



HempNova Lifetech Corporation

Consolidated Financial Statements

For the year ended June 30, 2023, and 2022

(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
September 28, 2023

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, 2023 and 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 years 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, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years 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 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

September 28, 2023

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

	June 30, 2023	June 30, 2022
	\$	\$
Assets		
Current assets		
Cash and cash equivalent	1,578,917	92,418
Accounts receivable (note 4)	477,855	175,430
Inventory (note 5)	372,796	2,012,807
Other receivables (note 6)	172,298	40,169
Prepaid expenses and advance	-	5,324
	2,601,866	2,326,148
Non-current assets		
Deposits	-	42,695
Property, plant and equipment, net (note 8)	4,469,374	5,521,361
Right-of-use assets (note 7a)	135,421	467,056
Total assets	7,206,661	8,357,260
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	727,463	936,856
Current tax liability	62,228	-
Convertible debenture (note 11)	4,055,796	-
Due to related parties (note 9c)	139,255	464,573
Lease obligations, current (note 7b)	24,990	61,649
Loan from related party (note 9f)	1,086,861	817,439
	6,096,593	2,280,517
Convertible debenture (note 11)	-	4,017,467
Lease obligations, non-current (note 7b)	121,896	501,346
Total liabilities	6,218,489	6,799,330
Shareholders' equity		
Share capital (note 10a)	17,109,312	17,109,312
Reserves	2,193,255	2,179,459
Equity portion of convertible debenture (note 11)	303,539	303,539
Accumulated other comprehensive loss	(438,581)	(665,042)
Deficit	(18,179,353)	(17,369,338)
Total shareholders' equity	988,172	1,577,930
Total shareholders' equity and liabilities	7,206,661	8,357,260
<i>Nature of operations and going concern (note 1)</i>		
<i>Commitments and contingency (note 12)</i>		
<i>Subsequent event (note 18)</i>		

Approved by the Board of Directors:

(Signed) Shawn Dang Director

(Signed) Min Peng Director

HempNova Lifetech Corporation

Consolidated Statements of Loss and Comprehensive Loss

Years ended June 30, 2023 and 2022

(Expressed in Canadian dollars, unless otherwise stated)

	2023	2022
	\$	\$
Revenue, net of discounts and commission (note 15)	8,259,282	3,150,167
Inventory expensed to cost of sales, before fair value adjustment (note 5)	(3,916,641)	(1,357,498)
Production costs (note 15)	(1,699,398)	(952,664)
Gross profit before fair value adjustments	2,643,243	840,005
Fair value adjustment of biological assets (note 5)	(970,263)	(2,776,740)
Gross profit (loss)	1,672,980	(1,936,735)
Operating expenses		
Amortization and depreciation (notes 7 & 8)	603,493	957,745
General and administrative expenses (note 13)	810,557	865,837
Interest expense (notes 7, 9 & 11)	661,785	771,705
Research and development	117,109	223,252
Sales and marketing	116,185	189,198
Share-based compensation (note 10c)	13,796	49,214
	2,322,925	3,056,951
Operating loss before the following items:	(649,945)	(4,993,686)
Foreign exchange gain (loss)	15,094	(111)
Gain on termination of lease	105,101	207,554
Gain on disposal of property, plant and equipment	49,295	-
Impairment of property, plant and equipment (note 8)	(320,097)	(2,240,762)
Interest income	53,503	16,560
Loss before income taxes	(747,049)	(7,010,445)
Income tax expenses, current (note 14)	(89,760)	-
Income tax expenses, deferred (note 14)	26,794	-
Net loss after taxes	(810,015)	(7,010,445)
Other comprehensive income:		
Exchange gain on translating foreign operations	226,461	416,370
Comprehensive loss	(583,554)	(6,594,075)
Loss per share - basic and diluted	(0.01)	(0.11)
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, 2023 and 2022

(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, 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)	1,557,930
Share-based compensation	-	-	13,796	-	-	-	13,796
Net loss for the year	-	-	-	-	(810,015)	-	(810,015)
Other comprehensive loss	-	-	-	-	-	226,461	226,461
Balance, June 30, 2023	62,583,353	17,109,312	2,193,255	303,539	(18,179,353)	(438,581)	988,172

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

HempNova Lifetech Corporation

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Expressed in Canadian dollars, unless otherwise stated)

	2023	2022
	\$	\$
Operating activities	(810,015)	(7,010,445)
Net loss for the year		
Adjustments for:		
Amortization	603,493	957,745
Foreign exchange loss (gain)	(15,094)	111
Gain on termination of lease	(105,101)	(207,554)
Gain on sale of property, plant, and equipment	(49,295)	-
Interest expense	661,785	771,705
Unrealized fair value adjustment on biological assets	970,263	2,776,740
Income tax expense	62,966	-
Share-based compensation	13,796	49,214
Impairment of property, plant, and equipment	320,097	2,240,762
Changes in items of working capital		
Accounts payable and accrued liabilities	(20,979)	(30,994)
Accounts receivable	(301,135)	(97,458)
Due from (to) related parties	(176,404)	306,854
Inventory	1,414,997	166,170
Prepaid expenses and deposits	49,922	34,438
Other receivables	(3,207)	(6,239)
Cash used in operating activities	2,616,089	(48,951)
Financing activities		
Loan from related party	182,502	269,360
Payment of lease obligations (note 7)	(45,959)	(357,453)
Cash generated from (used in) financing activities	136,543	(88,093)
Investing activities		
Convertible note repayment	(700,000)	-
Purchase of property, plant and equipment	(376,308)	(240,327)
Disposition of Property, plant and equipment	89,620	-
Cash used in investing activities	(986,688)	(240,327)
Effect of exchange rate on cash	(279,445)	(110,042)
Increase (Decrease) in cash	1,486,499	(487,413)
Cash, beginning of the year	92,418	579,831
Cash, end of the year	1,578,917	92,418
Supplemental of cash transactions:		
Income tax paid	-	-
Interest paid	599,726	-

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

HempNova Lifetech Corporation

Notes to Consolidated Financial Statements

Years ended June 30, 2023 and 2022

(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 the records office of the Company are located at 2060 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 3R5.

The Company, operating through its wholly-owned subsidiary HempNova Lifetech (USA) Corp. (“HempNova (USA)”), is actively involved in the industrial hemp sector, offering a range of products and services. HempNova (USA) was incorporated in Delaware, USA, and its wholly-owned subsidiaries operate in Oregon, USA.

These consolidated financial statements have been prepared on a going concern basis, assuming that the Company will continue its operations for the foreseeable future, realize its assets, and meet its liabilities and commitments in the normal course of business. Since its inception in 2019, the Company has incurred losses as it establishes its presence in the industrial hemp market.

The Company's ability to continue as a going concern is contingent upon various factors, including the hemp sales market, ongoing financial support from shareholders, and the Company's capacity to secure necessary equity financing for its operational expenses. The outcome of these factors is uncertain at present, and they raise doubts about the Company's ability to continue as a going concern.

These consolidated financial statements do not account for any adjustments that may be necessary if the Company is unable to continue as a going concern. In such a scenario, the Company would need to realize its assets and settle its liabilities in a manner differing from the normal course of business, potentially impacting the reported amounts in the financial statements.

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 September 28, 2023.

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 USA, HempNova Oregon LLC (“HempNova Oregon”), HempNova Asset Management LLC (“HempNova Asset”), HNL2 Holding LLC (“HNL2”), HNL3 Holding LLC (“HNL3”), MTANG LLC, KCAI LLC, HempNova Eugene LLC (“HempNova Eugene”), and HempNova 238 LLC (“HempNova 238”).

HempNova Lifetech Corporation

Notes to Consolidated Financial Statements

Years ended June 30, 2023 and 2022

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant accounting policies (continued)

Information of the Company's subsidiaries as of June 30, 2023, 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
MTANG LLC	Asset holding company (100%)	USA
KCAI LLC	Asset holding company (100%)	USA
HempNova Eugene	Industrial hemp business (100%)	USA
HempNova 238	Industrial hemp business (100%)	USA

Subsidiaries encompass all entities (including structured entities) over which the group exercises control. Control is deemed to exist when the group is both exposed to, or possesses rights to, fluctuating returns through its engagement with the entity and retains the capability to influence these returns via its authority over the entity. Subsidiaries are subjected to full consolidation starting from the point of control transfer to the group. Conversely, they undergo deconsolidation from the moment control discontinues.

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, 2023 and 2022
(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 loss and comprehensive 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. Income from sales of hemp-related products is recognized upon goods delivered to customers and accepted by customers

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, 2023 and 2022

(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, the 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 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). For the plant where little biological transformation has taken place, cost less impairment losses is used as an approximation for fair value.

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.

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

Years ended June 30, 2023 and 2022

(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.

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

Years ended June 30, 2023 and 2022

(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 the 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.

HempNova Lifetech Corporation

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(Expressed in Canadian dollars, unless otherwise stated)

3. Significant accounting policies (continued)

Impairment of non-financial assets

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

Significant 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.

Accounting standards issued but not yet effective

The following amendments of accounting standard are effective for the Company's annual periods beginning January 1, 2023:

In February 2021, the IASB issued amendments to IAS 8 to clarify how reporting entities should distinguish changes in accounting policies from changes in accounting estimates. The amendments include a definition of "*accounting estimates*" as well as other amendments to IAS 8 that will help entities distinguish changes in accounting policies from changes in accounting estimates. This distinction between these two types of changes is important as changes in accounting policies are normally applied retrospectively to past transactions and events, whereas changes in accounting estimates are applied prospectively to future transactions and events.

In February 2021, the IASB issued amendments to IAS 1, "*Presentation of Financial Statements*," and IFRS Practice Statement 2, "*Making Materiality Judgements*," aiming to improve accounting policy disclosures. The amendments to IAS 1 require reporting entities to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The Company does not expect the adoption of these new amendments to have a significant impact, as the amendments only affect the note disclosure of the financial statements.

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(Expressed in Canadian dollars, unless otherwise stated)

4. Accounts receivable

The Company's business is seasonal in nature. As of June 30, 2023, the Company had \$477,855 (2022 - \$175,430) in accounts receivable, mainly from the sale of gummy, and smokable flowers during the year ended June 30, 2023.

5. Inventory

The Company's inventory comprises season-harvested and dried smokable hemp flowers, gummy, pre-roll, biomass and hemp-derived oil, etc. As of June 30, 2023, the inventory was recorded at the lower of its cost and net realizable value and consists of the following:

	June 30, 2023	June 30, 2022
	\$	\$
Smokable flowers and others	311,765	1,932,859
Biological assets before harvest	61,031	79,948
	<u>372,796</u>	<u>2,012,807</u>

a) Smokable flowers and others

	Smokable flowers			Total
	Capitalized costs	Fair value adjustment	Other hemp products	
	\$	\$	\$	\$
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	740,013	1,192,846	-	1,932,859
Production costs capitalized to inventory	72,423	-	2,939,055	3,011,478
Fair value transferred from biological assets	152,401	193,834	-	346,235
Inventory write-down ⁽ⁱ⁾	(210,726)	(1,166,395)	-	(1,377,121)
Cost of sales	(570,728)	-	(2,939,055)	(3,509,783)
Foreign exchange adjustment	(138,341)	46,438	-	(91,903)
Carrying amount, June 30, 2023	<u>45,042</u>	<u>266,723</u>	<u>-</u>	<u>311,765</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

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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 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 changes in the carrying value of biological assets are as follows:

	Biological assets
	\$
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
Production costs capitalized	61,755
New production costs	71,090
Net change in fair value less costs of sale due to biological transformation	196,132
Transferred to inventory upon harvest	(346,235)
Foreign exchange adjustment	(1,659)
Carrying amount, June 30, 2023	61,031

As of June 30, 2023, the Company's biological assets before harvest comprised seeds purchased and land preparation costs, labours and consult for cultivation.

6. Other receivables

	June 30, 2023	June 30, 2022
	\$	\$
Insurance refund	-	33,930
Rental income and others	169,416	-
GST receivable	2,882	6,239
	172,298	40,169

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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%.

Facility lease in Eugene, USA

Situated in Eugene, this lease has an initial duration of five years, accompanied by the option to extend for two additional five-year periods (culminating on May 31, 2034). The monthly rental amounts to US \$13,738, featuring an annual escalation of 1.5%. A refundable deposit of \$24,146 (US \$18,738) was submitted in association with this lease and will be eligible for reimbursement within 30 days subsequent to the lease term's conclusion.

The lease agreement was concluded on May 25, 2022, leading to an effective termination date of June 28, 2022. The deposited amount was employed to cover the rental fee for June 2022, along with cleaning expenses. As a consequence of this early lease termination, the Company recorded a gain amounting to \$207,554 (US \$163,958) for the year ended June 30, 2022.

Facility lease in Medford, USA

This lease, situated in Medford, was initiated for a three-year term, accompanied by the option to extend for two additional five-year periods, ultimately concluding on August 14, 2032. The original monthly rent was set at US\$7,500, with an annual incremental increase of 3% applicable upon term extension. A deposit totaling \$19,918 (US\$15,457) was submitted for this lease arrangement, with provisions for a refund within a 30-day window post the lease term's expiration.

In February 2022, a retroactive adjustment to the monthly rent was agreed upon by the landlord, transitioning it from US\$7,500 to US\$5,000, with effectiveness spanning from September 2021 until the lease term's culmination. Subsequently, in July 2022, the Company opted not to renew the lease agreement. This decision culminated in the Company recognizing a gain of \$105,015 (US\$78,451) stemming from this early lease termination, during the year ended June 30, 2023.

Shared office lease in Vancouver, Canada

This lease involves a shared office space, accommodating multiple companies linked by shared directors and management personnel. The current term of this office lease is set to conclude on April 30, 2023. Commencing on January 1, 2020, the Company became a participant in this shared lease, with its sharing ratio initially set at 27%. This percentage was subsequently adjusted to 36.5% effective January 1, 2021. As of January 1, 2022, the Company's involvement in the Vancouver office lease was further refined to encompass 25% of the space.

Notably, in January 2023, the Company opted to renew the lease agreement, successfully extending its duration until April 30, 2028.

Shared office lease in Beijing, China

This lease pertains to a collaborative office space with Minco China Corporation ("Minco China"), a wholly-owned subsidiary of Minco Silver Corporation ("Minco Silver"). Notably, the Company and Minco Silver share certain directors and managerial personnel. Minco China had initially entered into a lease agreement with its CEO, who coincidentally also holds the position of CEO within the Company, to utilize an office in Beijing, China.

Effectively starting from January 1, 2020, the Company embarked on a shared arrangement for 20% of this lease. The original lease period, which was slated to conclude on August 31, 2021, underwent an extension, prolonging it until August 31, 2026. However, as of January 1, 2022, the Company discontinued its involvement in the shared office lease situated in Beijing, China.

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(Expressed in Canadian dollars, unless otherwise stated)

7. Leases (continued)

a) Right-of-use assets

The continuity of the right-of-use assets as of June 30, 2023, and 2022 is as follows:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
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)
Termination of lease term	-	-	(1,667,963)	-	(1,667,963)
Foreign exchange and others	-	33,964	159,089	35,212	228,265
Right-of-use assets, as at June 30, 2022	21,951	-	-	445,105	467,056
Change to the lease term	141,488	-	-	-	141,488
Termination of lease term	-	-	-	(539,054)	(539,054)
Amortization	(28,018)	-	-	(11,473)	(39,491)
Foreign exchange and others	-	-	-	105,422	105,422
Right-of-use assets, as at June 30, 2023	135,421	-	-	-	135,421

b) Lease obligations

The continuity of the lease obligation as of June 30, 2023, and 2022 is as follows:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
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)
Termination of lease term	-	-	(1,667,963)	-	(1,667,963)
Foreign exchange and others	-	27,953	(45,147)	38,668	21,474
Lease obligation, June 30, 2022	25,510	-	-	537,485	562,995
Change to the lease term	141,488	-	-	-	141,488
Termination of lease term	-	-	-	(539,054)	(539,054)
Interest accretion	12,450	-	-	10,983	23,433
Lease payments	(32,562)	-	-	(13,397)	(45,959)
Foreign exchange and others	-	-	-	3,983	3,983
Lease obligation, June 30, 2023	146,886	-	-	-	146,886
Lease obligation, current	24,990	-	-	-	24,990
Lease obligation, non-current	121,896	-	-	-	121,896
Total lease obligation	146,886	-	-	-	146,886

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Years ended June 30, 2023 and 2022

(Expressed in Canadian dollars, unless otherwise stated)

7. Leases (continued)

The maturity analysis of the Company's contractual undiscounted lease liabilities as of June 30, 2023, is as follows:

	Total
	\$
Less than one year	35,551
One to two years	36,101
Two to three years	36,651
Three to four years	37,201
Beyond five years	30,967
Minus: imputed interest	(29,585)
	146,886

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, 2023:

	Vancouver	Beijing	Eugene	Medford	Total
	\$	\$	\$	\$	\$
Interest on lease obligations	12,450	-	-	10,983	23,424
Rent related to low-value, short-term and variable leases	6,826	-	-	18,888	25,714
Amortization	28,018	-	-	11,473	39,491

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8. Property, plant, and equipment

As of June 30, 2023, and 2022, 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, 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
Additions	-	90,607	18,573	-	267,128	-	-	376,308
Disposition	-	(40,327)	-	-	-	-	(133,970)	(174,297)
Impairment	-	(320,097)	-	-	-	-	-	(320,097)
Foreign exchange	24,780	110,298	2,518	3,708	80,384	7,228	5,110	234,026
June 30, 2023	926,800	3,740,374	119,685	138,678	3,387,554	270,343	-	8,583,434
Accumulated amortization	Farmland	Machinery and equipment	Furniture and office equipment	Vehicle	green house and fixture	Leasehold improvement	Construction in progress	Total
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
Depreciation	-	576,539	22,126	23,538	477,679	-	-	1,099,882
Foreign exchange	-	44,040	1,111	1,639	14,027	7,228	-	68,045
June 30, 2023	-	2,469,618	73,104	94,901	1,206,094	270,343	-	4,114,060
Net carrying value								
June 30, 2023	926,800	1,270,756	46,581	43,777	2,181,460	-	-	4,469,374
June 30, 2022	902,020	2,050,854	48,727	65,246	2,325,654	-	128,860	5,521,361

For the fiscal year concluding on June 30, 2023, depreciation expenses totalling \$535,880 (compared to \$697,513 in 2022) were capitalized into the inventory, while \$564,002 (versus \$692,178 in 2022) were recognized as operating expenses.

In the same year ending June 30, 2023, an indication of impairment emerged due to the termination of a lease agreement in Medford. This led to the write-off of \$320,097 associated with the dryers installed within the leased unit.

In the fiscal year ending 2022, an indicator of impairment arose following the recent closure of the Eugene facilities. This prompted the write-off of leasehold improvements of \$2,247,955 in Eugene and the subsequent write-down of equipment located there.

The assessment for impairment involved comparing the carrying amount with their recoverable amounts. The recoverable amount, ascertained to be \$Nil, is determined as the higher value between fair value less costs of disposal ("FVLCD") and value in use.

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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, 2023, the Company incurred \$79,784 (2022 - \$125,949) to Minco Capital and Minco Silver for reimbursement of shared office expenses and rent for the headquarters in Vancouver and incurred \$ Nil (2022 - \$20,413) to Minco China for reimbursement of shared office rent in Beijing, China.

(b) Key management compensation

Key management includes the Company’s directors and senior management. During the year ended June 30, 2023, and 2022.

The key management charged the following compensation.

	2023	2022
	\$	\$
Senior management remuneration*	410,915	380,831
Share base compensation	10,526	49,214
Total	421,441	430,045

*Directors’ fees were included in senior management remuneration. During the year ended June 30, 2023, the Company paid \$2,000 of directors’ fees (2022- \$3,000).

(c) Due to related parties

Amounts due to related parties are unsecured, non-interest bearing, and without specific repayment terms as of June 30, 2023, and 2022.

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

	2023	2022
	\$	\$
MBM and its subsidiary, for service fees and expense reimbursement	83,146	54,762
Minco Capital, for reimbursement of the shared expenses	-	167,008
Minco Silver and its subsidiary, for reimbursement of the shared expenses	19,710	151,674
Key management, for service fees and expense reimbursement	36,399	91,129
Total due to related parties	139,255	464,573

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9. Related party transactions (continued)

(d) Participated in the Company's private placements

In 2021, MBM, along with an individual associated with the Company's President, took part in the Company's convertible note financing, which concluded on October 20, 2020. As part of this financing, the Company secured \$2,400,000 in convertible debt subscriptions (Refer to note 11 below). Over the fiscal year ending on June 30, 2023, the Company reimbursed \$300,000 to the President.

(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.

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 \$38,384 in service fees during the year ended June 30, 2023 (2022 - \$47,762). As of June 30, 2023, the amount held by Minco International is \$56,354 (June 30, 2022 - \$160).

(f) Loan arrangement

On December 1, 2020, the Company entered into a loan agreement with MBM, securing a loan of \$264,800 (US \$200,000) (referred to as the "1st Loan"). This loan was received on December 2, 2020, with the Company providing its fixed assets as collateral. The Loan carried an annual interest rate of 10%, compounded monthly, and had an initial repayment deadline of November 30, 2021. As of June 30, 2023, the accrued interest on the related-party loan amounted to \$70,165, which was included in the overall carrying amount of the 1st loan from the related party. In December 2021, the Loan was renewed and extended, maintaining the original terms, until December 31, 2024.

On February 1, 2021, the Company entered into another loan agreement with MBM, obtaining a loan of \$200,000 (referred to as the "2nd Loan"). The Company used its fixed assets as collateral for this loan, which bore an annual interest rate of 10%, compounded monthly. The loan's original repayment deadline was January 31, 2022. By June 30, 2023, the accrued interest on this related-party loan reached \$49,458, and it was included in the overall carrying amount of the 2nd loan from the related party. The loan was renewed and extended in January 2022, maintaining the same terms, until December 31, 2024.

On September 13, 2021, the Company entered into yet another loan agreement with MBM, securing a loan of \$146,001 (RMB 800,000) (referred to as the "3rd Loan"). The Company provided its fixed assets as collateral for this loan, which carried an annual interest rate of 10%, compounded monthly. By June 30, 2023, the accrued interest on the 3rd Loan amounted to \$28,006 and was included in the overall carrying amount of the 3rd loan from the related party. The loan was renewed and extended in September 2022, maintaining the original terms, until December 31, 2024.

On December 10, 2021, the Company entered into an additional loan agreement with MBM, obtaining a loan of \$109,501 (RMB 600,000) (referred to as the "4th Loan"). The Company used its fixed assets as collateral, and the loan was initially scheduled for repayment on or before December 10, 2022. The loan carried an annual interest rate of 10%, compounded monthly. As of June 30, 2023, \$18,156 in interest had accrued and was included in the overall carrying amount of the 4th loan from the related party. The loan was renewed and extended in December 2022, maintaining the original terms, until December 31, 2024.

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9. Related party transactions (continued)

On July 16, 2022, the Company entered into a loan agreement with MBM, borrowing a total of \$182,502 (RMB 1,000,000) (the "5th Loan"). The Company provided its fixed assets as collateral for this loan. The loan is scheduled to be repaid on or before July 16, 2023, and carries an annual interest rate of 10%, compounded monthly. As of June 30, 2023, \$18,273 in interest had accrued and was included in the carrying amount of the 5th Loan from the related party.

The following table provides a summary of these loan agreements:

Name	Agreement date	Expiration date	Principle	Accrued interest	Total	
			\$	\$	\$	
1 st Loan	December 1, 2020	December 31, 2024 (extend)	264,800	USD 200,000	70,165	334,965
2 nd Loan	February 1, 2021	December 31, 2024 (extend)	200,000	CAD 200,000	49,458	249,458
3 rd Loan	September 13, 2021	December 31, 2024 (extend)	146,001	RMB 800,000	28,006	174,007
4 th Loan	December 10, 2021	December 31, 2024 (extend)	109,501	RMB 600,000	18,156	127,657
5 th Loan	July 16, 2022	July 16, 2023*	182,502	RMB 1,000,000	18,273	200,775
			902,804	184,057	1,086,861	

* Following the year ending on June 30, 2023, the 5th loan was renewed and extended until December 31, 2024, with the original terms remaining unchanged.

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, 2023, and 2022, 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.

During the year ended June 30, 2023, the Company recorded \$13,796 (2022 - \$49,214) share-based compensation for stock options granted and vested.

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10. Share capital (continued)

Continuity of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price
	#	\$
Balance, June 30, 2021	3,320,000	0.21
Forfeited	(600,000)	0.27
Balance, June 30, 2022	2,720,000	0.20
Forfeited	(300,000)	0.20
Balance, June 30, 2023	2,420,000	0.20

As of June 30, 2023, there was \$Nil (June 30, 2022 - \$27,796) 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	2,420,000	1.66	0.20	2,420,000	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. Interest will be paid annually in arrears, specifically on the first, second, and third anniversaries of the closing date.

The principal amount of the Notes is set to mature and become fully repayable on the third anniversary of the closing date, referred to as the "Maturity Date," provided no conversion has taken place. If conversion does occur, the conversion process may be applied to either the entire principal amount or a portion thereof. The conversion rate is established at \$0.50 per common share until the second anniversary of the closing date. Subsequently, the conversion rate will adjust to \$0.60 per common share, remaining in effect until the Maturity Date.

The Company retains the option to redeem the Notes. Should this option be exercised, a 30-day notice will be issued to the purchaser prior to the Maturity Date.

For the fiscal year ending on June 30, 2023, the Company fulfilled debt payments amounting to \$700,000 to its creditors.

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(Expressed in Canadian dollars, unless otherwise stated)

11. Convertible debenture (continued)

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

	Convertible debenture liability
	\$
Carrying amount, June 30, 2021	3,878,865
Accretion expense	138,602
Carrying amount, June 30, 2022	4,017,467
Repayment	(100,274)
Accretion expense	138,603
Carrying amount, June 30, 2023	4,055,796
Interest payable, as of June 30, 2023	531,020
Total interest expense, for the year ended June 30, 2023	544,654

12. Commitments and contingency

(a) As of June 30, 2023, the Company has one lease commitment (see Note 7) with a breakdown as follows:

	<= one year	Two years	Three years	Four years	>=five years	Total
	\$	\$	\$	\$	\$	\$
Leases	35,551	36,101	36,651	37,201	30,967	176,471

(b) As of June 30, 2023, the Company had an outstanding liability of \$69,393 (US\$52,412) owed to the Department of Environmental Quality in the State of Oregon. In July 2023, the Company settled this liability.

(c) Back in 2022, the Company received notification of a legal claim from a third-party, pertaining to a contractual agreement with a customer. To address this situation, the Company initiated an arbitration claim against the customer to ascertain the extent of the Company's indemnity responsibility. During the fiscal year 2023, the Company successfully addressed the legal matters that arose in the prior year with its customer.

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Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars, unless otherwise stated)

13. General and administrative expenses

	Year ended June 30, 2023	Year ended June 30, 2022
	\$	\$
Audit and accounting	50,388	63,276
Consulting and management fees	280,740	265,333
Legal, filing and transfer agent fees	45,808	41,958
Office and miscellaneous	121,833	130,829
Rent	25,714	46,118
Salaries and benefits ⁽ⁱ⁾	230,954	277,586
Travel and others	55,120	40,737
Total general administrative expenses	810,557	865,837

(i) Salaries and benefits

During the year 2022, the Company obtained an annual agricultural employee retention credit amounting to \$154,347 (equivalent to USD 121,934). This tax credit effectively countered the entirety of the payroll expenditures incurred during that period. However, it's noteworthy that no corresponding credit was obtained within the fiscal year concluding in 2023.

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Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars, unless otherwise stated)

14. Income tax

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

	As of June 30, 2023	As of June 30, 2022
	\$	\$
Loss before taxes	(747,049)	(7,010,445)
Expected income tax (recovery) / expense	(202,000)	(1,893,000)
Permanent differences	26,000	14,000
Adjustment to prior years' provision versus statutory tax returns	(6,000)	444,000
Change in unrecognized deductible temporary differences	275,000	1,624,000
Changes in statutory, foreign tax, foreign exchange rates and other	(5,000)	(189,000)
Total income tax (recovery) / expense	88,000	-

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, 2023, and 2022 are as follows

Deferred tax assets (liabilities)	2023	2022
	\$	\$
Inventory	352,000	31,000
Start-up costs and others	74,000	79,000
Exploration and evaluation of assets	36,000	36,000
Allowable capital losses	46,000	46,000
Property and equipment	(343,000)	(272,000)
Convertible debentures	(11,000)	(49,000)
Share issuance costs	10,000	17,000
Non-capital losses	3,155,000	3,290,000
	3,319,000	3,178,000
Deferred tax assets not recognized	(3,292,000)	(3,178,000)
Net deferred tax assets	27,000	-

HempNova Lifetech Corporation

Notes to the Consolidated Financial Statements

Years ended June 30, 2023 and 2022

(Expressed in Canadian dollars, unless otherwise stated)

14. Income tax (continued)

As of June 30, 2023, the Company has non-capital losses available for deduction against future taxable income amounting to approximately \$11,765,000 (June 30, 2022 - \$12,187,000). 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 in the USA. The geographical division of the Company's assets is as follows:

As at June 30, 2023	Canada	USA	Total
	\$	\$	\$
Current assets	635,682	1,966,261	2,601,866
Non-current assets	137,739	4,467,056	4,604,795

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

The following table summarizes the revenue and production in the USA during the year ended June 30, 2023, and 2022:

	2023	2022
	\$	\$
Revenue	8,259,282	3,150,167
Cost of goods sold:		
Inventory expensed to cost of sales, before fair value adjustment	(3,916,641)	(1,357,498)
Production costs	(1,699,398)	(952,664)
Gross profit	2,643,243	840,005

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Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars, unless otherwise stated)

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 \$1,578,917 as of June 30, 2023 (June 30, 2022 - \$92,418) and accounts receivable of \$477,855 as of June 30, 2023 (June 30, 2022 - \$175,430). 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.

In the fiscal year ending on June 30, 2023, the Company recorded sales from two customers, each of whom individually contributed significantly to the total revenues generated throughout the year (14.23% and 50.18%, respectively). In 2022, the company recorded sales from a single customer who accounted for a substantial 62.6% of the total revenues for that year.

In the fiscal year ending on June 30, 2023, among all the customers in the accounts receivable, four customers individually represent significant portions of the total accounts receivable (10%, 12.8%, 16%, and 50.7%). In 2022, a single customer accounted for a substantial portion of the accounts receivable (87.9%).

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 \$727,463 as of June 30, 2023 (June 30, 2022 - \$936,856).

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.

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Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars, unless otherwise stated)

16. Financial instruments (continued)

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, 2023, and 2022:

	June 30, 2023	June 30, 2022
Financial assets, amortized cost:	\$	\$
Cash	1,578,917	92,418
Accounts receivable	477,855	175,430
Other receivables excluding GST receivable	172,298	33,930
Financial liabilities, amortized cost:		
Accounts payable and accrued liabilities	727,463	936,856
Convertible debenture	4,055,796	4,017,467
Current tax liability	62,228	-
Due to related parties	139,255	464,573
Lease obligations, current	24,990	61,649
Lease obligations, non-current	121,896	501,346
Loan from related party	1,086,861	817,439

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.

18. Subsequent event

On September 22, 2023, the Company disbursed a sum of \$1,000,000 to settle its convertible debenture obligations.