Hempsana Inc.

Interim Condensed Financial Statements

For the three and six months ended June 30, 2021
(Unaudited)
(Expressed in Canadian Dollars)

Hempsana Inc.
Interim Condensed Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

	Notes		June 30, 2021 (Unaudited)		December 31, 2020 (Audited)
ASSETS					
Current assets					
Cash		$	575,740	$	80,516
Inventory	3		38,321		-
Prepaids, deposits and other receivables	4		214,423		303,906
Total current assets			828,484		384,422
Non-current assets					
Intangible assets	5		34,480		12,897
Property, plant and equipment	6		3,491,640		3,343,171
Total non-current assets			3,526,120		3,356,068
Total assets		$	4,354,604	$	3,740,490
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	671,729	$	1,355,148
Accounts payable to related parties	7		190,409		947,750
Current portion of long-term debt	8		159,466		150,225
Total current liabilities			1,021,604		2,453,123
Non-current liabilities					
Convertible debentures	9		207,327		-
Derivative liability	9		58,486		-
Long-term debt	8		483,840		555,379
Total non-current liabilities			749,653		555,379
Total liabilities		$	1,771,257	$	3,008,502
Shareholders' equity					
Share capital	10		6,053,684		2,184,070
Shares to be issued	10		31,242		720,807
Other reserves	10		553,508		521,163
Deficit			(4,055,087)		(2,694,052)
Total shareholders' equity			2,583,347		731,988
Total liabilities and equity		$	4,354,604	$	3,740,490
Nature of operations and going concern	1				
Events after the reporting period	13				

Approved on behalf of the Board of Directors:

"signed"
Randy Ko
Director
President and CEO

"signed"
Sohil Mana
Director

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

Hempsana Inc.
Interim Condensed Statements of Loss and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Notes	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Expenses					
Auto expenses		**$ 8,274**	$ 2,209	**$ 19,700**	$ 4,036
Conference fees		**-**	-	**1,283**	-
Consulting fees		**59,495**	-	**137,570**	1,620
Depreciation and amortization	6	**48,082**	34,157	**102,014**	60,391
Facility supplies		**27,199**	320	**31,252**	320
License fees		**12,706**	-	**18,625**	-
Insurance		**8,499**	6,949	**20,901**	10,199
Internet		**1,756**	-	**3,893**	-
Legal and professional fees		**189,212**	-	**204,886**	4,250
Management fees		**112,200**	132,871	**211,758**	265,742
Marketing		**150**	-	**245,598**	1,087
Meals and entertainment		**2,530**	-	**4,915**	849
Office expenses		**10,991**	105	**25,994**	1,079
Other operating expenses		**6,957**	-	**28,443**	800
Other selling, general and administrative expenses		**3,673**	31	**8,230**	230
Rent expense		**10,470**	-	**22,787**	-
Share-based compensation		**-**	92,007	**32,345**	183,003
Travel		**587**	-	**616**	1,844
Utilities		**3,779**	6,195	**12,936**	6,195
Wages		**75,868**	-	**150,947**	-
Total expenses		**582,428**	274,844	**1,284,693**	541,645
Other income		**(324)**	(10,924)	(324)	(10,924)
Loss on revaluation of convertible debentures	9	**95**	-	**346**	
Interest expense	8	**32,340**	4,417	**76,320**	8,031
Net loss and comprehensive loss		**$ (614,539)**	$ (268,337)	**$ (1,361,035)**	$ (538,752)
Loss per share					
Weighted average number of common shares outstanding					
Basic #	11	**20,326,345**	16,553,456	**20,326,345**	16,553,456
Diluted #	11	**20,326,345**	16,553,456	**20,326,345**	16,553,456
Basic loss per share $	11	**$ (0.03)**	$ (0.02)	**$ (0.07)**	$ (0.03)
Diluted loss per share $	11	**$ (0.03)**	$ (0.02)	**$ (0.07)**	$ (0.03)

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

Hempsana Inc.
Interim Condensed Statements of Changes in Equity
(Unaudited)
(Expressed in Canadian dollars)

	Notes	Number of shares		Share capital		Other reserves		Retained earnings		Total equity
Balance at December 31, 2019		**16,553,457**	**$**	**2,184,070**	**$**	**213,310**	**$**	**(1,040,201)**	**$**	**1,357,179**
Share-based compensation		-		-		183,003		-		183,003
Net loss		-		-		-		(538,752)		(538,752)
Balance at June 30, 2020		**16,553,457**	**$**	**2,184,070**	**$**	**396,313**	**$**	**(1,578,953)**	**$**	**1,001,430**
Balance at December 31, 2020		**17,534,480**	**$**	**2,904,877**	**$**	**521,163**	**$**	**(2,694,052)**	**$**	**731,988**
Shares issued	10	4,366,941		3,148,807		-		-		3,148,807
Shares to be issued	10	-		31,242		-		-		31,242
Share-based compensation		-		-		32,345		-		32,345
Net loss		-		-		-		(1,361,035)		(1,361,035)
Balance at June 30, 2021		**21,901,421**	**$**	**6,084,926**	**$**	**553,508**	**$**	**(4,055,087)**	**$**	**2,583,347**

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

Hempsana Inc
Interim Condensed Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

	Notes	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Operating activities					
Net loss		**$ (614,539)**	$ (268,337)	**$ (1,361,035)**	$ (538,752)
Adjustments for non-cash items:					
Interest expense	8, 9	**32,340**	4,417	**76,320**	8,031
Depreciation and amortization	6	**48,082**	34,157	**102,014**	60,391
Share-based compensation		**-**	92,007	**32,345**	183,003
Government grant on loan		**-**	(10,924)	**-**	(10,924)
Change in fair value of convertible debentures – derivative liability	9	**94**	-	**345**	-
Changes in non-cash working capital items:					
Prepaids, deposits and other receivables	4	**137,255**	(25,426)	**89,483**	(46,820)
Accounts payable, accrued liabilities and accounts payable to related parties		**163,137**	**217,382**	**(723,763)**	**400,568**
Inventory		**(18,887)**	-	**(29,784)**	-
Interest paid		**(19,544)**	-	**(50,278)**	-
Net cash flows (used in) from operating activities		**(272,062)**	43,276	**(1,864,353)**	55,497
Investing activities					
Purchase of property, plant and equipment	6	**(156,160)**	(23,907)	**(168,482)**	(48,778)
Additions to intangible assets		**-**	-	**(27,375)**	-
Net cash flows used in investing activities		**(156,160)**	(23,907)	**(195,857)**	(48,778)
Financing activities					
Payments of private loan	8	**(36,979)**	(32,817)	**(72,871)**	(64,669)
Proceeds from issuance of common shares	10	**-**	-	**2,451,147**	-
Proceeds from government loan	8	**-**	40,000	**-**	40,000
Issuance of convertible debentures	9	**-**	-	**250,000**	-
Shares to be issued	10	**31,242**	-	**31,242**	-
Share issuance costs	10	**(1,799)**	-	**(104,084)**	-
Net cash flows (used in) from investing activities		**(7,536)**	7,183	**2,555,434**	(24,669)
Net (decrease) increase in cash		**(435,758)**	26,552	**495,224**	(17,950)
Cash, beginning of period		**1,011,498**	269	**80,516**	44,771
Cash, end of period		**$ 575,740**	$ 26,821	**$ 575,740**	$ 26,821

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

1. Nature of operations and going concern

Hempsana Inc. (the “Company” or “Hempsana”) was incorporated under the laws of Canada on October 15, 2018. The Company specializes in cannabis derivatives and is focused on extraction and purification, and end-product manufacturing. The Company has approval for Cannabidiol (“CBD”) oil extraction in the European Union (“EU”) and has been granted Health Canada's Standard Processing and Industrial Hemp Licenses. The Company’s head office is located at 3080 Yonge Street, Suite 6060, Toronto, Ontario, Canada, M4N 3N1. The registered address is located at 148 Cranbrooke Avenue, Toronto, Ontario, Canada, M5M 1M5.

These condensed interim financial statements (the “financial statements”) are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. Management believes it will be successful in raising the necessary funds to continue in the normal course of operations through external financing until revenues are sufficient to cover the operating requirements of the business. These financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary should the Company be unable to continue in existence.

The Company’s ability to continue as a going concern is dependent on its ability to generate positive cash flows from operations, complete additional financings, and/or extend or modify its loan payable (note 8).

As at June 30, 2021, the Company had a deficit working capital of $193,120 (December 31, 2020 –$2,068,701) and has incurred losses since inception. These events and conditions indicate a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. If the going concern assumption were not appropriate for these financial statements it could be necessary to restate the Company’s assets and liabilities on a liquidation basis.

In March 2020, the World Health Organization declared coronavirus COVID – 19 a global pandemic which has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self imposing quarantine period and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

2. Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in conformity with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company‘s annual audited financial statements for the year ended December 31, 2020, with the exception of the following new accounting policies:

Hybrid financial instruments

The Company recognizes and presents separately the components of a hybrid financial instrument that both creates a financial liability of the Company and grants an option to the holder of the instrument to convert it into a variable number of common shares of the Company (a liability instrument). The conversion feature does not meet the fixed-for-fixed criteria and therefore is an embedded derivative that is assessed separately from the host liability.

On initial recognition, the conversion feature of a financial instrument is recorded as a derivative liability measured first based on its fair value at initial recognition. The host liability component is recognized initially as the difference between the fair value of the hybrid financial instrument as a whole and the fair value of the conversion feature. Any directly attributable transaction costs are allocated to the host liability.

Subsequent to initial recognition, the host liability component of a hybrid. financial instrument is measured at amortized cost using the effective interest method. The conversion feature of a hybrid financial instrument is re-measured subsequent to initial recognition at each reporting period. Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity reserve and no gain or loss is recognized.

These financial statements do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee. These financial statements be read in conjunction with the annual audited financial statements. These financial statements were authorized for issue by the Board of Directors on August 25, 2021.

(b) Basis of presentation

These financial statements have been prepared on an historical cost basis, except for financial instruments which are classified as fair value through profit or loss ("FVTPL"). In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Presentation currency

All amounts on these financial statements are presented in Canadian dollars which is the functional currency of the Company.

(d) Use of estimates and judgments

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgments used in the preparation of the financial statements are described in the Company's annual audited financial statements for the year ended December 31, 2020 in addition to estimates relating to the fair value of the convertible debentures conversion feature which requires determining the most appropriate valuation model and the most appropriate inputs to the valuation model.

3. Inventory

Inventories consist of the following:

	June 30, 2021	December 31, 2020
Extracted hemp and cannabis oil	**$ 34,920**	$ -
Packaging and supplies	**3,401**	-
	$ 38,321	$ -

During the three and six months ended June 30, 2021, the Company did not expense any inventories to cost of sales (2020 - $nil and $nil, respectively).

4. Prepaids, deposits and other receivables

Prepaids, deposits and other receivables consist of the following:

	June 30, 2021	December 31, 2020
Sales tax recoverable	**$ 208,188**	$ 290,406
Prepaids and deposits	**6,235**	13,500
	$ 214,423	$ 303,906

(Expressed in Canadian dollars, except per share amounts or when otherwise indicated)

5. Intangible assets

A continuity of the intangible assets balance is provided below:

	Intangible assets
Cost	
December 31, 2019	$ 16,010
Additions	-
December 31, 2020	16,010
Accumulated depreciation	
December 31, 2019	-
Depreciation	(3,113)
December 31, 2020	$ (3,113)
Cost	
December 31, 2020	$ 16,010
Additions	27,375
June 30, 2021	43,385
Accumulated depreciation	
December 31, 2020	(3,113)
Depreciation	(5,792)
June 30, 2021	$ (8,905)
Net book value	
June 30, 2021	**$ 34,480**
December 31, 2020	12,897

6. Property, plant and equipment

	Land	Building	Machinery and equipment	Security equipment	Total
Cost					
December 31, 2019	$ 70,000	$ 2,106,944	$ 515,620	$ 214,718	$ 2,907,282
Additions	-	149,490	460,692	5,477	615,659
December 31, 2020	70,000	2,256,434	976,312	220,195	3,522,941
Accumulated depreciation					
December 31, 2019	-	(23,715)	-	(7,886)	(31,601)
Depreciation	-	(76,659)	(40,905)	(30,605)	(148,169)
December 31, 2020	$ -	$ (100,374)	$ (40,905)	$ (38,491)	$ (179,770)
Cost					
December 31, 2020	$ 70,000	$ 2,256,434	$ 976,312	$ 220,195	$ 3,522,941
Other adjustments	-	-	-	(5,477)	(5,477)
Additions	-	91,905	161,748	5,052	258,705
June 30, 2021	70,000	2,348,339	1,138,060	219,770	3,776,169
Accumulated depreciation					
December 31, 2020	-	(100,374)	(40,905)	(38,491)	(179,770)
Depreciation	-	(40,839)	(48,496)	(15,424)	(104,759)
June 30, 2021	$ -	$ (141,213)	$ (89,401)	$ (53,915)	$ (284,529)
Net book value					
June 30, 2021	$ 70,000	$ 2,207,126	$1,048,659	$ 165,855	$ 3,491,640
December 31, 2020	$ 70,000	$ 2,156,060	$ 935,407	$ 181,704	$ 3,343,171

During the three and six months ended June 30, 2021, the Company did not capitalize any interest to machinery and equipment (2020 - $23,906 and $48,778, respectively).

During the three and six months ended June 30, 2021, the Company recognized depreciation of $53,053 and $104,759, respectively (2020 - $33,712 and $59,946, respectively). Of this amount, $8,537 was applied to inventory during the three and six months ended June 30, 2021 (2020 – nil).

(Expressed in Canadian dollars, except per share amounts or when otherwise indicated)

7. Related party payables and transactions

The following related parties transacted with the Company during the six months ended June 30, 2021 and 2020:

(a) 12813521 CANADA INC

(b) 2822477 Ontario Inc.

(c) rk3 Global Services Incorporated

(d) The CFO Centre

(e) Eurofins Experchem Laboratories Inc.

The aggregate value of transactions and outstanding balances with key management personnel and Directors and entities over which they have control or significant influence or with key management personnel were as follows:

	For the three months ended June 30,		For the six months ended June 30,		Balances outstanding	
	2021	2020	**2021**	2020	**June 30, 2021**	December 31, 2020
12813521 CANADA INC	**$ 24,900**	$ 37,500	**$ 49,900**	$ 75,000	**$ 49,900**	$ 300,000
2822477 Ontario Inc.	**24,900**	37,500	**49,900**	75,000	**49,900**	300,000
rk3 Global Services Incorporated	**37,500**	37,925	**75,000**	75,850	**75,000**	347,750
The CFO Centre	**24,860**	-	**24,860**	-	**6,780**	-
Eurofins Experchem Laboratories Inc.	**8,321**	-	**25,266**	-	**8,829**	-
	$ 120,481	$ 112,925	**$ 224,926**	$ 225,850	**$ 190,409**	$ 947,750

All related party balances are unsecured and are non-interest bearing.

The transactions with the key management personnel and Directors are included in operating expenses as follows:

(a) Consulting fees
- Includes the management consulting services charged to the company by the Directors, Sohil Mana and Randy Ko, and by shareholder, Woo Kim.
- Includes the consulting services of Eurofins, of which Director, Sohil Mana is President.

(b) Professional fees
- Includes the finance consulting services charged to the company by rk3 Global Services Incorporated.

8. Long term debt

	Maturity	**June 30, 2021**	December 31, 2020
Private loan			
Principal outstanding	November 1, 2024	$ 633,405	$ 706,276
Less: Unamortized deferred financing costs on private loan		(23,523)	(32,175)
Total private loan		609,882	674,101
Government loan		40,000	40,000
Less: Unamortized government grant	December 31, 2022	(6,576)	(8,497)
Total long-term debt		$ 643,306	$ 705,604
Less: Current portion		$ 159,466	$ 150,225
Non-current portion		$ 483,840	$ 555,379

On October 18, 2019, the Company entered into a private loan with a related party for $850,000 which bears interest at the rate of 12% per annum, calculated monthly. The private loan matures on November 1, 2024 and can be repaid before maturity without penalty and is secured by the Company's land and building.

The private loan is recorded at amortized cost, which was initially measured at fair value less transaction costs. Loan issuance costs were capitalized when incurred and are being amortized over the term of the loan using the effective interest rate method. The private loan is repayable in monthly installments, with a combined principal and interest payment of $18,908 per month. As of June 30, 2021 a Director of the Company had paid $208,029 in loan payments on behalf of the Company, of which $189,108 remains and is included in accounts payable as an employee reimbursement.

(Expressed in Canadian dollars, except per share amounts or when otherwise indicated)

In response to COVID-19, many governments around the world have provided various subsidy programs to assist companies during the pandemic. The Company participated in the Canada Emergency Business Account ("CEBA") program in Canada, which was announced in March 2020.

On April 28, 2020, the Company received a $40,000 interest-free government loan from the CEBA program. The interest-free benefit has been recorded in the statement of comprehensive loss as other income. The loan bears no interest until December 31, 2022, and $10,000 loan forgiveness will be granted if repaid before this date. The principal value of the government loan was $40,000 as at June 30, 2021 (December 31, 2020 - $40,000) and the fair value of the loan was $33,424 (December 31, 2020 - $31,503).

Payments:		
Within one year	$	159,466
1 – 3 years		422,171
4 – 5 years		91,768
	$	673,405

The following table provides a continuity of the long-term debt balances:

		Long-term debt
December 31, 2019	**$**	**792,858**
Amortization of deferred financing costs		14,559
Principal repayments on private loan		(133,316)
Government loan		40,000
Government grant on loan, net of amortization		(8,497)
December 31, 2020	**$**	**705,604**
Amortization of deferred financing costs		8,652
Principal repayments on private loan		(72,871)
Amortization of government grant on loan		1,921
June 30, 2021	**$**	**643,306**

9. Convertible debentures and derivative liability

On January 21, 2021 the Company issued convertible debentures for the aggregate amount of $250,000 to settle amounts owing to a vendor. The convertible debentures are non-interest bearing and are secured against certain equipment owned by the Company. The convertible debentures will automatically convert into shares of the Company upon the completion of certain events by the Company, including raising additional financing at specific thresholds. The conversion price shall be equal to the price that is a 20% discount to the additional financing raised. If these events do not occur by the maturity date of July 20, 2022, the Company will issue an additional 10% of convertible debentures in lieu of interest. At the measurement date, the Company has assessed that these events are highly probable to occur.

The Company accounts for the convertible debentures as hybrid contracts where the initial carrying value of the host debt is the residual amount after separating the embedded derivatives. The host debt is carried at amortized cost and the embedded derivatives are accounted for as financial liabilities measured at fair value through profit or loss.

As the convertible debentures do not have a fixed conversion price, it does not meet the fixed-for-fixed criteria, therefore the fair value of the conversion feature was classified as a derivative liability. The residual debt host portion was accreted using an effective interest rate ("EIR") of 17.83%. Accretion expense has been included in interest expense line in the statements of loss and comprehensive loss.

A summary of the convertible debt liability and conversion feature is as follows:

	Convertible debentures	Derivative liability	Total
December 31, 2020	**$ -**	**$ -**	**$ -**
Initial recognition	191,859	58,141	250,000
Accretion of conversion and penalty feature	15,468	-	15,468
Change in fair value	-	345	345
June 30, 2021	**$ 207,327**	**$ 58,486**	**$ 265,813**

(Expressed in Canadian dollars, except per share amounts or when otherwise indicated)

10. Share capital

Transactions for the issuance of share capital during the six months ended June 30, 2021 and the year ended December 31, 2020 are shown as follows:

	Common shares #	Per share $	Amount $
December 31, 2019	**16,553,457**		**$ 2,184,070**
Issuance:			
Shares to be issued	981,023	$ 0.75	735,767
Costs			(14,960)
December 31, 2020	**17,534,480**		**$ 2,904,877**
Issuance:			
March 2021	3,268,195	$ 0.75	2,451,147
Shares for debt issuance	1,068,992	$ 0.75	801,745
Shares to be issued	29,754	$ 1.05	31,242
Costs			(104,085)
June 30, 2021	**21,901,421**		**$ 6,084,926**

As at June 30, 2021, $31,242 was received in advance from investors and recorded in equity as shares to be issued. In July 2021, the transactions closed and the shares to be issued were converted to common shares.

As at December 31, 2020, $735,767 was received in advance from investors and recorded in equity as shares to be issued. In March 2021, the transactions closed and the shares to be issued were converted to common shares.

Warrants

The company closed a private placement in March 2021 which issued units which comprise of one (1) common share and one share purchase warrant exercisable at $1.50, at a price of $0.75 per unit. No value was allocated to the warrants under the residual value method.

A summary of the status of the Company's warrants as at June 30, 2021 and December 31, 2020 and changes during the years then ended is as follows:

	Warrants #	Weighted average exercise price $
December 31, 2019	**-**	**$ -**
Warrants to be issued – attached to units	981,023	$ 1.50
December 31, 2020	**981,023**	**$ 1.50**
Issued - attached to units	3,268,195	$ 1.50
Warrants to be issued – attached to units	29,754	$ 1.50
June 30, 2021	**4,278,972**	**$ 1.50**

11. Loss per share

Basic and diluted loss per share are calculated by dividing the net loss attributable to the shareholder of the Company by the weighted average number of ordinary shares outstanding during the period.

	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Net loss	**$ (614,539)**	$ (268,337)	**$ (1,361,035)**	$ (538,752)
Weighted average number of shares	**20,326,345**	16,553,456	**20,326,345**	16,553,456
Loss per share - basic and diluted	**$ (0.03)**	$ (0.02)	**$ (0.07)**	$ (0.03)

All options and warrants outstanding as at June 30, 2021 and 2020, were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

(Expressed in Canadian dollars, except per share amounts or when otherwise indicated)

12. Capital management, financial instruments and financial risk

Capital management

The Company defines capital as the aggregate of its shareholders' equity and debt. The Company's objectives when managing capital are to support further advancement of the Company's business objectives, as well as to ensure that the Company is able to meet its financial obligations as they come due.

The Company manages its capital structure to maximize its financial flexibility and will make adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the six months ended June 30, 2021. The Company is not subject to externally imposed capital requirements.

Financial instruments - fair value

The Company's financial instruments consist of cash, deposits, other receivables, accounts payable and accrued liabilities, long-term debt and convertible debentures, which are all carried at amortized cost. The Company measures its derivative financial instruments at fair value.

The carrying value of cash, deposits, other receivables, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The private loan value approximates its fair value due to the market rates of interest charged.

Financial instruments - risk

The Company's financial instruments are exposed to certain financial risks, including credit risk and liquidity risk.

(a) Credit risk

The Company is exposed to credit risk by holding cash in financial institutions. This risk is minimized by holding the funds in Canadian banks and credit unions or with Canadian governments. The Company has minimal receivable exposure, and its various refundable credits are due from Canadian governments.

(b) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company does not yet generate revenues from its principal operations and has been generating cash flows primarily from financing activities for the three and six months ended June 30, 2021 and 2020.

Considering the available liquidity as at June 30, 2021, the expected cash required to sustain operations and future commitments, the Company's exposure to liquidity risk as at June 30, 2021 is considered high. The Company expects to address this risk by raising funds through external financing as needed until revenues are sufficient to cover the operating requirements of the business.

The undiscounted cash flow requirements for financial liabilities as at June 30, 2021 are as follows:

	Carrying value	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	$ 671,729	$ 671,729	$ 671,729	$ -	$ -	$ -
Accounts payable to related parties	190,409	190,409	190,409	-	-	-
Long term debt	643,306	673,405	159,466	422,171	91,768	-
Interest on long-term debt	-	-	67,427	71,616	2,771	-
Convertible debentures	207,327	250,000	-	250,000	-	-
Total	$ 1,712,771	$ 1,785,543	$ 1,089,031	$ 743,787	$ 94,539	$ -

13. Events after the reporting period

Private Placement

In July 2021, the Company successfully closed a private placement for gross proceeds of $310,800. In connection with the private placement, the Company issued 296,000 units comprised of one common share of the Company and one-half purchase warrant. The Company intends to use the net proceeds for general operational and working capital purposes.

Each purchase warrant entitles its holder to acquire one common share of the Company at an exercise price of $1.50 any time up to 24 months from the distribution date.

Business Combination

On July 12, 2021 the Company had completed its previously announced business combination (the "Transaction") with Stralak Resource Inc. ("Stralak"), where Stralak first consolidated its issued and outstanding common shares on a one for 253.7067059 basis (the "Consolidation"), changed its name from "Stralak Resource Inc." to "Hempsana Holdings Ltd." ("HHL") and then acquired Hempsana. Through the acquisition of Hempsana, the business of HHL will involve manufacturing cannabis derivatives and producing cannabis extracts for use in finished products, including vapeables, topical creams and infused consumables. Hempsana's Health Canada Standard Processing Licensed, and EU-GMP compliant facility will provide HHL with access to wholesale and retail channels in Canada and internationally.

The Transaction was completed by way of a three-cornered amalgamation (the "Amalgamation"). Pursuant to the terms of the Amalgamation, Hempsana amalgamated with a wholly-owned subsidiary of the Stralak, and Stralak then acquired all the issued and outstanding common shares of Hempsana (the "Hempsana Shares") in exchange for its common shares ("HHL Shares") on the basis of one HHL Share for each Hempsana Share issued and outstanding, as a result of which Hempsana has now become a wholly-owned subsidiary of Stralak. The Amalgamation also provides that all outstanding warrants and options to purchase Hempsana Shares remain outstanding and now entitle the holders thereof to acquire equivalent securities of HHL in lieu of Hempsana on the same terms and conditions.

As part of the Transaction and following the Consolidation, HHL issued 437,499 HHL Shares to certain arm's lengths parties in lieu of finder's fees.

Upon completion of the Transaction, HHL had 24,129,323 HHL Shares issued and outstanding (non-diluted), of which the former shareholders of Stralak hold 1,500,000 HHL Shares representing approximately 6.2%, the former shareholders of Hempsana hold 22,629,323 HHL Shares representing approximately 93.8%. In addition, HHL had 1,655,345 stock options and 4,397,218 warrants (each exercisable to acquire one HHL Share) outstanding.

Upon completion of the Transaction, the convertible debentures (see note 9) automatically converted into 297,619 shares of the Company at a 20% discount of the issue price of $1.05, for a total contributed capital of $250,000.