



HempNova Lifetech Corporation

Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2023, and 2022

(Unaudited, expressed in Canadian dollars unless otherwise stated)

NOTICE TO READER

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

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

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

Dr. Ken Cai
Chief Executive Officer

Meng Tang, CPA, CA
Chief Financial Officer

Vancouver, Canada
November 24, 2023

HempNova Lifetech Corporation

Condensed Consolidated Interim Statements of Financial Position

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

	September 30, 2022	June 30, 2023
		\$
Assets		
Current assets		
Cash and cash equivalent	3,936,709	1,578,917
Accounts receivable (note 4)	416,250	477,855
Inventory (note 5)	457,660	372,796
Other receivables (note 6)	58,667	172,298
Prepaid expenses and advance	6,760	-
	4,876,046	2,601,866
Non-current assets		
Deposits		-
Property, plant and equipment, net (note 8)	4,334,573	4,469,374
Right-of-use assets (note 7a)	128,417	135,421
Total assets	9,339,036	7,206,661
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	1,392,701	727,463
Customer deposit	1,730,560	-
Current tax liability	63,544	62,228
Convertible debenture (note 11)	2,491,005	4,055,796
Due to related parties (note 9c)	637,958	139,255
Lease obligations, current (note 7b)	25,646	24,990
Loan from related party (note 9f)	1,122,821	1,086,861
	7,464,235	6,096,593
Lease obligations, non-current (note 7b)	114,646	121,896
Total liabilities	7,578,881	6,218,489
Shareholders' equity		
Share capital (note 10a)	17,109,312	17,109,312
Reserves	2,193,255	2,193,255
Equity portion of convertible debenture (note 11)	303,539	303,539
Accumulated other comprehensive loss	(312,455)	(438,581)
Deficit	(17,533,496)	(18,179,353)
Total shareholders' equity	1,760,155	988,172
Total shareholders' equity and liabilities	9,339,036	7,206,661

Nature of operations and going concern (note 1)

Commitments and contingency (note 12)

Approved by the Board of Directors:

(Signed) Shawn Dang Director

(Signed) Min Peng Director

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

HempNova Lifetech Corporation

Condensed Consolidated Interim Statements of Operations Loss and Comprehensive Income
(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	Three months ended September 30,	
	2023	2022
	\$	\$
Revenue, net of discounts and commission (note 12)	3,231,344	1,661,467
Inventory expensed to cost of sales, before fair value adjustment (note 4)	(1,548,605)	(580,763)
Production costs (note 12)	(564,247)	(444,209)
Gross profit before fair value adjustments	1,118,492	636,495
Fair value adjustment of biological assets (note 4)	76,149	46,752
Gross profit	1,194,641	683,247
Operating expenses		
Amortization and depreciation (note 5 & 6)	278,967	306,493
General and administrative expenses (note 10)	156,502	212,505
Interest expense (note 5, 7 & 9)	147,644	175,797
Research and development	11,432	31,785
Sales and marketing	1,834	31,316
Share-based compensation	-	11,047
	596,379	768,943
Operating gain (loss) before the following items:	598,262	(85,698)
Foreign exchange gain (loss)	323	(12,820)
Gain on termination of lease (note 5)	-	102,426
Gain on disposal of property, plant, and equipment	3,403	-
Impairment of property, plant and equipment (note 6)	-	(311,950)
Interest and other income	43,869	19,474
Net income (loss)	645,857	(288,566)
Other comprehensive income:		
Exchange gain on translating foreign operations	126,126	452,893
Comprehensive income	771,983	164,327
Income (Loss) per share - basic and diluted	0.01	(0.00)
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 condensed consolidated interim financial statements.

HempNova Lifetech Corporation

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

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

	Number of outstanding shares	Share capital	Subscription received in advance	Reserve	Deficit	Accumulated comprehensive (loss) / income	Total
	#	\$	\$	\$	\$	\$	\$
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	-	-	11,047	-	-	-	11,047
Net loss for the period	-	-	-	-	(288,566)	-	(288,566)
Other comprehensive income	-	-	-	-	-	452,893	452,893
Balance, September 30, 2022	62,583,353	17,109,312	2,190,506	303,539	(17,657,904)	(212,149)	1,733,304
Balance, June 30, 2023	62,583,353	17,109,312	2,193,255	303,539	(18,179,353)	(438,581)	988,172
Net income for the period	-	-	-	-	645,857	-	645,857
Other comprehensive income	-	-	-	-	-	126,126	126,126
Balance, September 30, 2023	62,583,353	17,109,312	2,193,255	303,539	(17,533,496)	(312,455)	1,760,155

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

HempNova Lifetech Corporation

Condensed Consolidated Interim Statements of Cash Flows

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

	Three months ended September 30,	
	2023	2022
	\$	\$
Operating activities		
Net gain (loss) for the period	645,857	(288,566)
Adjustments for:		
Amortization and depreciation	278,967	306,495
Fair value adjustment on biological assets	(76,149)	(46,752)
Foreign exchange gain (loss)	(323)	12,820
Gain on termination of lease	-	(102,426)
Interest expense (note 5, 6 &9)	147,644	175,797
Share-based compensation	-	11,047
Impairment of property, plant, and equipment	-	311,950
Gain on sale of equipment	(3,403)	-
Changes in items of working capital		
Accounts payable and accrued liabilities	(37,761)	33,067
Customer advance	1,716,992	-
Account receivable	71,149	(2,686)
Due from (to) related parties	301,695	(38,492)
Inventory	1,049	62,018
Prepaid expenses and advance	(6,708)	20,180
Other receivables	4,859	49,579
Cash generated from operating activities	3,043,868	504,031
Financing activities		
Convertible note repayment	(1,000,000)	-
Loan from related party	-	192,300
Payment of lease obligations (note 5)	(9,425)	(20,940)
Cash generated from (used in) financing activities	(1,009,425)	171,360
Investing activities		
Purchase of property and equipment	(46,462)	(123,241)
Disposition of property, plant and equipment	4,113	-
Cash used in investing activities	(42,349)	(123,241)
Effect of exchange rate on cash	365,698	(4,369)
Increase in cash	2,357,792	547,781
Cash, beginning of the period	1,578,917	92,418
Cash, end of the period	3,936,709	640,199
Supplemental disclosures of cash flows:		
Cash paid for tax instalment payment	-	-
Interest paid	-	-

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

HempNova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2023 and 2022

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

1. Nature and continuance of operations

HempNova Lifetech Corporation (the “Company”) was incorporated in British Columbia in October 1989 and changed its name from Pacific Link Mining Corp. on May 2, 2019. The registered head office principal address and the records office of the Company are located at 2060 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 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, 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 condensed consolidated interim financial statements have been prepared in accordance with and using accounting policies in compliance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended June 30, 2023, which were prepared in accordance with IFRS as issued by the IASB.

The board approved these condensed consolidated interim financial statements of directors for issue on November 24, 2023.

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

Significant accounting policies

The Company’s accounting policies and significant judgements and estimates applied in these condensed consolidated interim financial statements are consistent with those of the audited consolidated financial statements for the year ended June 30, 2023, and 2022.

HempNova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2023 and 2022

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

2. Basis of presentation (continued)

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”).

Information of the Company’s subsidiaries as of September 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.

3. Accounts receivable

The Company’s business is seasonal in nature. As of September 30, 2023, the Company had \$416,250 (June 30, 2023 - \$477,855) in accounts receivable, mainly from selling hemp flowers, pre-roll, gummy and etc.

4. 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:

	September 30, 2023	June 30, 2023
	\$	\$
Smokable flowers and others	349,522	311,765
Biological assets before harvest	108,138	61,031
	457,660	372,796

HempNova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2023 and 2022

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

4. Inventory (continued)

(a) Smokable flowers, isolate and others

	Smokable flowers			Total
	Capitalized costs	Fair value adjustment	Other hemp products	
	\$	\$	\$	\$
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	45,042	266,723	-	311,765
Production costs capitalized to inventory	8,671	539,714	1,521,290	2,069,675
Inventory fair value adjustment	(422)	74,762	-	74,340
Cost of sales	(51,847)	(539,714)	(1,521,290)	(2,112,851)
Foreign exchange adjustment	952	5,641	-	6,593
Carrying amount, September 30, 2023	2,396	347,126	-	349,522

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

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

	Biological assets
	\$
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
Production costs capitalized	45,457
Foreign exchange adjustment	1,650
Carrying amount, September 30, 2023	108,138

HempNova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2023 and 2022

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

5. Other receivables

	September 30, 2023	June 30, 2023
	\$	\$
Rental income and others	54,080	169,416
GST receivable	4,587	2,882
	58,667	172,298

6. Lease

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 assets and lease obligations were measured at the present value of the lease payments and discounted using an incremental borrowing rate of 8%.

Facility lease in 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 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) 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.

HempNova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2023 and 2022

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

6. Lease (continued)

a) Right-of-use assets

The continuity of the right-of-use assets as of September 30, 2023, and June 20, 2023, is as follows:

	Vancouver	Medford	Total
	\$	\$	\$
Right-of-use assets, as of June 30, 2022	21,951	445,105	467,056
Change to the lease term	141,488	-	141,448
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 of June 30, 2023	135,421	-	135,421
Amortization	(7,004)	-	(7,004)
Right-of-use assets, as of September 30, 2023	128,417	-	128,417

b) Lease obligation

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

	Vancouver	Medford	Total
	\$	\$	\$
Lease obligation, as of June 30, 2022	25,510	537,485	562,995
Change to the lease term	141,488	-	141,488
Interest accretion	-	(539,054)	(539,054)
Lease payments	12,450	10,983	23,433
Termination of lease term	(32,562)	(13,397)	(45,959)
Foreign exchange and others	-	3,983	3,983
Lease obligation, June 30, 2023	146,886	-	146,886
Interest accretion	2,831	-	2,831
Lease payments	(9,425)	-	(9,425)
Lease obligation, September 30, 2023	140,292	-	140,292
Lease obligation, current	25,646	-	25,646
Lease obligation, non-current	114,646	-	114,646
Total lease obligation	140,292	-	140,292

HempNova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2023 and 2022

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

7. Property and equipment

As of September 30, 2023, and June 30, 2023, the Company had the following property and equipment.

Cost	Farmland	Machinery and equipment	Furniture and office equipment	Vehicle	green house and fixture	Leasehold improvement	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$
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
Additions	-	-	4,110	44,669	-	-	-	48,779
Disposition	-	(1,990)	-	-	-	-	-	(1,990)
Foreign exchange	19,600	79,086	197	3,286	71,641	5,717	-	179,527
September 30, 2023	946,400	3,817,470	123,992	186,633	3,459,195	276,060	-	8,809,750

Accumulated amortization

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
Depreciation	-	135,992	6,048	7,009	122,914	-	-	271,963
Foreign exchange	-	53,302	1,594	2,062	26,479	2,717	-	89,154
September 30, 2023	-	2,658,912	80,746	103,972	1,355,487	276,060	-	4,475,177

Net carrying value

September 30, 2023	946,400	1,158,558	43,246	82,661	2,103,708	-	-	4,334,573
June 30, 2023	926,800	1,270,756	46,581	43,777	2,181,460	-	-	4,469,374

During the three months ending on September 30, 2023, the depreciation expense totaled \$271,963 (compared to \$288,728 in 2022), with no amount capitalized into the inventory during both periods.

In the fiscal year of 2023, an indication of impairment arose following the termination of a lease agreement in Medford. Consequently, a write-off of \$320,097 was incurred, reflecting the value associated with the dryers installed within the leased unit.

No additional impairments were identified by management in the first quarter of 2024. The impairment assessment involved a comparison of the carrying amount with the recoverable amounts. The recoverable amount, determined to be \$Nil, is calculated as the higher value between fair value less costs of disposal ("FVLCD") and value in use.

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Notes to the Condensed Consolidated Interim Financial Statements

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

8. Related party transactions

Parties are 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 three months ended September 30, 2023, the Company incurred \$27,657 (2022 - \$17,785) to Minco Capital and Minco Silver for reimbursement of shared office expenses and rent for the headquarters in Vancouver. During the three months ended September 30, 2023, the Company also incurred \$Nil (2022 - \$75,809) to MBM for reimbursement of account service fees and other expenses.

(b) Key management compensation

Key management includes the Company’s directors and senior management. During the three months ended September 30, 2023, and 2022, the following compensation was charged by the key management.

	Three months ended September 30,	
	2023	2022
	\$	\$
Senior management remuneration*	477,608	91,714
Share base compensation	-	9,401
Total	477,608	101,115

*Including \$181,000 2023 bonus and \$230,221 first quarter sale commission.

(c) Due to (from) related parties

As of September 30, 2023, and June 30, 2023, the Company’s amount payable to related parties are as follows:

	As of September 30, 2023	As of June 30, 2023
	\$	\$
MBM and its subsidiary, for service fees and expense reimbursement	83,146	83,146
Minco Capital, for reimbursement of the shared expenses	(1,508)	-
Minco Silver and its subsidiary, for reimbursement of the shared expenses	20,001	19,710
Key management, for service fees and expense reimbursement	536,319	36,399
Total due to related parties	637,958	139,255

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

7. Related party transactions (continued)

(d) Participation in the Company's private placement

In 2021, MBM, in conjunction 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 a component of this financing arrangement, the Company secured \$2,400,000 in convertible debt subscriptions (Refer to note 9 below). Over the fiscal year ending on June 30, 2023, the Company repaid \$300,000 to the President. Subsequently, during the three months ended September 30, 2023, the Company reimbursed an additional \$200,000 to the President, and \$400,000 to MBM.

(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 \$Nil in service fees during the three months ended September 30, 2023 (2022 - \$9,595). As of September 30, 2023, the amount held by Minco International was \$23,194 (June 30, 2023 - \$56,354).

(f) Loan arrangement

On December 1, 2020, the Company entered into a loan agreement with MBM, securing a loan of \$270,400 (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 September 30, 2023, the accrued interest on the related-party loan amounted to \$77,224, 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 September 30, 2023, the accrued interest on this related-party loan reached \$54,680, 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 \$148,160 (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 September 30, 2023, the accrued interest on the 3rd Loan amounted to \$31,873 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.

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7. Related party transactions (continued)

On December 10, 2021, the Company entered into an additional loan agreement with MBM, obtaining a loan of \$111,120 (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 September 30, 2023, \$21,057 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.

On July 16, 2022, the Company entered into a loan agreement with MBM, borrowing a total of \$185,200 (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 September 30, 2023, \$23,107 in interest had accrued and was included in the carrying amount of the 5th Loan from the related party. The loan was renewed and extended in July 2023, maintaining the original terms, until December 31, 2024.

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)	270,400	USD 200,000	77,224	347,624
2 nd Loan	February 1, 2021	December 31, 2024 (extend)	200,000	CAD 200,000	54,680	254,680
3 rd Loan	September 13, 2021	December 31, 2024 (extend)	148,160	RMB 800,000	31,873	180,033
4 th Loan	December 10, 2021	December 31, 2024 (extend)	111,120	RMB 600,000	21,057	132,177
5 th Loan	July 16, 2022	December 31, 2024 (extend)	185,200	RMB 1,000,000	23,107	208,307
		-	914,880		207,941	1,122,821

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8. 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 the granting of options and vesting provisions.

The Company did not grant any stock options during the three months ended September 30, 2023, and 2022.

During the three months ended September 30, 2023, the Company recorded \$Nil (2022 - \$11,047) share-based compensation for stock options granted and vested.

The continuity of the outstanding options is as follows:

	Number outstanding	Weighted average exercise price
	#	\$
Balance, June 30, 2022	2,720,000	0.20
Forfeited	(300,000)	0.20
Balance, June 30, 2023, and September 30, 2023	2,420,000	0.20

exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$	#		\$	#	\$
0.20	2,420,000	1.41	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 the use of subjective estimates and assumptions including the expected stock price volatility. In the absence of volatility of 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.

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9. Convertible debenture

On October 20, 2020, the Company closed a \$4,198,600 convertible note financing (the "Notes"). The Notes are unsecured debt obligations of the Company and bear interest at a rate of 10% per annum. 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.

In 2023, the Company successfully met debt obligations, settling payments totaling \$700,000 with its creditors. Throughout the three months concluding on September 30, 2023, the Company continued to fulfill debt payments, this time amounting to \$1,000,000.

As of September 30, 2023, the carrying amount of the convertible debenture was \$2,491,005, reflecting a significant decrease from the June 30, 2023 figure of \$4,055,796. This reduction was attributed to an agreement with creditors, who accepted the repayments as a principal payment instead of an interest payment. Consequently, the interest payable increased. Simultaneously, the accrued interest payable amounted to \$1,202,930 (June 30, 2023 - \$531,020).

During the three months ending on September 30, 2023, the Company incurred total interest expenses of \$120,928 (compared to \$140,763 in 2022).

10. General and administrative expenses

	Three months ended September 30,	
	2023	2022
	\$	\$
Audit and accounting	1,952	7,000
Consulting and management fees	56,845	57,373
Director's fee	2,000	-
Legal, filing and transfer agent fees	6,369	18,406
Office and miscellaneous	11,374	37,985
Rent	(5,044)	15,268
Salaries and benefits ⁽ⁱ⁾	74,809	70,970
Travel and others	8,197	5,503
	156,502	212,505

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11. Segment information

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

As of September 30, 2023	Canada	USA	Total
	\$	\$	\$
Current assets	847,155	4,028,891	4,876,046
Non-current assets	128,417	4,334,573	4,462,990
As of 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

The following table summarizes the revenue and production in the USA during the three months ended September 30, 2023, and 2022:

	Three months ended September 30,	
	2023	2022
	\$	\$
Revenue	3,231,344	1,661,467
Cost of goods sold:		
Inventory expensed to cost of sales, before fair value adjustment	(1,548,605)	(580,763)
Production costs	(564,247)	(444,209)
Gross profit before fair value adjustments	1,118,492	636,495

11. Financial instruments

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is the risk of liquidity of cash of \$3,936,709 as of September 30, 2022 (June 30, 2023 - \$1,578,917) and accounts receivable of \$416,250 as of September 30, 2023 (June 30, 2023 - \$477,855). 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 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.

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Notes to the Condensed Consolidated Interim Financial Statements

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11. Financial instruments (continued)

In the three months ending September 30, 2023, the Company reported sales attributed to a single customer, significantly impacting the total revenues for the year, constituting 70%. In the previous year, 2022, sales were derived from two customers, with proportions of 59% and 18% respectively, collectively representing a substantial 77% of the total revenues for that period.

During the three months ended September 30, 2023, among all the customers in the accounts receivable, three customers individually represented significant portions of the total accounts receivable (16%, 16.4%, and 50.7%). 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%).

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 \$1,392,701 as of September 30, 2023 (June 30, 2023 - \$727,463).

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

The fair value of the Company's financial assets and liabilities approximates the carrying amount due to its short-term nature. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

HempNova Lifetech Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2023 and 2022

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11. Financial instruments (continued)

The following table summarizes the carrying value of financial instruments as of September 30, 2023, and June 30, 2023:

	September 30, 2023	June 30, 2022
Financial assets, amortized cost:	\$	\$
Cash	3,936,709	1,578,917
Accounts receivable	416,250	477,855
Other receivables	58,667	172,298
Financial liabilities, amortized cost:		
Accounts payable and accrued liabilities	1,392,701	727,463
Customer deposit	1,730,560	-
Convertible debenture	2,491,005	4,055,796
Current tax liability	63,544	62,228
Due to related parties	637,958	139,255
Lease obligations, current	25,646	24,990
Lease obligations, non-current	114,646	121,896
Loan from related party	1,122,821	1,086,861