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 certain directors and management in common. Minco China entered into a lease agreement with its CEO, who is also the Company’s CEO, to use an office in Beijing, China. The Company started to share 20% of this lease on January 1, 2020. The expiration date of the original lease period was August 31, 2021, which has been extended during 2021 for a term until August 31, 2026. Starting on January 1, 2022, the Company ended the sharing of an office lease in Beijing, China. See Note 9.

a) Right-of-use assets

The continuity of the right-of-use assets as of June 30, 2022, and 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
Change to the lease term	(18,319)	(155,703)	-	(453,409)	(627,431)
Amortization	(33,209)	(16,986)	(172,009)	(43,363)	(265,567)
Foreign exchange and others	-	33,964	(1,508,874)	35,212	(1,439,698)
Right-of-use assets, as at June 30, 2022	21,951	-	-	445,105	467,056

HempNova Lifetech Corporation

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7. Leases (continued)

b) Lease obligations

The continuity of the lease obligation as of June 30, 2022, and 2021 is as follows:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Lease obligation, 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
Change to the lease term	(18,319)	(155,703)	-	(453,409)	(627,431)
Interest accretion	3,897	6,813	92,000	43,196	145,906
Lease payments	(38,150)	(21,158)	(214,999)	(83,143)	(357,450)
Foreign exchange and others	-	27,953	(1,713,110)	38,668	(1,646,489)
Lease obligation, June 30, 2022	25,510	-	-	537,485	562,995
Lease obligation, current	25,510	-	-	36,139	61,649
Lease obligation, non-current	-	-	-	501,346	501,346
	25,510	-	-	537,485	562,995

The maturity analysis of the Company's contractual undiscounted lease liabilities as of June 30, 2022, is as follows:

	Vancouver	Medford	Total
	\$	\$	\$
Less than one year	26,279	77,316	103,595
One to two years	-	77,316	77,316
Two to three years	-	77,316	77,316
Three to four years	-	77,316	77,316
Beyond five years	-	470,339	470,339
	26,279	779,603	805,882

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7. Leases (continued)

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, 2022:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Interest on lease obligations	3,897	6,813	92,000	43,196	145,906
Rent related to low-value, short-term and variable leases	12,476	-	25,996	7,646	46,118
Amortization	33,209	16,986	172,009	43,363	265,567

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

8. Property, plant, and equipment

As of June 30, 2022, and 2021, the Company had the following property, plant and equipment.

Cost	Farmland	Machinery and equipment	Furniture and office equipment	Vehicle	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	-	113,737	-	-	-	-	126,590	240,327
Impairment	-	(909,513)	-	(26,139)	-	(1,338,442)	-	(2,274,094)
Foreign exchange	34,440	165,558	3,764	5,700	116,072	38,065	2,270	365,869
June 30, 2022	902,020	3,899,893	98,594	134,970	3,040,042	263,115	128,860	8,467,494

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8. Property, plant, and equipment (continued)

Accumulated amortization	Farmland	Machinery and equipment	Furniture and office equipment	Vehicle	Barn, green house and fixture	Leasehold improvement	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
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	-	803,167	19,371	29,370	438,744	99,039	-	1,389,691
Foreign exchange	-	53,785	1,499	2,048	18,092	7,973	-	83,397
June 30, 2022	-	1,849,039	49,867	69,724	714,388	263,115	-	2,946,133
Net carrying value								
June 30, 2022	902,020	2,050,854	48,727	65,246	2,325,654	-	128,860	5,521,361
June 30, 2021	867,580	3,538,024	65,833	117,103	2,666,418	1,407,389	-	8,662,347

During the year ended June 30, 2022, the depreciation expenses of \$697,513 (2021 - \$573,974) were capitalized into the inventory, and \$692,178 (2021 - \$482,870) were expensed as operating expenses.

During the year ended June 30, 2022, an indicator of impairment was identified based on the recent closing of the Eugene facilities. Leasehold improvement in Eugene was written off. The equipment in Eugene was written down. The impairment test compared the carrying amount to their recoverable amounts. The recoverable amount is the higher of the fair value less costs of disposal ("FVLCD") and value in use, which is determined at \$Nil.

9. 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 a related party transaction when there is a transfer of resources or obligations between related parties.

(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 controls Minco Base Metals Corporation ("MBM"). These four companies share certain offices and administrative expenses.

During the year ended June 30, 2022, the Company incurred \$125,849 (2021 - \$168,636) to Minco Capital and Minco Silver for reimbursement of shared office expenses and rent for the headquarter in Vancouver and incurred \$20,413 (2021 - \$42,595) to Minco China for reimbursement of shared office rent in Beijing, China. During the year ended June 30, 2022, the Company incurred \$Nil (2021 - \$7,000) to Minco Base Metals for reimbursement of account service fees and other expenses.

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9. Related party transactions (continued)

(b) Key management compensation

Key management includes the Company's directors and senior management. During the year ended June 30, 2022, and 2021.

The key management charged the following compensation.

	2022	2021
	\$	\$
Senior management remuneration	380,831	436,897
Share base compensation	49,214	197,427
Total	430,045	634,324

(i) Directors' fees were included in senior management remuneration. During the year ended June 30, 2022, the Company paid \$3,000 of directors' fees (2021 - \$7,000). During the year ended June 30, 2022, the Company also paid a director \$Nil of sales and commission fees (2021 - \$9,588), 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 repayment terms as of June 30, 2022, and 2021.

The Company's amount payable to related parties is as follows:

	2022	2021
	\$	\$
MBM and its subsidiary, for service fees and expenses reimbursement	54,762	7,000
Minco Capital, for reimbursement of the shared expenses	167,008	114,290
Minco Silver and its subsidiary, for reimbursement of the shared expenses	151,674	25,565
Key management, for service fees and expenses reimbursement	91,129	86,925
Total due to related parties	464,573	233,780

(d) Participated in the Company's private placements

In 2021, MBM and a person related to the Company's President participated in the Company's convertible note financing closed on October 20, 2020. The Company received \$2,400,000 of convertible debt subscription (See note 11 below).

(e) Trust arrangements

The Company has been purchasing a substantial amount of machinery, equipment, and construction parts from suppliers in China for its facilities in Oregon, USA. 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.

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9. Related party transactions (continued)

Minco International processed all of the purchase orders, shipments, and payments in China and provided related labour on behalf of the Company. Minco International charges 15% service fees for these services on labour costs incurred. Minco International charged \$47,762 in service fees during the year ended June 30, 2022 (2021 - \$80,698). As of June 30, 2022, the amount held by Minco International is \$160 (June 30, 2021 - \$192,189).

(f) Loan arrangement

The Company signed a loan agreement effective December 1, 2020, with MBM to borrow \$257,720 (the US \$200,000) (the “Loan”). The Loan was received on December 2, 2020. The Company has pledged its fixed assets as security for the Loan. The Loan was repayable on or before November 30, 2021, and bears interest at 10% per annum, calculated and compounded monthly. As of June 30, 2022, \$42,437 of interest was accrued and included in the carrying amount of the loan from the related party. In December 2021, the Loan was renewed and extended until December 31, 2022, with the same terms.

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 pledged its fixed assets as security for the 2nd Loan. The Loan was repayable on or before January 31, 2022, and bears interest at 10% per annum, calculated and compounded monthly. As of June 30, 2022, \$28,516 of interest was accrued and included in the carrying amount of the 2nd Loan from the related party. In January 2022, the Loan was renewed and extended until December 31, 2022, with the same terms.

The Company signed a loan agreement effective September 13, 2021, with MBM to borrow a total of \$153,920 (RMB 800,000) (the “3rd Loan”) and received the loan accordingly. The Company has pledged its fixed assets as security for the 3rd Loan. The Loan will be repayable on or before September 13, 2022, and bear interest at the rate of 10% per annum, calculated and compounded monthly. As of June 30, 2022, \$12,717 of interest was accrued and included in the carrying amount of the 3rd Loan from the related party.

The Company signed a loan agreement effective December 10, 2021, with MBM to borrow a total of \$115,440 (RMB 600,000) (the “4th Loan”). The Company has pledged its fixed assets as security for the 4th Loan. The Loan will be repayable on or before December 10, 2022, and bear interest at the rate of 10% per annum, calculated and compounded monthly. As of June 30, 2022, \$6,690 of interest was accrued and included in the carrying amount of the 4th Loan from the related party.

10. Share capital

(a) Share capital

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

(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 the 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 of the date of grant, with each stock option having a maximum term of five years. The board of directors has exclusive power over granting options and vesting provisions.

During the year ended June 30, 2022, and 2021, the Company did not grant any stock options to its directors, employees and consultants. The options granted in 2020 vest 1/3 each year over three years from the grant date and are exercisable for a period of five years.

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10. Share capital (continued)

During the year ended June 30, 2022, the Company recorded \$49,214 (2021 - \$249,389) share-based compensation for stock options granted and vested.

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
Balance, June 30, 2021	3,320,000	0.21
Forfeited	(600,000)	0.27
Balance, June 30, 2022	2,720,000	0.20

As of June 30, 2022, there was \$27,796 (June 30, 2021 - \$146,342) 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	2,720,000	2.66	0.20	1,813,333	0.20
	2,720,000	2.66	0.20	1,813,333	0.20

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

Option pricing models require subjective estimates and assumptions, including the expected stock price volatility. In the absence of volatility in the Company's share price, the Company has used the annual volatility of the share prices of three comparable Canadian 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. Therefore, in management's opinion, existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

11. 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 closing date's first, second and third anniversaries. 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, after that, 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 before the maturity date.

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11. Convertible debenture (continued)

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	(303,539)
Deferred income tax recovery on equity component of convertible debenture	(112,268)
Convertible debenture carrying amount	3,782,793
Accretion expense	96,073
Carrying amount, June 30, 2021	3,878,866
Accretion expense	138,601
Carrying amount, June 30, 2022	4,017,467
Interest payable, as of June 30, 2022	710,886
Total interest expense, for the year ended June 30, 2022	558,462

12. Commitments and contingency

(a) As at June 30, 2022, the Company has two leases commitment (see Note 7) with a breakdown as follows:

	<= one year	Two years	Three years	Four years	>=five years	Total
	\$	\$	\$	\$	\$	\$
Leases	103,595	77,316	77,316	77,316	470,339	805,882

(b) The Company has been notified of a third-party legal claim, relating to a contract with a customer. The Company has filed an arbitration claim against the customer to determine the Company's indemnity obligation. In the opinion of the management, this claim is without merit and no provision has been made for it in the accounts.

13. General and administrative expenses

	Year ended June 30, 2022	Year ended June 30, 2021
	\$	\$
Audit and accounting	63,276	55,317
Consulting and management fees	265,333	267,408
Legal, filing and transfer agent fees	41,958	204,919
Office and miscellaneous	130,829	183,410
Rent	46,118	183,312
Salaries and benefits ⁽ⁱ⁾	277,586	184,869
Travel and others	40,737	37,589
	865,837	1,116,824

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13. General and administrative expenses (continued)

(i) Salaries and benefits

During the year ended June 30, 2022, the Company received an annual agricultural employee retention credit of \$154,347 (USD 121,934). The tax credit fully offsets the payroll expenses.

In 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 in the United States of America in response to the COVID-19 pandemic, provides 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. However, 1% interest on the PPP loans should be accrued each year, and is payable on August 4, 2026.

The Company used the proceeds for purposes consistent with the PPP. In 2021, the forgiveness mentioned above loan fully offset the payroll expenses.

14. Income tax

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

	As of June 30, 2022	As of June 30, 2021
	\$	\$
Loss before taxes	(7,010,445)	(1,804,609)
Expected income tax (recovery) / expense	(1,893,000)	(487,000)
Permanent differences	14,000	67,000
Adjustment to prior years provision versus statutory tax returns	444,000	(627,000)
Change in unrecognized deductible temporary differences	1,624,000	246,000
Changes in statutory, foreign tax, foreign exchange rates and other	(189,000)	657,000
Total income tax (recovery) / expense	-	(133,000)

Deferred taxes arising from temporary differences in recognition of income and expenses for financial reporting and tax purposes. The significant components of deferred tax assets and liabilities as of June 30, 2022, and 2021 are as follows:

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14. Income tax (continued)

Deferred tax assets (liabilities)	2022	2021
	\$	\$
Inventory	31,000	(213,000)
Start-up costs and others	79,000	81,000
Exploration and evaluation of assets	36,000	36,000
Allowable capital losses	46,000	46,000
Property and equipment	(272,000)	(1,778,000)
Convertible debentures	(49,000)	(86,000)
Share issuance costs	17,000	24,000
Non-capital losses	3,290,000	2,991,000
	3,178,000	1,163,000
Deferred tax assets not recognized	(3,178,000)	(1,163,000)
Net deferred tax liabilities	-	-

At June 30, 2021, the Company has non-capital losses available for deduction against future taxable income amounting to approximately \$12,187,000 (as at June 30, 2021 - \$11,313,000). 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 \$170,000 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 to be utilized.

15. Segment information

The Company defines its significant 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 the in the USA. The geographical division of the Company's assets is as follows:

As at June 30, 2022	Canada	USA	Total
	\$	\$	\$
Current assets	37,131	2,289,017	2,326,148
Non-current assets	21,951	6,009,161	6,031,112
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

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15. Segment information (continued)

The following table summarizes the revenue and production in the USA during the year ended June 30, 2022, and 2021:

	2022	2021
	\$	\$
Revenue	3,150,167	1,560,898
Cost of goods sold:		
Inventory expensed to cost of sales, before fair value adjustment	(1,357,498)	(657,080)
Production costs	(952,664)	(500,480)
Gross profit	840,005	403,338

16. Financial instruments

The Company is exposed to various financial instrument-related risks in varying degrees.

Credit risk and economic dependence

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 \$92,418 as of June 30, 2022 (June 30, 2021 - \$579,831) and accounts receivable of \$175,430 as of June 30, 2022 (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.

Significant customers are those that account for greater than 10% of the Company's revenues. The loss of any of the Company's significant customers could have a material adverse effect on our business, consolidated results of operations and financial conditions.

During the year ended June 30, 2022, and 2021, there were one and two customers generated sales which accounted for over 10% of total revenues generated for that year, respectively.

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 available information 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 \$936,856 as of June 30, 2022 (June 30, 2021 - \$570,595). The Company did not maintain sufficient cash balances to meet these needs as of June 30, 2021, and would rely on inventory sales.

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16. Financial instruments (continued)

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 a variable rate and is exposed to interest rate risk on its cash which is not considered significant.

Foreign currency risk

The Company's functional currency is the Canadian dollar, and the functional currency of its subsidiaries is the US dollar. Most foreign currency risk is related to US dollar funds held by the Company and its subsidiaries. Therefore, the Company's net earnings are impacted by fluctuations in the valuation of the US dollar in relation to the Canadian dollar. The Company does not hedge its exposure to currency fluctuations.

Fair Value of Financial Instruments

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 of June 30, 2022, and 2021:

	June 30, 2022	June 30, 2021
Financial assets, amortized cost:	\$	\$
Cash	92,418	579,831
Accounts receivable	175,430	73,314
Other receivables excluding GST receivable	33,930	9,288
Financial liabilities, amortized cost:		
Accounts payable and accrued liabilities	936,856	570,595
Convertible debenture	4,017,467	3,878,865
Due to related parties	464,573	233,780
Lease obligations, current	61,649	172,622
Lease obligations, non-current	501,346	2,875,837
Loan from related party	817,439	470,903

17. Capital management

The Company's objectives when managing capital are:

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

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

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18. Subsequent event

The Company signed a loan agreement effective July 16, 2022, with MBM to borrow a total of \$192,400 (RMB 1,000,000) (the “5th Loan”). The Company has pledged its fixed assets as security for the 5th Loan. The Loan will be repayable on or before July 16, 2022, and bear interest at 10% per annum, calculated and compounded monthly. Refer to Note 9.