

**HEMPSHIRE GROUP INC.**

**Condensed Interim Consolidated Financial Statements (Unaudited)**

For the Three and Six Months Ended  
June 30, 2022 and 2021

# Hempshire Group Inc.

## Condensed Interim Consolidated Statements of Financial Position

(Stated in US Dollars)

	Note	June 30, 2022	December 31, 2021
<b>Assets</b>			
<b>Current assets</b>			
Cash		3,128,214	133,983
Accounts receivable		4,720	6,670
Inventories		168,544	192,479
Prepays		5,000	6,839
<b>Total current assets</b>		<b>3,306,478</b>	<b>339,971</b>
<b>Long-term assets</b>			
Notes receivable from related parties	11	294,495	215,837
Property and equipment	4	85,231	91,705
Right-of-use asset		17,988	28,780
Security deposit		1,950	1,950
<b>TOTAL ASSETS</b>		<b>3,706,142</b>	<b>678,243</b>
<b>Liabilities and shareholders' equity (deficiency)</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	5	777,722	286,761
Convertible debentures	6	-	480,153
Derivative liabilities	6	-	499,668
Deferred revenue		37,472	37,472
Notes payable	7	210,000	180,000
Current portion of lease liability		19,111	21,810
<b>Total current liabilities</b>		<b>1,044,305</b>	<b>1,505,864</b>
<b>Long-term liabilities</b>			
Lease liability		-	7,836
<b>Total liabilities</b>		<b>1,044,305</b>	<b>1,513,700</b>
<b>Shareholders' equity (deficiency)</b>			
Share capital	8	6,450,933	1,949,376
Warrants	9	1,847,259	-
Unit obligation	10	1,890,910	-
Share issuance obligation	8	-	20,000
Deficit		(7,527,982)	(2,804,833)
Accumulated other comprehensive income		717	-
<b>Total shareholders' equity (deficiency)</b>		<b>2,661,837</b>	<b>(835,457)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		<b>3,706,142</b>	<b>678,243</b>

Going concern (Note 1)

Subsequent events (Note 17)

Approved on behalf of the Board of Directors:

SIGNED "Samuel Isaac"  
Director

SIGNED "Gail Hannon"  
Director

## Hempshire Group Inc.

### Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Stated in US Dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2022	2021	2022	2021
<b>Revenue</b>		<b>19,572</b>	139,807	<b>42,961</b>	161,474
Cost of sales		<b>4,923</b>	92,936	<b>14,512</b>	104,423
Inventory write-down	12	<b>24,966</b>	-	<b>24,966</b>	-
<b>Gross profit (loss)</b>		<b>(10,317)</b>	46,871	<b>3,483</b>	57,051
Operating expenses					
Depreciation		<b>8,386</b>	1,306	<b>16,772</b>	2,612
Sales and marketing		<b>92,006</b>	254,687	<b>144,693</b>	318,438
Share-based compensation	8	<b>81,188</b>	193,667	<b>265,287</b>	193,667
General and administrative	13	<b>346,042</b>	194,446	<b>608,136</b>	372,831
Total operating expenses		<b>527,622</b>	644,106	<b>1,034,888</b>	887,548
<b>Loss from operations</b>		<b>(537,939)</b>	(597,235)	<b>(1,031,405)</b>	(830,497)
Other income and expenses					
Listing expense	3	<b>(3,730,323)</b>	-	<b>(3,730,323)</b>	-
Interest income	11	<b>3,853</b>	645	<b>7,549</b>	645
Interest expense	6,7	<b>(108,981)</b>	-	<b>(240,663)</b>	-
Gain on derivative liabilities	6	<b>271,691</b>	-	<b>249,328</b>	-
Foreign exchange gain	6,7	<b>47,688</b>	-	<b>22,365</b>	-
<b>Net other income (expense)</b>		<b>(3,516,072)</b>	645	<b>(3,691,744)</b>	645
<b>Net loss</b>		<b>(4,054,011)</b>	(596,590)	<b>(4,723,149)</b>	(829,852)
<b>Other comprehensive income (loss)</b>					
Items that may be reclassified to net income in the future:					
Exchange difference on translation		<b>717</b>	-	<b>717</b>	-
<b>Total comprehensive loss</b>		<b>(4,053,294)</b>	(596,590)	<b>(4,722,432)</b>	(829,852)
<b>Basic &amp; diluted loss per share</b>	14	<b>(0.08)</b>	(0.01)	<b>(0.09)</b>	(0.02)

## Hempshire Group Inc.

### Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Stated in US Dollars)

(Unaudited)	Note	Share capital	Warrants	Unit obligation	Share issuance obligation	Deficit	Accumulated other comprehensive income	Total
<b>Balance, January 1, 2022</b>		1,949,376	-	-	20,000	(2,804,833)	-	(835,457)
Issued on financing	8	<b>2,307,331</b>	<b>1,172,140</b>	-	-	-	-	<b>3,479,471</b>
Issued on conversion of debt	8	<b>694,746</b>	-	-	-	-	-	<b>694,746</b>
Deemed issued	3,8	<b>606,201</b>	-	-	-	-	-	<b>606,201</b>
Issued for services	8,9,10	<b>893,279</b>	<b>377,958</b>	<b>1,890,910</b>	<b>(20,000)</b>	-	-	<b>3,142,147</b>
Derivatives reclassified to equity	6,9	-	<b>297,161</b>	-	-	-	-	<b>297,161</b>
Net and comprehensive loss		-	-	-	-	<b>(4,723,149)</b>	<b>717</b>	<b>(4,722,432)</b>
<b>Balance, June 30, 2022</b>		<b>6,450,933</b>	<b>1,847,259</b>	<b>1,890,910</b>	-	<b>(7,527,982)</b>	<b>717</b>	<b>2,661,837</b>
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Balance, January 1, 2021		791,542	-	-	-	(641,449)	-	150,093
Shares to be issued for cash		-	-	-	376,500	-	-	376,500
Shares issued for cash		426,500	-	-	(376,500)	-	-	50,000
Shares issued for services		173,333	-	-	-	-	-	173,333
Shares issuable for services		-	-	-	20,000	-	-	20,000
Net and comprehensive loss		-	-	-	-	(829,852)	-	(829,852)
<b>Balance, June 30, 2021</b>		<b>1,391,375</b>	-	-	20,000	<b>(1,471,301)</b>	-	<b>(59,926)</b>

See accompanying notes to the condensed interim consolidated financial statements

## Hempshire Group Inc.

### Condensed Interim Consolidated Statements of Cash Flows

(Stated in US Dollars)

<b>(Unaudited)</b>		<b>Six Months Ended June 30,</b>	
	<b>Note</b>	<b>2022</b>	<b>2021</b>
<b>Operating activities</b>			
Net loss		(4,723,149)	(829,852)
Adjustments to add (deduct) non-cash items:			
Depreciation		20,208	2,612
Share-based payments	8	265,287	193,667
Non-cash listing expense		3,542,161	-
Interest income	11	(7,329)	(645)
Interest expense		240,663	-
Unrealized gain on derivative liabilities	6	(249,328)	-
Unrealized foreign exchange gain	6,7	(20,895)	-
Exchange differences on translation		717	-
Cash used in operating activities before the following:		(931,665)	(634,218)
Net change in non-cash working capital related to operations			
Accounts receivable		1,950	-
Inventory		23,935	53,328
Prepays		1,839	28,855
Accounts payable and accrued liabilities		504,772	161,507
Deferred revenue		-	37,472
<b>Net cash used in operating activities</b>		<b>(399,169)</b>	<b>(353,056)</b>
<b>Investing activities</b>			
Purchases of equipment	4	(2,942)	-
Issuance of notes receivable to related parties	11	(71,329)	(65,275)
<b>Net cash used in investing activities</b>		<b>(74,271)</b>	<b>(65,275)</b>
<b>Financing activities</b>			
Proceeds from financing	8	3,479,471	423,661
Proceeds (repayments) of notes payable	7	-	(10,000)
Repayments of lease liability		(10,535)	-
Interest paid on lease liability		(1,265)	-
<b>Net cash provided by financing activities</b>		<b>3,467,671</b>	<b>413,661</b>
<b>Net change in cash</b>		<b>2,994,231</b>	<b>(4,670)</b>
Cash at beginning of year		133,983	6,636
<b>Cash at end of period</b>		<b>3,128,214</b>	<b>1,966</b>

# Hempshire Group Inc.

## Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

June 30, 2022 and 2021

(Stated in US Dollars)

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### 1. Nature of Operations and Going Concern

Hempshire Group Inc. (Formerly Hoist Capital Corp.) (the "Company") was incorporated under the Alberta Business Corporations Act on April 2, 2018. The Company changed its name to "The Hempshire Group Inc." in connection with the closing of a reverse takeover transaction as described in Note 3.

The Company's principal business activity is production and distribution of CBD Hemp cigarettes. The Company's head office is located at 870 E Research Dr Ste 2, Palm Springs CA 92262 and registered office is located at 4300 Bankers Hall West, 88 – 3<sup>rd</sup> Street S.W., Calgary AB T2P 5C5.

#### *Going concern*

These condensed interim consolidated financial statements for the three and six months ended June 30, 2022 and 2021 ("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 generating revenue to continue in the normal course of operations until such revenues are sufficient to cover the operating requirements of the business.

The Company's ability to continue as a going concern is dependent on its ability to generate positive cash flows from operations.

For the six months ended June 30, 2022, the Company had negative cash flows from operations of \$0.4 million and a net loss of \$4.7 million and has incurred losses since inception. The Company is dependent upon its ability to generate revenue; there can be no assurances that the Company will be successful. These circumstances constitute a material uncertainty, which may cast significant doubt as to the ability of the Company to continue as a going concern.

The Financial Statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations as a going concern.

### 2. Basis of Presentation

#### (a) Statement of Compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee.

These Financial Statements were authorized for issue by the Board of Directors on August 29, 2022.

#### (b) Basis of Presentation and Measurement

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"), which are stated at their fair value, and are expressed in United States ("US") dollars unless otherwise indicated. Other

# **Hempshire Group Inc.**

## **Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)**

**June 30, 2022 and 2021**

**(Stated in US Dollars)**

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measurement bases used are detailed in the Company's most recent annual financial statements for the years ended December 31, 2021 and 2020 ("Annual Financial Statements").

The notes presented in these Financial Statements include only significant events and transactions occurring since the Company's last fiscal year end and are not fully inclusive of all matters required to be disclosed by IFRS in the Company's annual financial statements. As a result, these Financial Statements should be read in conjunction with the Annual Financial Statements.

These Financial Statements follow the same accounting policies and methods of application, and include the same areas of estimate and judgment, as the most recent Annual Financial Statements.

All prior period share and per share amounts have been restated as to give effect to the Transaction as defined in Note 3.

### **(c) Basis of Consolidation**

The Company completed a reverse take-over transaction as discussed in Note 3. Accordingly, the Company now prepares consolidated financial statements which include the accounts of the Company and its wholly owned subsidiary The Hempshire Group Inc. ("Hempshire U.S.") a Wyoming Corporation. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

### **3. Reverse Takeover Transaction**

On June 24, 2022, the Company completed a reverse takeover transaction pursuant to which: (i) Hoist Capital Corp. ("Hoist"), a capital pool company under Policy 2.4 of the Corporate Finance Manual of the Exchange, acquired each issued and outstanding common share in the capital of Hempshire U.S., including the shares issued pursuant to the financing (as described in note 8), in exchange for the issuance of 5.0 common shares in the capital of Hoist (after giving effect to a concurrent consolidation of the Hoist shares at a ratio of one post-consolidation Hoist share for every four (4) pre-consolidation Hoist shares); and (ii) Hoist and Hempshire U.S. completed a business combination which constituted Hoist's Qualifying Transaction, as such term is defined under Policy 2.4 of the Exchange (collectively, the "Transaction")

The Company, created from the combination of Hoist and Hempshire U.S., is positioned to be a market leader of non-tobacco and non-nicotine smokable alternative products and is continuing the business previously carried on by Hempshire U.S. as a Tier 2 Life Sciences issuer under the policies of the Exchange.

On August 11, 2022, the Company's common shares commenced trading on the Exchange under the new stock symbol HMPG.

## **Hempshire Group Inc.**

### **Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)**

**June 30, 2022 and 2021**

**(Stated in US Dollars)**

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Prior to the completion of the Transaction, Hoist did not carry on a business, other than the identification and evaluation of businesses or assets with a view to completing a Qualifying Transaction. As such, the Transaction did not have a material impact to Hempshire regarding its financial performance and cash flows. Hoist did, however, have positive working capital, which was contributed to the Company, although the costs of the Transaction mitigated the impact of this working capital contribution to the Company.

The shareholders of Hempshire acquired control of Hoist thereby constituting a reverse acquisition of Hoist. For accounting purposes, the merger is considered a purchase of Hoists' net assets by the shareholders of Hempshire. The deemed transaction price is determined by calculating the deemed number of shares that Hempshire would have had to issue to Hoist shareholders to effect the same proportion of ownership as that of the Resulting Issuer. The deemed number of shares issued is multiplied by the fair value of those shares (the "Deemed Consideration"). Share capital, contributed surplus and deficit of Hoist are charged to the share capital of the consolidated entity and the stock exchange listing expense is the excess of the Deemed Consideration less the value of the net assets of Hoist.

Deemed consideration		<b>606,201</b>
Less: net assets of Hoist acquired		<b>(196,834)</b>
Net acquisition cost		<b>409,367</b>
Transaction costs:		
Closing fees		<b>384,996</b>
Shares issued to officer	Note 8	<b>667,091</b>
Warrants issued to officer and advisors	Note 9	<b>377,958</b>
Advisory notes issued to advisors	Note 10	<b>1,890,911</b>
		<b>3,730,323</b>

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## Hempshire Group Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

June 30, 2022 and 2021

(Stated in US Dollars)

### 4. Property and equipment

	Computer Equipment	Equipment	Production Equipment	Leasehold Improvements	Total
<b>Balance, January 1, 2021</b>					
Cost	-	41,800	-	-	41,800
Accumulated depreciation	-	(6,967)	-	-	(6,967)
Net book value	-	34,833	-	-	34,833
Depreciation	-	(2,612)	-	-	(2,612)
<b>Balance, June 30, 2021</b>					
Cost	-	41,800	-	-	41,800
Accumulated depreciation	-	(9,579)	-	-	(9,579)
Net book value	-	32,221	-	-	32,221
<b>Balance, January 1, 2022</b>					
Cost	-	41,800	55,000	9,108	105,908
Accumulated depreciation	-	(12,192)	(573)	(1,438)	(14,203)
Net book value	-	29,608	54,427	7,670	91,705
Additions	2,942	-	-	-	2,942
Depreciation	(490)	(2,612)	(3,437)	(2,877)	(9,416)
<b>Balance, June 30, 2022</b>					
Cost	2,942	41,800	55,000	9,108	108,850
Accumulated depreciation	(490)	(14,804)	(4,010)	(4,315)	(23,619)
Net book value	2,452	26,996	50,990	4,793	85,231

### 5. Accounts payable and accrued liabilities

The balance in accounts payable and accrued liabilities consists of the following:

In \$	June 30, 2022	December 31, 2021
Accounts payable	263,406	156,456
Accrued interest	-	15,088
Accrued expenses	461,060	91,359
Payroll liabilities	53,256	23,858
	777,722	286,761

Accrued expenses include \$421,060 of listing expenses in connection with the Transaction.

## Hempshire Group Inc.

### Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

June 30, 2022 and 2021

(Stated in US Dollars)

#### 6. Convertible debentures and Derivative liabilities

The Company issued convertible debentures in September and December 2021 as described in the Annual Financial Statements. The following table summarizes the activity of the convertible debentures during the six months ended June 30, 2022:

<b>Activity for the period – Convertible debentures</b>	
Beginning balance – January 1, 2022	480,153
Interest accretion expense	<b>163,851</b>
Effect of foreign exchange	<b>(10,359)</b>
Conversion to common shares	<b>(633,645)</b>
Ending balance of convertible debentures	-

Total interest for the three and six months ended June 30, 2022 relating to the convertible debentures was \$104,887 and \$209,399 (three and six months ended June 30, 2021 - \$nil) which is comprised of \$81,362 and \$163,851 of accretion of issuance costs and debenture discount as shown above and coupon interest of \$23,525 and \$45,548. On June 24, 2022, the total carrying amount of convertible debentures plus accrued interest was converted to common shares in conjunction with the Transaction described in Note 3.

In June 2022, the conversion price of all debentures was adjusted to CAD \$0.28 from CAD \$0.41 and upon completion of the Transaction defined in Note 3, total principal and accrued interest amounts in relation to all convertible debentures were exchanged for shares pursuant to the terms of the agreement.

Activity of derivative liabilities for the six months ended June 30, 2022 is summarized as follows:

<b>Activity for the period – Derivative liabilities</b>	
Beginning balance – January 1, 2022	499,668
Issuance of warrants	<b>59,099</b>
Gain on derivative liabilities	<b>(249,328)</b>
Effect of foreign exchange	<b>(12,278)</b>
Reclassification to equity	<b>(297,161)</b>
Ending balance of derivative liabilities	-

As described in Note 8, the Company issued 375,000 warrants as part of a payment in units for services. As a result of the strike price of the warrants being denominated in a foreign currency, the "fixed-for-fixed" criteria for equity treatment of the warrants was not met; accordingly, the warrants were presented as liabilities. The fair value of the derivative liability relating to the warrants was estimated at the issuance date of February 1, 2022 using the Black Scholes model, with the following inputs:

## Hempshire Group Inc.

### Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

June 30, 2022 and 2021

(Stated in US Dollars)

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Stock price	\$0.42 CAD
Strike price	\$0.80 CAD
Years to maturity	2.00
Risk-free rate	2.28%
Volatility	117.8%

The conversion feature comprising a portion of the derivative liabilities was revalued to nil on the transaction date as there was no longer any option value attributed to the conversion and as such, a gain of \$130,482 was recorded as part of the second quarter gains on derivative liabilities.

The warrants comprising a portion of derivative liabilities was revalued on the date of the transaction to \$297,161 resulting in a gain of \$141,207 recorded as part of the second quarter gains on derivative liabilities, prior to be transferred to equity, using the Black Scholes model, with the following inputs:

Stock price	\$0.28 CAD
Strike price	\$0.28 - \$0.48 CAD
Years to maturity	1.6-2.5
Risk-free rate	3.10%

#### 7. Notes payable

As described in the Annual Financial Statements, the Company had a note payable outstanding as at December 31, 2021 with a maturity date of February 28, 2022 that required a late fee of \$30,000 be paid if the note was not repaid by the maturity date. The note payable was not repaid by the maturity date, and the late fee was added to the note payable balance on that date.

In March 2022, the Company issued a promissory note to a third party for \$210,336 (CAD \$270,000) and in June 2022, issued an additional \$141,533 (CAD \$182,065) The promissory note is unsecured, bears no interest and matures in June 2022. On June 24, 2022, was promissory note was settled in full.

Changes in the balance of notes payable for the six months ended June 30, 2022 and 2021 are as follows:

<b>Balance, January 1, 2021</b>	190,000
Principal payments	(10,000)
<b>Balance, June 30, 2021</b>	180,000
<b>Balance, January 1, 2022</b>	180,000
Late fee added to balance	<b>30,000</b>
Issuance of note payable	<b>351,869</b>
Settlement and repayment of note payable	<b>(350,710)</b>
Effect of foreign exchange	<b>(1,159)</b>
<b>Balance, June 30, 2022</b>	<b>210,000</b>

In July 2022, the remaining balance of \$210,000 was repaid in full.

## Hempshire Group Inc.

### Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

June 30, 2022 and 2021

(Stated in US Dollars)

#### 8. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value. Prior to June 30, 2021, 10,000,000 common shares were authorized.

(b) Issued: Common shares

		Number of Shares	Share Capital
<b>Balance, January 1, 2022</b>	Note	51,629,000	1,949,376
Issued on financing	8(c)	<b>16,071,435</b>	<b>2,307,331</b>
Issued on conversion of debt	6	<b>3,626,925</b>	<b>694,746</b>
Deemed issued	3	<b>2,800,000</b>	<b>606,201</b>
Issued for services	8(d)(e)	<b>2,060,000</b>	<b>405,646</b>
Issued to advisors	10	<b>3,396,545</b>	<b>487,633</b>
<b>Balance, June 30, 2022</b>		<b>79,583,905</b>	<b>6,450,933</b>

(c) Financing

Pursuant to the terms of the Merger Agreement, the Company issued 16,071,435 units at a price of CAD \$0.28 per unit (each of which entitles the holder to one common share and one common share purchase warrant) for proceeds of \$3,479,471 (CAD \$4,500,000) issued by way of a private placement.

The units were bifurcated based on the relation fair values of the shares and warrants issued as part of the units whereby \$2,307,331 was allocated to the share component and the remaining \$1,172,140 was allocated to the warrant component.

(d) Issued for services

Upon completion of the Transaction described in Note 3, 1,250,000 units, each of which entitles the holder to one common share and one common share purchase warrant, were issued to an officer of the Company.

The units were bifurcated based on the relative fair values of the shares and warrants issued as part of the units whereby \$179,459 was allocated to the share component and the remaining \$130,238 was allocated to the warrant component. These amounts were recorded to listing expense.

In February 2022, the Company issued 375,000 units as part of the consideration for a marketing services agreement. Each unit consists of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder to purchase one common share of the Company at a price of CAD \$0.80 per unit for a period of two years from issuance.

As the value of the services was not readily determinable, the estimated fair value was based on the value of the shares and warrants issued as part of the units. The shares were valued at \$0.33 per share based on previous cash-based share transactions, and the warrants were valued as described in Note 6 and recorded to share-based payments.

## Hempshire Group Inc.

### Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

June 30, 2022 and 2021

(Stated in US Dollars)

As part of the agreement, the Company issued an additional 375,000 common shares upon closing of the Transaction described in Note 3. The shares were valued at a price of CAD \$0.28 per share and recorded to share-based payments.

#### (e) Share issuance obligation

During the six months ended June 30, 2022, the Company issued 60,000 shares valued at \$20,000 in fulfillment of the share issuance obligation presented as at December 31, 2021.

#### (f) Escrow shares

There are 43,830,000 common shares issued prior to the Company's initial listing that were held in Escrow. These shares are released pro-rata to the shareholders on the following schedule: (i) 10% on the listing date; and (ii) an additional 15% every 6 months thereafter. As of June 30, 2022, 39,447,000 common shares remain in escrow.

## 9. Warrants

		Number of warrants	Warrants
<b>Balance, January 1, 2022</b>	Note	-	-
Issued on financing	8(c)	<b>16,071,432</b>	<b>1,172,140</b>
Transferred from derivative liabilities	6	<b>2,693,000</b>	<b>297,161</b>
Issued for services	8(d)	<b>1,250,000</b>	<b>130,238</b>
Issued to advisors	10	<b>3,396,545</b>	<b>247,720</b>
<b>Balance, June 30, 2022</b>		<b>23,410,977</b>	<b>1,847,259</b>

The fair value of warrants transferred from derivative liabilities and for new warrants issued was determined on June 24, 2022 using the Black Scholes model, with the following inputs:

Stock price	\$0.28 CAD
Strike price	\$0.28 - \$0.48 CAD
Years to maturity	1.6 – 2.4
Risk-free rate	3.10%
Volatility	119.3%

## 10. Unit obligation

On June 24, 2022, an arm's length third party to the Company, earned an advisory fee in the form of an aggregate of 12,130,525 units and notes, representing an amount equal to an aggregate of 8% of the fully diluted equity value of the Company under the Transaction, plus 1,000,000 units, to be allocated as directed by the third party. 8,733,980 were issued as notes ("Advisor Notes") which shall be convertible into units, subject to a restriction on conversion to the extent that any such conversion would result in the combined share ownership of the third party, and its principals exceeding 9.99% of the issued and outstanding common shares of the Company at such time. The fair value of the Advisor Notes of \$1,890,911 was determined on the closing date of the Transaction based on a fair value of CAD \$0.28 per unit.

## Hempshire Group Inc.

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The remaining 3,396,545 securities were issued as units each of which entitled the holder to one common share and one common share purchase warrant. The units were bifurcated based on the relative fair values of the shares and warrants issued as part of the units whereby \$487,633 was allocated to the share component and the remaining \$247,720 was allocated to the warrant component.

#### 11. Related Party Transactions

Transactions with related parties are incurred in the normal course of business and initially measured at fair value. The Company has identified directors and senior officers as key management personnel. The Company recognized the following transactions with related parties:

##### Consulting fees

- For the six months ended June 30, 2022, \$76,091 (six months ended June 30, 2021 – \$55,737) was paid in consulting fees to a former senior officer and major shareholder of the Company.

##### Advances

- During the six months ended June 30, 2022, the Company advanced \$71,329 to a former senior officer and major shareholder of the Company which was formalized with a note receivable under the same terms as those disclosed in the annual audited financial statements for the year ended December 31, 2021 for this related party bringing the total principal amount outstanding to \$236,163. Subsequent to June 30, 2022, pursuant to the terms of the note receivable, the notes matured concurrent with the Company's first day of trading on a public exchange, yet the amounts remain outstanding as the Company is currently negotiating a repayment plan with the related party.
- Interest income of \$7,328 and \$nil was recognized for the six months ended June 30, 2022 and 2021 relating to these notes receivable, respectively.

Total amounts outstanding on the notes receivable from related parties as at June 30, 2022 and December 31, 2021 are as follows:

	June 30, 2022	December 31, 2021
Principal balance due from senior officer and major shareholder	236,163	164,834
Principal balance due from executive officer	49,300	49,300
Notes receivable from related parties	285,463	214,134
Accrued interest	9,032	1,703
	<b>294,495</b>	<b>215,837</b>

#### 12. Inventory write-down

The Company recorded a write-down of \$24,966 in relation to finished good inventory that did not meet the Company's quality standards due to a formulation error during manufacturing.

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### 13. General and administrative expenses

Balance comprised of:	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Wages and benefits	236,051	98,763	430,800	158,654
Professional fees	79,526	21,118	126,094	42,716
Office supplies and utilities	10,201	6,011	21,939	11,645
Insurance	3,484	7,395	5,619	9,963
Storage	581	13,815	3,343	18,498
Vehicle	186	215	1,183	891
Contract services	-	34,045	484	72,413
Licenses, dues and subscriptions	3,517	4,456	3,786	4,723
Rent	-	6,001	-	42,398
Consulting	-	-	-	6,509
Other	12,496	2,627	14,888	4,421
Total general and administrative	346,042	194,446	608,136	372,831

### 14. Loss per Share

The calculation of per share amounts is based on the following:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net loss - basic	(4,053,294)	(596,590)	(4,722,432)	(829,852)
Effect of dilutive securities	-	-	-	-
Net loss - diluted	(4,053,294)	(596,590)	(4,722,432)	(829,852)
Weighted averages shares - basic	53,878,500	48,002,421	52,885,766	47,344,958
Effect of dilutive securities	-	-	-	-
Weighted average shares - diluted	53,878,500	48,002,421	52,885,766	47,344,958
Per share - basic	(0.08)	(0.01)	(0.09)	(0.02)
Per share - diluted	(0.08)	(0.01)	(0.09)	(0.02)

In computing per share amounts for the three and six months ended June 30, 2022, 280,000 options (2021 – nil) and 23,410,980 warrants (2021 – nil) were excluded as the Company had a net loss and their inclusion would be anti-dilutive.

## **Hempshire Group Inc.**

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### **15. Fair Value of Financial Instruments**

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the financial instrument:

- Level 1 fair value measurements are those derived from quoted prices (adjusted) in the active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

The carrying value of cash, accounts receivable, notes receivable from related parties, accounts payable and accrued liabilities, note payable, and lease liability approximates fair value due to the short-term nature of these financial instruments. The debt component of the convertible debentures are measured at amortized cost. The conversion feature of the convertible debt as well as common share purchase warrants issued and outstanding up until the closing of the Transaction on June 24, 2022 comprise the derivative liabilities which were carried at FVTPL and remeasured at each reporting date using a combination of Level 2 and Level 3 inputs.

### **16. Capital Management**

All disclosures in relation to the financial risk management of the Company reflect the information provided internally to the management of the Company. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk.

The Company manages the capital structure and adjusts it based on changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. As of June 30, 2022, the Company has not entered into any debt financing. Subsequent to June 30, 2022, through the use of its financing proceeds, all outstanding debt has been repaid in full. The Company has issued new shares in connection with the Transactions disclosed in Note 3 but has not issued any new debts nor disposed of any assets.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company considers cash and shareholders' equity to be capital of the Company. The Company does not have any externally imposed restrictions on its capital and there have been no changes in the Company's approach to capital management from previous years.



## **Hempshire Group Inc.**

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### **17. Subsequent Events**

The Company was listed on the Toronto Stock Exchange for venture issuers effective August 11, 2022 under the trading symbol “HMPG”. Upon listing, the Company entered into investor relation arrangements which totaled approximately \$326,000, the terms of which range between six and twelve months. The Company also entered into arrangements for financial advisory services for a period of twelve months totaling approximately \$308,000.