THE HASH CORPORATION

(FORMERLY SENTERNET PHI GAMMA INC.)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

Zeifmans

INDEPENDENT AUDITORS' REPORT

To the Shareholders of The Hash Corporation

Opinion

We have audited the financial statements of The Hash Corporation (formerly, Senternet Phi Gamma Inc.) (the "Company"), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We have conducted our audits in accordance with Canadian generally accepted auditing standards ("GAAS"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements which indicates that the Company has incurred a net loss and comprehensive loss of $2,041,096 for the year ended December 31, 2019 and had an accumulated deficit of $5,962,836 at December 31, 2019 (December 31, 2018 $3,921,740). As stated in Note 1, these events or conditions along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis ("MD&A").

Our opinion on the financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be misstated.

We obtained the MD&A prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting for error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstance, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in or auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit

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evidence obtained up to the date of the auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audits resulting in this independent auditors' report is Ahmad Aslam, CPA, CA.

Zeifmans LLP

Toronto, Ontario
May 15, 2020

Chartered Professional Accountants
Licensed Public Accountants

The Hash Corporation (formely Senternet Phi Gamma Inc.)

Statement of Financial Position

(Expressed in Canadian Dollars)

	As at December 31, 2019	As at December 31, 2018
ASSET	**$**	**$**
Current assets		
Cash	**2,672,404**	105,724
Government remittances recoverable	**22,802**	-
Marketable securities	**1**	1
Total assets	**2,695,207**	105,725
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**252,391**	59,281
Government remittances payable	**-**	39,795
Total liabilities	**252,391**	99,076
Equity		
Share capital (note 5)	**6,629,052**	3,845,851
Equity reserves (note 7)	**1,776,600**	82,538
Deficit	**(5,962,836)**	(3,921,740)
Total equity	**2,442,816**	6,649
Total liabilities and equity	**2,695,207**	105,725

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

Nature of operations and going concern (note 1)
Commitment (note 11)
Subsequent events (note 12)

Approved on behalf of the board:

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The Hash Corporation (formerly Senternet Phi Gamma Inc.)

Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	Year ended December 31, 2019	Year ended December 31, 2018
	$	$
Operating expenses		
Share-based payments (note 7)	**1,532,500**	-
Salaries and wages (note 9)	**312,391**	-
Professional fees and corporate services	**103,999**	166,892
Office and general	**62,964**	12,139
Transfer agent's fees and expenses (note 9)	**29,242**	92,251
Net loss and comprehensive loss for the year	**(2,041,096)**	(271,282)
Basic and diluted net loss per share (note 8)	**(0.03)**	(0.02)
Weighted average number of common shares outstanding	**65,887,914**	17,526,317

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

The Hash Corporation **(formerly Senternet Phi Gamma Inc.)**
Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in Canadian Dollars)

	Share capital		Equity		
	Number	Amount	reserve	Deficit	Total
		$	$	$	$
Balance, December 31, 2017	2,774,167	3,490,889	-	(3,650,458)	(159,569)
Issued for cash - private placement (note 5)	22,250,000	362,462	82,538	-	445,000
Share issuance cost	-	(7,500)	-	-	(7,500)
Net loss and comprehensive loss for the year	-	-	-	(271,282)	(271,282)
Balance, December 31, 2018	**25,024,167**	**3,845,851**	**82,538**	**(3,921,740)**	**6,649**
Issued for cash - private placement (note 5)	133,946,123	3,146,534	156,000	-	3,302,534
Share issuance cost (note 5)	-	(357,771)	-	-	(357,771)
Issuance of warrants (note 7)	-	-	1,532,500	-	1,532,500
Extension of warrant expiration date (note 7)	-	(5,562)	5,562	-	-
Net loss and comprehensive loss for the year	-	-	-	(2,041,096)	(2,041,096)
Balance, December 31, 2019	**158,970,290**	**6,629,052**	**1,776,600**	**(5,962,836)**	**2,442,816**

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

The Hash Corporation (formerly Senternet Phi Gamma Inc.)
Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended December 31, 2019	Year ended December 31, 2018
Operating activities		
Net loss for the year	**(2,041,096)**	(271,282)
Adjustments for:		
Share-based payments	**1,532,500**	-
Changes in non-cash working capital items:		
Amounts receivable	**-**	1,338
Accounts payable and accrued liabilities	**193,110**	47,281
Government remittances	**(62,597)**	39,795
Net cash used in operating activities	**(378,083)**	(182,868)
Financing activities		
Proceeds from private placements, net of costs (note 5)	**2,944,763**	437,500
Repayments to related parties	**-**	(148,937)
Net cash provided by financing activities	**2,944,763**	288,563
Net change in cash	**2,566,680**	105,695
Cash, beginning of year	**105,724**	29
Cash, end of year	**2,672,404**	105,724

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

1. Nature of operations and going concern

The Hash Corporation (formerly, Senternet Phi Gamma Inc.) (the "Company") was incorporated under the Business Corporations Act (Ontario) on March 28, 1967 as Northville Explorations Ltd. On January 22, 2014, the Company changed its name to Senternet Phi Gamma Inc. and on July 8, 2019 the Company changed its name to its present name. On April 20, 2020 the Company entered into a collaboration agreement to allow it to sell cannabis based hashish and related products (see note 12). The head office of the Company is located at 1 Adelaide Street East, Suite 801, Toronto, Ontario, M5C 2V9.

Going concern

These financial statements have been prepared on a going concern basis. The going concern basis assumes that the Company will 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 business. The Company incurred loss of $2,041,096 during the year ended December 31, 2019 and had an accumulated deficit of $5,962,836 at December 31, 2019 (December 31, 2018 - $3,921,740). The Company has working capital of $2,442,816 at December 31, 2019 (December 31, 2018 - $6,649). Management is working diligently to obtain the requisite regulatory approvals to produce and sell cannabis-based hashish and other cannabis concentrates (see note 12). Management believes based on the current working capital levels the Company has sufficient working capital to continue operations on a going concern basis for at least the next twelve months.

The ability of the Company to continue as a going concern in the future is dependent upon the identification of a new business opportunity to generate positive cash flows from operations and the Company's ability to obtain additional financing. There is no assurance that the Company will be successful in achieving these objectives. These financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. The adjustments could be material.

2. Significant accounting policies

Statement of compliance

The financial statements of the Company have been prepared in accordance International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The policies in these financial statements are based on IFRS issued and outstanding as of May 15, 2020, the date the Board of Directors approved the financial statements.

Basis of measurement

The financial statements were prepared on the historical cost convention, as modified by the revaluation of financial instruments.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Company.

Foreign currency transactions are recorded at the exchange rate as at the date of the transaction. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities in foreign currencies other than the functional currency are translated using the historical rate. All gains and losses on translation of these foreign currency transactions are included in the determination of profit and loss.

2. Significant accounting policies (continued)

Estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to:

- Stock-based compensation is subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes Option Pricing Model;
- Warrant valuation;
- Income taxes;
- Amounts of accounts payable and accrued liabilities;
- Assets' carrying values and impairment charges.

Cash

Cash includes funds in corporate bank accounts and in trust with lawyers.

Stock-based compensation

Share-based compensation to employees is measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based compensation to non-employees is measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the equity reserves. The fair value of options and warrants is determined using the Black-Scholes Option Pricing Model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for equity instruments granted shall be based on the number of equity instruments that eventually vest. The Company determines the share value at the grant date based on the most recent share issuance for cash. As the Company's shares are not currently traded on an active market, the Company uses the volatilities of comparable entities traded on the public market.

Warrants

All warrants issued are valued on the date of grant using the Black-Scholes option pricing model, net of related issue costs and are recorded in the equity reserves. Expired warrants are removed from equity reserves and credited directly to retained earnings (deficit).

Share capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of tax, from the proceeds.

2. Significant accounting policies (continued)

Comprehensive income (loss)

Comprehensive income (loss) is the change in shareholders' equity (deficiency) that results from transactions and other events from other than the Company's shareholders and includes items that would not normally be included in net earnings. Certain gains and losses are presented in other comprehensive income until it is considered appropriate to recognize them into net income (loss).

Income (loss) per share

Basic income (loss) per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. Dilutive income per share reflects the potential dilution of securities that could share in the net income of an entity. In periods where a net loss is incurred, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive and basic and diluted loss per common share is the same. In a profit year, under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted income per share assumes that the proceeds to be received on the exercise of diluted stock options and warrants are used to repurchase common shares at the average price during the year.

Financial instruments

Recognition and measurement

The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes a party to the contractual provisions of the financial instrument.

Financial instruments are classified into one of the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL in which case transaction costs are expensed as incurred.

Financial assets and liabilities are recognized initially on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A financial asset is measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Significant accounting policies (continued)

<u>Financial instruments (continued)</u>

A financial asset is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition the Company may irrevocably elect to measure financial assets that otherwise meets the requirements to be measured at amortized cost or FVOCI as at FVTPL when doing so results in more relevant information.

Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company has not classified any of its financial instruments as FVOCI.

A financial liability is generally measured at amortized cost, with the exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are monetarily measured at FVTPL, such as derivatives liabilities. The Company may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

FVTPL

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting date with changes in fair value recognized in profit (loss) in statement in the period in which they occur. The Company classifies cash and marketable securities as FVTPL.

Amortized cost

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method, less any impairment losses. The Company classifies accounts payable and accrued liabilities as amortized cost.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocation interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

2. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

An expected credit loss ("ECL") model is applied to the assessment of financial assets. Under the ECL model, the Company has to record an allowance for ECL either based on a 12-month ECL or on a lifetime ECL. ECLs are recognized on the following basis:

- A maximum 12-month allowance for ECL is recognized from initial recognition, reflecting the portion of lifetime cash shortfalls that would result if a default occurs in the 12 months after the reporting date, weighted by the risk of a default occurring.
- A lifetime ECL allowance is recognized if a significant increase in credit risk is detected subsequent to the instruments' initial recognition reflecting lifetime cash shortfalls that would result over the expected life of a financial instrument.
- A lifetime ECL allowance is recognized for credit impaired financial instruments.

The Company had no receivables subject to ECL evaluation at the end of both years presented.

Definition of default

For internal credit risk management purposes, the Company considers a financial asset not recoverable if the customer balance owing is 120 days past due and information obtained from the customer and other external factors indicate that the customer is unlikely to pay its creditors in full.

Write off policy

A write-off of a financial asset (or portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectations of recovering the contractual cash flows on a financial asset.

Derecognition

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial asset expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the determination of net loss. However, gains and losses on derecognition of financial assets classified as FVOCI remain within accumulated other comprehensive income (loss).

Financial liabilities
The Company derecognizes financial liabilities only when its obligation under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets, is recognized in the determination of net loss.

Income tax

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income (loss), in which case it is recognized in equity or other comprehensive income (loss).

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

2. Significant accounting policies (continued)

Income tax (continued)

Deferred taxes are recorded using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences do not result in deferred tax assets or liabilities: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statements of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Intangible assets

Intangible assets are initially measured at cost and reported using the cost model. Under this method after initial recognition, the intangible asset is carried at its cost less any accumulated amortization and any accumulated impairment losses.

Impairment of non-financial assets

The Company's indefinite life intangible assets are recorded at their cost which represents the fair value at the acquisition date. They are not subject to amortization and are tested for impairment annually or more frequently when indicated by changes in events or circumstances. An impairment of an indefinite life intangible asset is recorded when, and to the extent that, the carrying value of an indefinite life intangible asset exceeds the recoverable amount. The recoverable amount is the higher of the fair value less cost to sell and its value in use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of income (loss) and comprehensive income (loss) so as to reduce the carrying amount to its recoverable amount. Impairment losses related to continuing operations are recognized in the statements of loss and comprehensive loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill and indefinite life intangibles, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount.

2. Significant accounting policies (continued)

Impairment of non-financial assets (continued)

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income (loss) and comprehensive income (loss). Impairment losses recognized in relation to goodwill or indefinite life intangibles are not reversed for subsequent increases in their recoverable amount.

Adoption of new accounting standards

IFRS 16 Leases (“IFRS 16”)

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases. IFRS 16 requires entities to recognize lease assets and lease obligations on the balance sheet. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead leases are “capitalized” by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligations to make future lease payments. IFRS 16 is effective for fiscal periods beginning on or after January 1, 2019. Based on the Company's assessment, the Company has determined that this standard did not have a significant impact on its financial statements.

IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”)

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Based on the Company's assessment, the Company has determined that this interpretation did not have a significant impact on its financial statements.

New standard not yet adopted and interpretations issued but not yet effective

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following standard modification has not yet been adopted.

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted. Based on the Company's assessment, the Company has determined that this standard modification will not have a significant impact on its financial statements.

3. Capital risk management

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, which comprises share capital, reserves and deficit, which at December 31, 2019 was $2,442,816 (December 31, 2018 - $6,649). The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2019.

4. Financial instruments

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

At December 31, 2019 and 2018 the Company's financial instruments consist of cash, marketable securities and accounts payable and accrued liabilities. The fair values of cash and cash equivalents and accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term maturity of this instrument. The fair value of cash and marketable securities is based on level 1 inputs of the fair value hierarchy.

<u>Financial risk</u>

The Company is exposed to a variety of financial instrument related risks. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's maximum exposure to credit risk at December 31, 2019 under its financial instruments is approximately $2,672,404 (December 31, 2018 - $105,724).

All of the Company's cash and cash equivalents are held with a major financial institution in Canada and management believes the exposure to credit risk with respect to such institutions is not significant.

(Expressed in Canadian Dollars)

4. Financial instruments (continued)

Financial risk (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. The Company's cash and cash equivalents are currently invested in business accounts which are available on demand by the Company for its operations. All of the Company's liabilities are current and carrying amounts in the statement of the financial position reflect the maximum obligation.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. With respect to financial assets, the Company is not exposed to significant interest rate risk

5. Share capital

a) Authorized share capital

The authorized share capital consisted of unlimited number of common shares.

In July 2019, the Company affected a 20-to-1 stock consolidation (the "Consolidation"), which has been retrospectively applied in these financial statements. For clarity, all references to shares issued and price per share issued prior to Consolidation have been adjusted to the equivalent post-Consolidation numbers.

b) Common shares issued

	Number of shares #	Amount $
Balance, December 31, 2017	2,774,167	3,490,889
Shares issued pursuant to May 4, 2018 private placement (i)	22,250,000	362,462
Share issuance costs	-	(7,500)
Balance, December 31, 2018	25,024,167	3,845,851
Shares issued pursuant to August 30, 2019 private placement (ii)	108,325,732	2,166,514
Shares issued pursuant to September 19, 2019 private placement (iii)	5,000,000	100,000
Shares issued pursuant to November 4, 2019 private placement (iv)	18,580,391	929,020
Shares issued pursuant to December 23, 2019 private placement (v)	2,140,000	107,000
Share issuance costs (vi)	-	(513,771)
Extension of warrant expiration date (note 7(a))	-	(5,562)
Balance, December 31, 2019	159,070,290	6,629,052

5. Share capital (continued)

b) Common shares issued (continued)

(i) On May 4, 2018, the Company closed a non-brokered private placement financing. The Company issued 22,250,000 units ("Units") at a price of $0.02 for gross proceeds of $445,000 (the "Offering") of which $362,462 was allocated to common shares. Each Unit consists of one common share and one warrant, with each warrant exercisable into a common share for period eighteen months from the issuance date at an exercise price of $0.04 per share (see note 7(a)). All of the securities issued in connection with the Offering are subject to a statutory hold period under applicable securities laws for a minimum period of four months and one day after the date of issuance.

(ii) On August 30, 2019 the Company completed the first tranche of a non-brokered private placement financing ("Financing I"). The Company issued 108,325,732 common shares at a price of $0.02 per share for gross proceeds of $2,166,514. The fees in relation to this issuance are as described in Note 5(b)(vi).

(iii) On September 19, 2019, the Company completed the second tranche of Financing I. The Company issued 5,000,000 common shares at a price of $0.02 per share for gross proceeds $100,000. The fees in relation to this issuance are as described in Note 5(b)(vi).

(iv) On November 4, 2019, the Company completed the first tranche of a non-brokered private placement financing ("Financing II"). The Company issued 18,580,931 common shares at a price of $0.05 per share for gross proceeds $929,020. The fees in relation to this issuance are as described in Note 5(b)(vi).

(v) On December 23, 2019, the Company completed the second tranche of Financing II. The Company issued 2,140,000 common shares at a price of $0.05 per share for gross proceeds $107,000. The fees in relation to this issuance are as described in Note 5(b)(vi).

(vi) First Republic Capital Corporation ("First Republic") acted as the lead finder for the Financing I and II. A cash fee was paid to finders representing 6% of the gross proceeds raised in Financing I and II. Additionally, finders' received compensation warrants ("Compensation Warrants") totaling 6% of the number of Shares sold pursuant to Financing I and II. First Republic was paid a corporate finance fee representing 4% of the gross proceeds raised in Financing I and II and that number of Compensation Warrants equaling 4% of the number of shares sold in Financing I and II (see note 7).

(Expressed in Canadian Dollars)

6. Stock options

The Company maintains a share option plan (the “Plan”) for the benefit of management, directors, officers, employees, and service providers. In general, the maximum number of common shares reserved for issuance in respect may not exceed 10% of the number of common shares issued and outstanding.

Options are granted under the Plan at the discretion of the Board of Directors. The exercise price is to be determined by the directors, or any committee thereof specifically designated by the directors. The expiry date of options granted under the Plan is to be no later than the tenth anniversary of the Grant Date of such option.

	Number of Stock options	Weighted average excerise price $
Balance, December 31, 2017 and December 31, 2018	75,000	1.00
Expired	(75,000)	(1.00)
Balance, December 31, 2019	-	-

The 75,000 options, which at the time of their issuance were determined to have only nominal value, expired on April 7, 2019.

7. Warrants

	Number of warrants #	Amount $
Balance, December 31, 2017	-	-
Warrants issued pursuant to May 4, 2018 private placement (a)	22,250,000	82,538
Balance, December 31, 2018	22,250,000	82,538
Extension of warrant expiration date (b)	-	5,562
Warrants issued on July 8,2019 (c)	100,000,000	1,532,500
Warrants issued pursuant to August 30, 2019 private placement (d)	10,832,573	102,085
Warrants issued pursuant to September 19, 2019 private placement (e)	500,000	4,737
Warrants issued pursuant to November 4, 2019 private placement (f)	1,858,039	44,003
Warrants issued pursuant to December 23, 2019 private placement (g)	214,000	5,175
Balance, December 31, 2019	135,654,612	1,776,600

a) In connection with the May 4, 2018 private placement financing (see note 5(b)(i)), the Company estimated the fair value of the 22,250,000 warrants at $82,538 using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate 1.68%, Expected life – 1.25 years (see note 7), Expected annual volatility – 90%, Expected dividends – Nil, Share price - $0.02, Exercise price - $0.04.

7. Warrants (continued)

b) On July 8, 2019, the Company extended the expiry date of the warrants issued in the Company's private placement that closed on May 4, 2018 (see note 5(b)(i)), with the new expiration date being the date that is three months following the date on which the Company's common shares are listed. The Company estimates the completion of the listing by June 2020. The warrants were revalued by calculating the fair value using the Black-Scholes model with the following assumptions: Risk free interest rate 1.68%, Expected life – 1.25 years, Expected annual volatility – 90%, Expected dividends – Nil, Share price - $0.02, Exercise price $0.04 The adjustment required for the extension of the warrants was $5,652 was reflected in the warrants reserve and share capital.

c) On July 8, 2019, the Company granted 100,000,000 special warrants to an arm's-length consultant of the Company, each special warrant entitling the holder thereof to acquire one common share at a purchase price of $0.005 until July 8, 2020. The fair value of the warrants was determined to be $1,532,500. For purposes of calculating the fair value of the warrants, the following assumptions were used for the Black-Scholes model: Risk free interest rate 1.68%, Expected life – 1 years, Expected annual volatility – 93% Share price - $0.02, Exercise price - $0.005, Expected dividends – Nil. The warrants were recorded as share-based payments in the statement of loss and comprehensive loss.

d) In connection with the August 30, 2019 private placement financing (see note 5(b)(ii)), the Company estimated the fair value of the 10,832,573 warrants at $102,094 using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate 1.35%, Expected life – 2 years, Expected annual volatility – 87%, Expected dividends – Nil, Share price $0.02, Exercise price - $0.02. The Compensation Warrants are exercisable at a price of $0.02 per share for a period of 24 months after the closing of the Financing I.

e) In connection with the September 19, 2019 private placement financing (see note 5(b)(iii)), the Company estimated the fair value of the 500,000 warrants at $4,737 using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate 1.60%, Expected life – 2 years, Expected annual volatility – 88%, Expected dividends – Nil Share price $0.02, Exercise price - $0.02. The Compensation Warrants are exercisable at a price of $0.02 per share for a period of 24 months after the closing of the Financing I.

f) In connection with the November 4, 2019 private placement financing (see note 5(b)(iv)), the Company estimated the fair value of the 1,858,039 warrants at $44,003 using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate 1.63%, Expected life – 2 years, Expected annual volatility – 88%, Expected dividends – Nil, Share price $0.05, Exercise price - $0.05. The Compensation Warrants are exercisable at a price of $0.05 per share for a period of 24 months after the closing of the Financing II.

g) In connection with the December 23, 2019 private placement financing (see note 5(b)(v)), the Company estimated the fair value of the 214,000 warrants at $5,175 using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate 1.68%, Expected life – 2 years, Expected annual volatility – 90%, Expected dividends – Nil, Share price $0.05, Exercise price - $0.05. The Compensation Warrants are exercisable at a price of $0.05 per share for a period of 24 months after the closing of the Financing II.

(Expressed in Canadian Dollars)

7. Warrants (continued)

The changes in warrants for the year are summaries as follows:

	2019			2018		
	Warrants outstanding		Weighted average exercise price	Warrants outstanding		Weighted average exercise price
Opening balance	**22,250,000**	**$**	**0.040**	22,250,000	$	0.040
Granted	**113,404,612**		**0.014**	-		-
Expired	**-**		**-**	-		-
Exercised	**-**		**-**	-		-
Closing balance	**135,654,612**	**$**	**0.019**	22,250,000	$	0.040

The following summarizes information about warrants outstanding at December 31, 2019:

Expiry date	Warrants outstanding	Warrants exercisable		Exercise price		Estimated grant date fair value	Weighted average remaining contractual life (in years)
September 30, 2020	22,250,000	22,250,000	$	0.040	$	88,100	0.75
July 8, 2020	100,000,000	100,000,000	$	0.005		1,532,500	0.52
August 30, 2020	10,832,573	10,832,573	$	0.020		102,085	0.67
September 19, 2021	500,000	500,000	$	0.020		4,737	1.72
November 5, 2021	1,858,039	1,858,039	$	0.050		44,003	1.85
December 23, 2021	214,000	214,000	$	0.050		5,175	1.98
	135,654,612	135,654,612			$	1,776,600	0.59

8. Loss per share

For the year ended December 31, 2019, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $2,041,096 (2018 - $271,282) and the weighted average number of common shares outstanding of 65,887,914 (2018 - 17,526,317). There was no dilutive impact on the basic loss per share because the stock options and warrants issued by the Company are anti-dilutive for the years ended December 31, 2019 and 2018.

9. Related party transactions

The Company incurred $312,391 (2018 - $nil) in salaries and management fees expenses with officers of the Company of which one is also a director of the Company. These transactions were in the normal course of business and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(Expressed in Canadian Dollars)

10. Income taxes

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the years in which those temporary differences become deductible. The income tax benefit in the statements of income (loss) and comprehensive income (loss) differs from the amount that would be computed by applying the federal and provincial statutory income tax rate of 26.50% for the years ended December 31, 2019 (2018 - 26.50%) to loss for the year.

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2018 – 26.5%) to the effective tax rate is as follows:

		2019		2018
Net loss and comprehensive loss before income taxes		(2,041,096)		(271,282)
Expected income tax recovery	$	(540,890)	$	(71,900)
Share issuance cost		(94,805)		-
Share based compensation		406,113		-
Other		385		-
Change in unrecognized deferred tax assets		229,197		71,900
Income tax recovery	$	-	$	-

As at December 31, 2019, the deferred tax asset of $631,035 ($401,838 as at December 31, 2018) has not been recognized because at this stage of the Company's development, management is unable to establish that it is probable that taxable income will be generated against which the Company will utilize such loss carry forwards.

The Company's unrecognized deferred tax assets are as follows:

		2019		2018
Non-capital loss carry-forwards	$	230,356	$	77,003
Share issuance costs		75,844		-
Continuity of earned depletion base		12,156		12,156
Cumulative Canadian exploration expenses		2,591		2,591
Foreign exploration expenses		310,088		310,088
		631,035		401,838
Valuation allowance		(631,035)		(401,838)
	$	-	$	-

(Expressed in Canadian Dollars)

10. Income taxes (continued)

As at December 31, 2019 there were unused non-capital losses of $869,267 (2018: $290,576) which expire as follows:

Year of expiration		
2037	$	**19,294**
2038		**271,282**
2039		**578,691**
	$	**869,267**

11. Commitment

The Company has committed to issue 20,000,000 share purchase options (the “Executive Options”) to certain executives of the Company as part of their compensation as set out in their respective employment contracts. Each Executive Option entitles the executive to, subject to the term and conditions set out in their employment contract and following the applicable vesting criteria, purchase, at any time or from time to time, starting on the date of commencement of the executive’s employment with the Company and ending on the third anniversary thereof, one common share at an exercise price of $0.05 per share. Upon receipt of an exercise notice of the Executive Option, the Company is to pay a one-time bonus equal to the aggregate exercise price of the Executive Option, net of all applicable deductions and withholdings. The Board has yet to approve the issuance of the Executive Options.

12. Subsequent events

Beginning in March 2020 the Governments of Canada and Ontario, as well as foreign governments, instituted emergency measures as a result of the COVID-19 virus. The virus has had a major impact on Canadian and international securities and currency markets and consumer activity which may impact the Company’s financial position, its results of operations and its cash flows significantly. As these are subsequent events, these financial statements do not reflect such impact. As at May 15, 2020, it is also not possible to accurately quantify or estimate that impact.

On April 20, 2020, the Company entered into a five-year collaboration agreement with Medz Cannabis Inc. (“Medz”). The Company is to lease 2,300 square feet of processing space (the “Processing Space”) within a licensed facility owned by Medz located in Toronto, Ontario for $5,513 per month. In addition, Medz is to assist the Company in obtaining the requisite regulatory approvals to produce and sell cannabis-based hashish and other cannabis concentrates (the “Products”) and is also to supply the Company with certain materials to be used in the production process. The Company is to pay to Medz a 3.5% royalty on all revenues generated from sale of the Products produced in the Processing Space, and a 5% royalty on any tolling or service revenue earned by the Company on certain service contracts.