

CanaFarma Hemp Products Corp.

Unaudited Condensed Consolidated Financial Statements

For the Three and Nine Months Ended March 31, 2020 and
For the Period from Inception (March 6, 2019) through March 31, 2019

(Unaudited)

(Expressed in United States Dollars)

CanaFarma Corp.

Table of Contents

	Page(s)
Unaudited Condensed Consolidated Statement of Financial Position at March 31, 2020 and June 30, 2019	3
Unaudited Condensed Consolidated Statement of Operations and Comprehensive Loss - For the three and nine months ended March 31, 2020 and for the period from inception (March 6, 2019) through March 31, 2019	4
Unaudited Condensed Consolidated Statement of Changes in Equity – For the nine months ended March 31, 2020 and for the period from inception (March 6, 2019) through March 31, 2019	5
Unaudited Condensed Consolidated Statement of Cash Flows – For the nine months ended March 31, 2020 and for the period from inception (March 6, 2019) through March 31, 2019	6
Notes to the Consolidated Financial Statements	7–24

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements, in accordance with standards established by CPA Canada for a review of interim financial statements by an entity's auditor.

CanaFarma Hemp Products Corp.
Unaudited Condensed Consolidated Statements of Financial Position
As of March 31, 2020 and June 30, 2019
(Amounts Expressed in United States Dollars)

	Note	March 31, 2020	June 30, 2019
Assets			
<i>Current assets</i>			
Biological assets	11	\$ 1,770,048	\$ 483,178
Inventories	12	349,312	7,229
Prepaid and other current assets	13	1,753,834	2,123,709
Trade and other receivables	14	395,762	50,016
Restricted cash	15	440,712	-
Cash		1,227,364	1,258,705
<i>Total current assets</i>		5,937,032	3,922,837
<i>Non-current assets</i>			
Property, plant and equipment, net	9	700,335	145,882
Intangible assets, net	10	1,222,767	905,417
<i>Total non-current assets</i>		1,923,102	1,051,299
Total assets		\$ 7,860,134	\$ 4,974,136
Equity and liabilities			
<i>Current liabilities</i>			
Trade and other payables	17	\$ 192,905	\$ 23,855
Accrued expenses	18	713,365	460,824
<i>Total current liabilities</i>		906,270	484,679
Total liabilities		906,270	484,679
<i>Capital and reserves</i>			
Common stock	16	187,316	112,104
Proportionate voting common stock	16	57,000	-
Additional paid-in capital	16	19,664,130	5,626,380
Accumulated other comprehensive gain		1,309	-
Accumulated deficit		(13,126,525)	(1,161,352)
<i>Equity attributable to shareholders</i>		6,783,230	4,577,132
Non-controlling interests	6	170,634	(87,675)
<i>Total equity</i>		6,953,864	4,489,457
Total equity and liabilities		\$ 7,860,134	\$ 4,974,136
Going concern (Note 1)			
Commitments (Note 20)			
Subsequent events (Note 24)			

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

CanaFarma Hemp Products Corp.

Unaudited Condensed Consolidated Statement of Operations and Comprehensive Loss

For the Three and Nine Months Ended March 31, 2020 and the Period From Inception (March 6, 2019) through March 30, 2019

(Amounts Expressed in United States Dollars)

	Note	Three months ended March 31, 2020	Nine months ended March 31, 2020	For the period from inception (March 6, 2019) through March 31, 2019
Revenue	7	\$ 182,479	\$ 2,917,961	\$ -
Cost of sales	8	661,274	2,079,197	-
Gross profit (loss), excluding fair value items		(478,795)	838,764	-
Unrealized gain (loss) on fair value on growth of biological assets	11	(1,916,160)	876,742	-
Gross profit		(2,394,955)	1,715,506	-
General and administrative expenses	8	997,628	2,896,556	58,481
Sales and marketing expenses	8	375,202	3,394,282	-
Loss from operations		(3,767,785)	(4,575,332)	(58,481)
Listing expense	5	7,131,402	7,131,402	-
Other expense		130	130	-
Net loss		\$ (10,899,317)	\$ (11,706,864)	\$ (58,481)
Net income (loss) attributable to non-controlling interests	6	(989,132)	258,309	-
Net loss attributable to CanaFarma Hemp Products Corp.		\$ (9,910,185)	\$ (11,965,173)	\$ (58,481)
Other comprehensive loss				
Items that will subsequently be reclassified to operations:				
Unrealized gain on foreign currency translation		1,309	1,309	-
Comprehensive loss		\$ (10,898,008)	\$ (11,705,555)	\$ (58,481)
Net income (loss) attributable to non-controlling interests		(989,132)	258,309	-
Comprehensive loss attributable to CanaFarma Hemp Products Corp.		\$ (9,908,876)	\$ (11,963,864)	\$ (58,481)
Loss per common share attributable to CanaFarma Hemp Products Corp. - basic and diluted		\$ (0.07)	\$ (0.08)	\$ (0.00)
Weighted average number of common shares outstanding:				
Basic and diluted		150,702,954	144,316,017	41,000,000

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

Canafarma Hemp Products Corp.
 Unaudited Condensed Consolidated Statements of Changes in Equity
 For the Nine Months Ended March 31, 2020 and the Period From Inception (March 6, 2019) through March 31, 2019
 (Amounts Expressed in United States Dollars)

	Note	Common Shares		Proportionate Voting Shares	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive gain	Total shareholders' equity	Noncontrolling interests	Total equity
		Shares	Amount							
Balance - Inception (March 6, 2019)		-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Shares issued in connection with private placement, net of issuance costs of \$83,000.	16	41,000,000	41,000	-	79,000	-	-	120,000	-	120,000
Net loss		-	-	-	-	(58,481)	-	(58,481)	-	(58,481)
Balance - March 31, 2019		41,000,000	\$ 41,000	\$ -	\$ 79,000	\$ (58,481)	\$ -	\$ 61,519	\$ -	\$ 61,519
Balance - July 1, 2019		112,470,000	\$ 112,470	\$ -	\$ 5,626,014	\$ (1,161,352)	\$ -	\$ 4,577,132	\$ (87,675)	\$ 4,489,457
Shares issued in connection with private placement	16	36,002,000	36,002	-	6,340,998	-	-	6,377,000	-	6,377,000
Shares issued to advisors and consultants	16	150,000	150	-	14,850	-	-	15,000	-	15,000
Non-cash equity contribution from certain executives	16	-	-	-	675,000	-	-	675,000	-	675,000
Issuance of Proportionate Voting Shares	16	(5,700,000)	(5,700)	57,000	(51,300)	-	-	-	-	-
Shares issued to KYC shareholders	5,16	44,393,518	44,394	-	7,058,568	-	-	7,102,962	-	7,102,962
Net loss and comprehensive loss		-	-	-	-	(11,965,173)	1,309	(11,963,864)	258,309	(11,705,555)
Balance - March 31, 2020		187,315,518	\$ 187,316	\$ 57,000	\$ 19,664,130	\$ (13,126,525)	\$ 1,309	\$ 6,783,230	\$ 170,634	\$ 6,953,864

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

Canafarma Hemp Products Corp.

Unaudited Condensed Consolidated Statement of Cash Flows

For the Nine Months Ended March 31, 2020 and the Period From Inception (March 6, 2019) through March 31, 2019

(Amounts Expressed in United States Dollars)

	Note	Nine months ended March 31, 2020	For the period from inception (March 6, 2019) through March 31, 2019
Cash flows from operating activities			
Net loss		\$ (11,706,864)	\$ (58,481)
Adjustments to reconcile net loss to net cash flows used in operating activities:			
Depreciation and amortization	9,10	170,042	-
Non-cash executive contributions	16	675,000	-
Share-based payments	16	15,000	-
Listing expense	5	7,131,402	-
Gain in fair value of biological assets	11	(876,742)	-
		<u>(4,592,162)</u>	<u>(58,481)</u>
Adjustments to operating assets and liabilities:			
(Increase) in trade and other receivables	14	(345,746)	-
(Increase) in inventories	12	(342,083)	-
(Increase) in prepaid and other current assets	13	372,505	-
(Increase) in biological assets	11	(365,267)	-
Increase in trade and other payables	17	157,810	-
(Decrease) in accrued expenses	18	232,711	-
Net cash flows used in operating activities		<u>(4,882,232)</u>	<u>(58,481)</u>
Cash flows from investing activities			
Purchases of property, plant and equipment	9	(659,356)	-
Purchases of intangible assets	10	(427,350)	-
Change in restricted cash	15	(440,712)	-
Net cash flows used in investing activities		<u>(1,527,418)</u>	<u>-</u>
Cash flows from financing activities			
Proceeds from issuance of stock	16	6,377,000	120,000
Net cash flows provided by financing activities		<u>6,377,000</u>	<u>120,000</u>
Effect of exchange rate changes on cash		<u>1,309</u>	<u>-</u>
Net increase in cash		<u>(31,341)</u>	<u>61,519</u>
Cash at beginning of the period		<u>1,258,705</u>	<u>-</u>
Cash at end of the period		<u>\$ 1,227,364</u>	<u>\$ 61,519</u>

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

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

(1) Nature of operations, going concern and Coronavirus.

CanaFarma Hemp Products Corp. ("CanaFarma", or the "Company") formerly known as KYC Technology Inc. ("KYC") was incorporated under the laws of the Province of British Columbia on June 6, 2017, and is listed on the Canadian Securities Exchange ("CSE") under the symbol "CNFA".

The Company is in the business to grow, manufacture, process and sell Hemp oil via an online distribution platform in full compliance with the 2018 U.S. Farm Bill, and operates in two business segments (Note 23) and one geographic area. Its registered office is located at 2080 – 777 Hornby Street, Vancouver, British Columbia V6Z 1S4 and its operations address is located at 17 State Street, Suite 4000, New York, New York 10004.

CanaFarma Corp. ("CF Corp.") was established as a Delaware corporation on March 6, 2019. On April 16, 2019, CF Corp. acquired Simple Solutions By Hemp Inc., ("Simple Solutions"), which leased a 55 acre hemp farm located in New York State, for the stated intention to control its own supply chain by refining the biomass produced by the farm into high quality Hemp oils for use in the Company's product lines.

On December 13, 2019, CF Corp. entered into a definitive merger agreement ("the Merger Agreement") with KYC pursuant to which KYC agreed to acquire all of the issued and outstanding common shares of CF Corp. The transaction was structured as a three-cornered merger transaction that would constitute a proposed reverse take-over of KYC. The agreement was entered into between CF Corp., KYC and a wholly-owned subsidiary of KYC that was incorporated under the laws of Delaware. On March 6, 2020, the merger became effective whereby holders of CF Corp. shares received the following consideration in exchange for each CF Corp. share: (a) non-U.S. residents and U.S. residents (other than certain initial shareholders of CF Corp. (the "CF Corp Initial Shareholder Group")) – one (1) common share of the Company for each one (1) common share of CF Corp. ; and (b) CF Corp. Initial Shareholder Group – one (1) KYC Unit (each being comprised of 0.8728 of one common share of the Company and 0.001272 proportionate voting shares of the Company) for each one (1) common share of CF Corp. The amalgamated corporation became a wholly-owned subsidiary of KYC and KYC completed a share split (17.7574:1) and changed its name to CanaFarma Hemp Products Corp and continued with the business of CF Corp.

The merger transaction constituted a reverse acquisition for accounting purposes whereby CF Corp. acquired KYC and its wholly-owned subsidiary. For accounting purposes, CF Corp. was treated as the accounting acquirer (legal subsidiary), and KYC was treated as the accounting acquiree (legal parent) (note 5). As CF Corp. was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying values. KYC's results of operations and those of its subsidiary are included from the transaction date, March 6, 2020. The comparative figures are those of CF Corp. prior to the reverse acquisition.

The accompanying condensed consolidated financial statements have been approved by the Company's board members and are authorized for issuance as of June 26, 2020.

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

Going concern

The financial statements have been prepared on a going concern basis, which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses and negative cash flows from operations since inception, and has an accumulated deficit of \$13,126,505 as of March 31, 2020. These conditions indicate the existence of material uncertainties that casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured. The Company anticipates incurring additional losses until such time it can generate sufficient revenue from its operations to cover its expenses. Historically, the Company has been successful in obtaining enough funding for operating and capital requirements and subsequent to March 31, 2020 has received additional proceeds from equity issuances of approximately \$3,800,000 (note 24). The financial statements do not give effect to any adjustments which may be necessary should the Company be unable to continue as a going concern and be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements. These adjustments could be material.

Coronavirus

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout Canada and the United States. The spread of COVID-19 has caused significant volatility in Canadian, U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the Canadian, U.S. and international economies and, although we cannot reasonably estimate the length or severity of this pandemic, we currently do not anticipate a material adverse impact on our consolidated financial position, consolidated results of operations, and consolidated cash flows in fiscal 2020 or 2021.

To date, our supply chain and fulfillment houses have not been affected and we do not anticipate this changing is the foreseeable future. Our R&D activity has not been materially impacted and given the fact that all our sales are conducted online over the Internet, we would expect to see the reduced mobility of consumers benefiting our sales model. Furthermore, in light of it being recognized that CBD products help to reduce anxiety, we may expect to see an increased number of consumers seeking out our products.

From an administrative perspective, it is true that it is a little harder to coordinate activities with certain employees operating remotely, and for that reason we did elect to delay our interim 2020 Q3 filing under temporary COVID-19 measures allowed by the CSE.

(2) Basis of presentation

These condensed consolidated financial statements as of and for the three and nine months ending March 31, 2020 and for the period of inception (March 6, 2019) through March 31, 2019 are prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). As the condensed interim consolidated financial statements do not include all disclosures required by the International Financial Reporting Standards ("IFRS") for annual financial statements, they should be read in

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

conjunction with the Company's annual audited consolidated financial statements for the period ended June 30, 2019.

The primary statements include all the required comparatives information as defined in IAS 34.

Subsidiaries

These condensed consolidated financial statements are comprised of the financial results of the Company and its one subsidiary, Simple Solutions By Hemp Inc., ("Simple Solutions") of which the Company has a 49% ownership interest, but shares 50% of the profits and loss.

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company, and deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Company. Non-controlling interests in the results and equity of subsidiaries are shown separately in the condensed consolidated statement of operations and comprehensive loss, statement of changes in equity and statement of financial position, respectively.

Functional and presentation currency

The condensed consolidated financial statements of the Company are presented in U.S. dollars (USD), which is also the Company's functional currency. Amounts are rounded to the nearest whole dollar, unless otherwise stated.

Basis of measurement

The condensed consolidated financial statements have been prepared on a historical cost basis.

Use of estimates and judgement

The preparation of condensed consolidated financial statements in compliance with IFRS requires the use of certain critical accounting estimates. In the application of the Company's accounting policies, the Company's management are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Reclassifications

Certain amounts in the prior periods consolidated financial statements have been reclassified to conform to the current period presentation. The changes did not impact reported loss for any

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

periods presented.

(3) Significant accounting policies

The Company had no additional new standards adopted that resulted in changes to the Company's accounting policies for the nine months ended March 31, 2020.

(4) Critical accounting estimates and judgements

Biological Assets

In calculating the value of biological assets, the Company is required to make a number of estimates, including estimating the stage of growth of the hemp up to the point of harvest, harvesting costs, average or expected selling prices and list prices, expected yields for the hemp plants, and oil conversion factors. In calculating final asset values, the Company compares cost to estimated realizable value. Further information on estimates used in determining the fair value of biological assets is contained in Note 11.

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

(5) Reverse acquisition

The following table presents the Company's purchase price allocation for the reverse acquisition.

Other receivable and current assets	\$ 2,630
Accounts payable and accrued expenses	<u>(31,070)</u>
Net liabilities assumed	(28,440)
Purchase price paid:	
44,393,518 common shares	<u>\$ 7,102,962</u>
Excess of purchase price paid and liabilities assumed allocated to listing expense	<u>\$ 7,131,402</u>

On December 13, 2019, CF Corp. entered into a Merger Agreement with KYC for a three-cornered merger transaction that constituted a proposed reverse take-over of KYC whereby a wholly-owned subsidiary of KYC agreed to merge with CF Corp. pursuant to a statutory procedure under the General Corporation Law of the State of Delaware.

On March 6, 2020, the merger became effective and the holders of CF Corp. shares received the following consideration in exchange for each CF Corp. share: (a) non-U.S. residents and U.S. residents (other than the CF Corp Initial Shareholder Group) – one (1) Resulting Issuer Share for each CF Corp. Share; and (b) CF Corp. Initial Shareholder Group – one (1) KYC Unit for each one (1) CF Corp. Share. As a result of the transaction, the former shareholders of CF Corp. held greater than 50% of the issued and outstanding shares of the resulting issuer. The substance of the transaction is a reverse acquisition of a non-operating company, as KYC did not meet the definition of a business under IFRS 3. As a result, the transactions has been accounted for as a capital transaction with CF Corp. being identified as the accounting acquirer and the equity consideration being measured at fair value under IFRS 2, using the acquisition method of accounting. The resulting issuer changed its name from KYC to CanaFarma Hemp Products Corp. and continued with the business of CF Corp.

The issued and outstanding common shares of KYC were consolidated on the basis of 1 post-consolidation KYC common share for every 17.7574 outstanding KYC common shares existing immediately before the consolidation. The fair value of the acquisition of 44,393,518 post-consolidation shares of KYC at a fair value per share of \$0.16, based on the weighted average quoted price of the first five trading days on the CSE, was \$7,102,962. The purchase price allocation of the merger includes net liabilities net assumed of \$28,040, resulting in a listing expense of \$7,131,402.

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

(6) Non-controlling interest

The following table summarizes information relating to the Company's non-controlling interest in Simple Solutions:

	<u>March 31,</u> <u>2020</u>
CanaFarma percentage - statement of financial position	49%
Non-current assets	\$ 1,200,335
Current assets	1,778,202
Current liabilities	-
Net assets	<u>\$ 2,978,537</u>
Net assets attributable to Canafarma	<u>\$ 1,459,483</u>
CanaFarma percentage - statement of operations and comprehensive loss	50%
Revenue	\$ -
Income and comprehensive income	516,618
Income and comprehensive income attributable to Canafarma	<u>\$ 258,309</u>
Cash flow provided by operating activities	\$ (33,552)
Cash flow used in investing activities	(659,356)
Net decrease in cash for the period	<u>\$ (692,908)</u>

In June 2020, Simple Solutions completed the transfer of its agricultural / hemp cultivation license to the Company, which resulted in the Company acquiring the remaining 51% of Simple Solutions.

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

(7) Revenue

The following table presents a disaggregation of revenue by source and timing of revenue recognition.

	Three months ended March 31, 2020	Nine months ended March 31, 2020
Revenue source:		
Gum	\$ 120,819	\$ 1,575,076
Tincture	144,313	1,659,345
Shipping	2,047	285,133
Refunds	(84,700)	(601,593)
	<u>\$ 182,479</u>	<u>\$ 2,917,961</u>
Geographic source:		
United States	<u>\$ 182,479</u>	<u>\$ 2,917,961</u>
Timing of revenue recognition under IFRS 15 from contracts with customers:		
Products transferred at a point in time	<u>\$ 182,479</u>	<u>\$ 2,917,961</u>

The Company had no revenue in the period from inception (March 6, 2019) through March 31, 2019.

Revenues are recognized at a point in time when control over the product has been transferred to the customer. On initial orders, a customer pays for the cost of shipping and is granted a 15 day trial period where customers may return gum and tincture product sales. Upon expiration of the initial 15 day trial period, the Company satisfies its performance obligation and transfers control upon acceptance by the customer, and revenue is recognized. Thereafter, the customers enter into a 30 day subscription agreement that results in monthly shipments of product to customers. The Company satisfies its performance obligation and revenue is recognized upon delivery and acceptance each month by the customer, net of estimated refunds. The Company has elected to adopt the practical expedient of IFRS 15 to not disclose information about remaining performance obligations that have an expected duration of less than one year.

The liability for estimated returns is determined based on historical return experience, and is \$25,000 and \$5,444 as of March 31, 2020 and June 30, 2019, respectively, and is reflected within accrued expenses (Note 18) in the condensed consolidated statement of financial position.

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

(8) Expenses by nature

The following tables presents an analysis of expense by nature:

	Three months ended March 31, 2020	Nine months ended March 31, 2020	For the period from inception (March 6, 2019) through March 31, 2019
Cost of sales:			
Product purchases	\$ 48,199	\$ 340,327	\$ -
Bank and merchant fees	150,760	818,835	-
Shipping	7,207	96,853	-
Customer service	48,965	111,949	-
Merchant processing	27,545	86,500	-
Technical support	109,008	220,753	-
Fullfillment	28,200	89,919	-
Nominee fee	112,089	112,089	-
Depreciation	60,042	60,042	-
Other expenses	69,259	141,930	-
	<u>\$ 661,274</u>	<u>\$ 2,079,197</u>	<u>\$ -</u>
General and administrative expenses:			
Compensation and benefits	\$ 225,000	\$ 675,000	\$ -
Contractors	162,000	742,000	-
Share-based compensation	-	15,000	-
Professional fees	488,524	1,138,535	57,000
Office rent, utilities and expenses	21,259	48,060	-
Amortization	36,666	110,000	-
Other expenses	64,179	167,961	1,481
	<u>\$ 997,628</u>	<u>\$ 2,896,556</u>	<u>\$ 58,481</u>
Sales and marketing expenses:			
Affiliate marketing cost	\$ 92,549	\$ 1,706,707	\$ -
Product samples	31,483	501,862	-
Promotional product costs	40,050	489,787	-
Market research and development	-	334,928	-
Marketing	174,632	273,763	-
Public relations	36,488	83,907	-
Other expenses	-	3,328	-
	<u>\$ 375,202</u>	<u>\$ 3,394,282</u>	<u>\$ -</u>

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

(9) Property, plant and equipment

The following table presents the change in carrying value of the Company's property plant and equipment from July 1, 2019 through March 31, 2020:

	Estimated useful lives	Balance at July 1, 2019	Additions	Balance at March 31, 2020
Cost				
Machinery and equipment	5 years	\$ 148,609	\$ 659,356	\$ 807,965
Accumulated depreciation		(2,727)	(104,903)	(107,630)
Net book value		<u>\$ 145,882</u>	<u>\$ 554,453</u>	<u>\$ 700,335</u>

Depreciation related to property, plant and equipment in the amount of \$44,861 for the six months ended December 31, 2019 is included in biological assets within the condensed consolidated statement of financial position, and is subsequently subject to a fair value adjustment as part of the period end adjustment to the valuation of the biological assets Note 11).

Depreciation related to property, plant and equipment in the amount of \$60,042 for the three months ended March 31, 2020 is included in cost of sales within the condensed consolidated statement of operations and comprehensive loss.

(10) Intangible assets

The following table presents the change in carrying value of the Company's intangible assets from July 1, 2019 through March 31, 2020:

	Estimated useful lives	Balance at July 1, 2019	Additions	Balance at March 31, 2020
Cost - finite lives				
Web site development	3 years	\$ 25,000	\$ -	\$ 25,000
Merchant service platform	3 years	415,000	427,350	842,350
		440,000	427,350	867,350
Accumulated amortization		(34,583)	(110,000)	(144,583)
		405,417	317,350	722,767
Cost - indefinite lives				
Cultivation license		500,000	-	500,000
Net book value		<u>\$ 905,417</u>	<u>\$ 317,350</u>	<u>\$ 1,222,767</u>

Amortization expense for the intangible assets in the amount of \$36,666 and \$110,000 for the three and nine months ended March 31, 2020, respectively, is included in general and administrative expense within the condensed consolidated statement of operations and comprehensive loss.

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

(11) Biological assets

While the Company's biological assets are within the scope of *IAS 41 Agriculture*, 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 the direct cost of seeds and growing materials as well as other indirect costs such as land rent, utilities, depreciation of farming machinery and equipment and supplies used in the growing process. Labor for individuals involved in the growing and quality control process is also included. All direct and indirect costs of biological assets are capitalized as they are incurred. The Company then measures the biological assets at fair value less the costs to sell, up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized fair value gains or losses on growth of biological assets are recorded as separate line item within the condensed consolidated statement of operations and comprehensive loss.

The following table presents the change in carrying value of the Company's biological assets from July 1, 2019 through March 31, 2020:

Balance at July 1, 2019	\$ 483,178
Production costs	410,128
Net increase in fair value less costs to sell due to biological transformation	<u>876,742</u>
Balance at March 31, 2020	<u>\$ 1,770,048</u>

The Company completed its first harvest in the quarter ended December 31, 2019, with the harvested product currently in storage waiting to be extricated. The fair value of biological assets is determined based on estimated selling price, which assumes that the biological assets at the date of statement of financial position will grow to maturity, be harvested and converted into finished goods inventory and sold. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial planting to the point of harvest. These estimates are subject to volatility in market prices and uncontrollable factors, which could affect the fair value of biological assets.

The following significant unobservable inputs, all of which are classified as Level 3 on the fair value hierarchy, were used by management as part of this model:

- Selling price: calculated as the percentage of CBD oil expected to be returned from yield of hemp crop multiplied by the expected market point for the CBD oil.
- Stage of growth: represents the weighted average number of weeks out of the 19 weeks growing cycle that the biological assets have reached at the measurement date.
- Yield by plant: represents the expected number of pounds of finished hemp plants which are expected to be obtained from the harvest.
- Wastage: represents the weighted average percentage of biological assets which are expected to fail to mature to hemp plants that can be harvested.

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

- Post-harvest costs: represents the estimated cost to complete the harvest of the hemp plants, consisting of costs associated with drying, grinding and storage.

The fair value of the hemp plants biological assets were determined using the following assumptions as of March 31, 2020:

Acres of hemp	55
Yield for hemp plants (average pounds per acre)	2,320
Number of growing weeks	19 weeks
Growing weeks completed as a percentage of total growing weeks at period end	100%
Price per pound	\$ 15

The Company has quantified the sensitivity of the inputs and determined the following:

- Selling price, stage of growth and plant yield – an increase or decrease of 10% in the selling price, stage of growth and plant yield would result in an increase or decrease in the biological asset value by approximately \$192,000.

(12) Inventories

The following table presents inventories:

	March 31, 2020	June 30, 2019
Raw materials	\$ 9,745	\$ 5,039
Finished goods	339,567	2,190
	<u>\$ 349,312</u>	<u>\$ 7,229</u>

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

(13) Prepaids and other current assets

The following table presents prepaids and other current assets:

	<u>March 31,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
Financial prepaids and other current assets:		
Deposit - finished goods in transit	\$ -	\$ 515,222
Deposit - harvest equipment	-	583,349
Deposit - merchant service platform	-	100,000
Non-financial prepaids and other current assets:		
Prepaid marketing and sales expense	1,671,321	880,138
Prepaid professional fees	62,085	-
Prepaid rent expense	178	45,000
Deposit - office	20,250	-
	<u>\$ 1,753,834</u>	<u>\$ 2,123,709</u>

(14) Trade and other receivables

The following table presents trade and other receivables:

	<u>March 31,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
Trade receivables	\$ 19,967	\$ 50,016
Other receivable	375,795	-
	<u>\$ 395,762</u>	<u>\$ 50,016</u>

The trade receivable balance primarily represents timing differences due to the processing and clearing of customer credit card payments from third party merchant service providers. Trade receivables are net of zero allowance for credit losses.

The other receivable represents an amount due from Direct Finance LLC (“Direct Finance”), an entity controlled by two of the Company’s founding investors, related to amounts expected to be funded directly by Direct Finance for costs associated with investor meetings, conferences and related travel.

(15) Restricted cash

Restricted cash represents cash deposits and cash held at the merchant bank service providers, which are expected to be received back by the Company within one year of the March 31, balance sheet date.

(16) Equity

Upon CF Corp’s merger with KYC (note 5) all of CF Corp.’s issued and outstanding shares of common stock were converted to common and proportionate voting shares of CanaFarma. The Company is authorized to issue an unlimited number of common shares and up to 1,000,000 proportionate voting shares. Proportionate voting shares can be converted into

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

common shares at the option of the holders at a ratio of 100 to 1, subject to the condition that no greater than 40% of common and proportionate shareholders (in aggregate) are US residents. On all matters in respect holders of common shares are entitled to vote, both common and proportionate voting shareholders are entitled to vote. The holders of proportionate voting shares will be entitled to receive notice of and to attend and vote at all meetings of the shareholders of common shares and each proportionate voting share holder shall have the right to one vote for each common share into which such proportionate voting share could then be converted. The proportionate voting shares will be automatically converted into common shares in certain circumstances, including upon the registration of the common shares under the U.S. Securities Act. Generally, in all other matters the proportionate voting shareholders have the equivalent rights as the common shareholders as if such shares had been converted. At March 31, 2020, the Company had 187,315,518 common shares issued and outstanding and 57,000 proportionate voting shares issued and outstanding.

At June 30, 2019, the Company had 200,000,000 shares of common stock with a par value of \$0.001 authorized of which 148,622,000 and 112,470,000 common shares were issued and outstanding, respectively.

Share and private placement issuances

In March 2020, KYC shareholders received 44,393,518 common shares of the resulting issuer as consideration in connection with the reverse acquisition (note 5) at a price of \$0.16. The fair value of the common shares was based on the weighted average quoted price of first five trading days on the CSE.

In July through November 2019, the Company received proceeds of \$6,377,000 from the issuance of 33,958,000 shares of stock at per share prices ranging between \$0.10 and \$0.50. The fair value of the Company's common stock issued was determined based on a market approach using recent equity transactions entered into between the Company and third parties.

Advisor and consultant issuances and cancellations

In July and September 2019, the Company issued 2,194,000 shares of common stock valued based on the fair value of the Company's common stock on the date of issuance at \$0.10 per share to certain advisors and consultants of the Company in connection with assistance provided in the raise of equity proceeds (2,044,000 shares) for the Company and advisory consulting services (150,000 shares) provided to the Company. The fair value of the Company's common stock issued was determined based on a market approach using recent equity transactions entered into between the Company and third parties. The Company recorded an offset to shareholders equity of \$204,400, and non-cash consulting expense of \$15,000 within the condensed consolidated statement of financial position and consolidated statement of operations and comprehensive loss, respectively for the nine months ended March 31, 2020.

Non-cash equity contribution

Certain Company executives provided services to the Company for no compensation during the nine months ended March 31, 2020. The estimated fair value of these services totaling \$225,000 and \$675,000 was recorded as a non-cash equity contribution with a corresponding charge to

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

compensation expense on the condensed consolidated statement of operations and comprehensive loss for the three and nine months ended March 31, 2020, respectively.

(17) Accounts payable

The following table presents trade and other receivables:

	March 31, 2020	June 30, 2019
Trade payables	\$ 187,550	\$ 23,855
Credit card payable	5,355	-
	<u>\$ 192,905</u>	<u>\$ 23,855</u>

(18) Accrued expenses

The following table presents accrued expenses:

	March 31, 2020	June 30, 2019
Financial accrued expenses:		
Accrued contractor labor	\$ -	\$ 53,711
Accrued inventory	-	171,941
Accrued property, plant and equipment	-	127,520
Accrued marketing and selling expenses	575,215	60,683
Accrued professional fees	40,000	-
Accrued other	31,625	-
Non-financial accrued expenses:		
Accrued equity issuance costs	41,500	41,500
Estimated product returns	25,000	5,444
Income tax payable	25	25
	<u>\$ 713,365</u>	<u>\$ 460,824</u>

(19) Income taxes

Income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. Since the Company had incurred a loss for this quarter and losses since inception, no income tax expense was recorded for the three and nine months ended March 31, 2020.

(20) Commitments

Leases

In May 2019, the Company entered into a lease for land used to grow its crops. The lease commenced on May 15, 2019 and had a term through December 31, 2019 for total consideration of \$60,000. As of December 31, 2019, the crops were harvested, and the land lease has

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

terminated resulting in no future minimum lease payments to be paid. Rent of \$nil and \$45,000 for the three and nine months ended March 31, 2020, respectively, is included in biological assets within the condensed consolidated statement of financial position as of March 31, 2020, and is subsequently subject to a fair value adjustment as part of the period end adjustment to the valuation of the biological assets (Note 11).

In February 2020, the Company entered into a new lease for an additional parcel of land to be used to grow its crops in fiscal year 2021. The lease commenced on February 1, 2020 and has a term through December 31, 2020 for total consideration of \$100,000. Rent expense of \$18,182 is included in cost of sales for the three and nine months ended March 31, 2020 within the condensed consolidated statement of operations and comprehensive loss.

Private label manufacturing and supply agreement

In April 2019, the Company entered into a white label agreement with a hemp oil product manufacturer (“Supplier”) for exclusive rights to sell and distribute a hemp oil chewing gum manufactured by the Supplier. The rights to sell this product are for worldwide distribution with the exception of Canada and Australia. In exchange for the exclusivity granted by the Supplier the Company committed to order a minimum of 75,000 units every three months for the first twelve months, and 300,000 for each twelve month period thereafter at \$11 per unit. The initial term of the agreement is for one year with automatic one year renewal options. Upon completion of the initial term either the Company or Supplier can terminate the agreement with 120 days’ notice.

Service bureau agreement

In April 2019, the Company entered into a direct-to-consumer service bureau agreement with a third party marketing services firm. The Company committed to a three year arrangement in return for the development of an online merchant services platform and web site marketing campaign to promote and sell its hemp oil products. The agreement has resulted in a combination of expenditures for the Company including capitalized inventory and property, plant and equipment purchases, and cost of sales and general and administrative expenses related to operation and management of the direct-to-consumer program and platform. The agreement can be terminated at any time by the Company upon a three month notice with a termination fee to be paid equal to the sum of the average of twelve months current service fees. The Company recorded \$571,066, \$162,000 and \$144,082 of cost of sales, general and administrative expenses and sales and marketing expenses, respectively, related to this agreement within the condensed consolidated statement of operations and comprehensive loss for the three months ended March 31, 2020. The Company recorded \$1,982,366, \$486,000 and \$2,678,356 of cost of sales, general and administrative expenses and sales and marketing expenses, respectively, related to this agreement within the condensed consolidated statement of operations and comprehensive loss for the nine months ended March 31, 2020.

Additionally, related to this agreement the Company has \$802,350 of intangible assets for capitalized software costs related to the merchant services platform recorded within the condensed consolidated statement of financial position as of March 31, 2020. The Company had (i) \$1,495,360 of prepaid expenses and other current assets related to prepaid July and August operating costs (\$880,138), deposits for inventory product purchases (\$515,222) and the merchant services platform set-up (\$100,000) and (ii) \$375,000 of intangible assets for capitalized software

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

costs related to the merchant services platform recorded within the condensed consolidated statement of financial position as of June 30, 2019.

(21) Related party transactions

The following presents balances and transactions between the Company and other related parties as of March 31, 2020 and for the three and nine months ended March 31, 2020:

Key management personnel

Key employees include executive management with the authority and responsibility for planning, directing and controlling the activities of the Company. The following table presents compensation and benefit expenses of key employees:

	Three months ended March 31, 2020	Nine months ended March 31, 2020
Executive salary and consultant expense	<u>\$ 232,500</u>	<u>\$ 765,000</u>

The Company reflected \$225,000 and \$675,000 as compensation expense for certain Company executives as a non-cash equity contribution for services provided for the three months and nine months ended March 31, 2020, respectively (Note 16).

Overseas marketing services agreement

In September 2019, the Company entered into an overseas marketing services agreement with a third party consulting firm controlled by an investor of the Company. The agreement was for a period of one year, commencing in September 2019, with renewal and termination options, and provided the Company marketing, advertising, website development and consultancy services. In June 2020, the Company and the third party consulting firm mutually agreed to terminate the overseas marketing services agreement with all outstanding deposits returned to the Company.

The Company recorded \$nil and \$334,928 of sales and marketing expenses related to this agreement within the condensed consolidated statement of operations and comprehensive loss for the three and nine months ended March 31, 2020. As of March 31, 2020, the Company has deposits of \$1,665,071, which is reflected as a prepaid expense within the condensed consolidated statement of financial position. The \$1,665,071 was repaid to the Company in June 2020.

(22) Financial instrument risk exposures

The principal financial instruments used by the Company include:

- Cash
- Accounts receivable
- Prepaid expenses
- Accounts payable and accrued liabilities

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

As at the end of March 31, 2020, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent due to their short-term nature.

As at the end of March 31, 2020, all of the Company's financial assets and liabilities are categorized at amortized cost.

Risk exposures as it relates to financial instruments includes:

Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash. All cash is placed with a major U.S. financial institution but is subject to risk for amounts maintained in excess of FDIC insured limits. The Company does not have significant credit risk with respect to customers as the majority of sales are transacted with credit cards.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. The Company anticipates it will need to raise additional financing over the next 12 months to fund operations. At March 31, 2020, the Company had current assets of \$5,937,032 and current liabilities of \$906,270. All current liabilities are due within one year.

Capital management

The Company's objectives when maintaining 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 by pricing products commensurately with the level of risk.

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

(23) Segmented information

The Company operates in two segments: the sale of naturally derived hemp products through its proprietary online sales engine, and the cultivation of hemp biomass. The operating segments are reported in a manner consistent with the internal reporting provided to the Company's chief executive officer who is the Company's chief operating decision maker.

The following table presents information for the condensed consolidated statement of operations and comprehensive loss, and condensed consolidated statement of financial position for each business segment.

	Consumer products	Biomass cultivation	Total
For the nine months ended March 31, 2020:			
Revenue	\$ 2,917,961	\$ -	\$ 2,917,961
Unrealized gain on fair value on growth of biological assets	\$ -	\$ 876,742	\$ 876,742
Gross profit	\$ 912,338	\$ 803,168	\$ 1,715,506
Income (loss) from operations	\$ (5,091,950)	\$ 516,618	\$ (4,575,332)
Net income (loss) and comprehensive Income (loss)	\$ (12,223,482)	\$ 516,618	\$ (11,706,864)
For the three months ended March 31, 2020:			
Revenue	\$ 182,479	\$ -	\$ 182,479
Unrealized loss on fair value on growth of biological assets	\$ -	\$ (1,916,160)	\$ (1,916,160)
Gross loss	\$ (409,356)	\$ (1,985,599)	\$ (2,394,955)
Loss from operations	\$ (1,789,522)	\$ (1,978,263)	\$ (3,767,785)
Loss and comprehensive loss	\$ (8,921,054)	\$ (1,978,263)	\$ (10,899,317)
As of March 31, 2020:			
Additions to non-current assets	\$ 427,350	\$ 659,356	\$ 1,086,706
Total assets	\$ 4,881,597	\$ 2,978,537	\$ 7,860,134
Total liabilities	\$ 906,270	\$ -	\$ 906,270
As of June 30, 2019:			
Additions to non-current assets	\$ 440,000	\$ 648,609	\$ 1,088,609
Total assets	\$ 2,159,045	\$ 2,815,091	\$ 4,974,136
Total liabilities	\$ 131,507	\$ 353,172	\$ 484,679

(24) Subsequent events

Coronavirus

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout Canada and the United States. The spread of COVID-19 has caused significant volatility in Canadian, U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the Canadian, U.S. and international economies

CanaFarma Hemp Products Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts Expressed in United States Dollars)

and, although we cannot reasonably estimate the length or severity of this pandemic, we currently do not anticipate a material adverse impact on our consolidated financial position, consolidated results of operations, and consolidated cash flows in fiscal 2020 or 2021.

To date, our supply chain and fulfillment houses have not been affected and we do not anticipate this changing is the foreseeable future. Our R&D activity has not been materially impacted, and given the fact that all our sales are conducted online over the Internet, we would expect to see the reduced mobility of consumers benefiting our sales model. Furthermore, in light of it being recognized that CBD products help to reduce anxiety, we may expect to see an increased number of consumers seeking out our products.

From an administrative perspective, it is true that it is a little harder to coordinate activities with employees operating remotely, and for that reason we did elect to delay our interim 2020 Q3 filing under temporary COVID-19 measures allowed by the CSE.

Share and warrant issuance

In June 2020, the Company completed a private placement of units (each, a "Unit") at a price of \$0.63CAD (\$0.43) per Unit (the "Offering"). The Company issued an aggregate of 8,290,627 Units, for aggregate gross proceeds of approximately \$5,200,000CAD (approximately \$3,800,000). Each Unit consisted of one (1) common share and one common share purchase warrant, with each whole warrant entitling the holder to purchase one (1) common share of the Company at an exercise price of \$0.78CAD (\$0.53) per share for a period of five (5) years.

Related party transaction

In June 2020, the Company terminated its overseas marketing services agreement with a third marketing firm (Note 21). The Company had deposits of \$1,665,071 reflected as a prepaid expense within the condensed consolidated statement of financial position as of March 31, 2020. The \$1,665,071 was repaid to the Company in June 2020.

Acquisition

In June 2020, Simple Solutions transferred its agricultural / hemp cultivation license to the Company, which resulted in the Company acquiring the remaining 51% of Simple Solutions (Note 6).

In April 2020, the Company entered into a non-binding letter of intent ("LOI") to purchase a 25,000 square manufacturing facility for its hemp oil-based consumer products operations.