# The Hash Corporation

## Financial Statements

For the years ended December 31, 2020 and 2019
[expressed in Canadian dollars, except share amounts]

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**INDEPENDENT AUDITORS' REPORT**

To the Shareholders of The Hash Corporation

*Opinion*

We have audited the financial statements of The Hash Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of loss and comprehensive loss, changes in shareholders' equity 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, 2020 and 2019 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 2 [b] to the financial statements which indicates that the Company has incurred a net loss and comprehensive loss of $2,021,138 for the year ended December 31, 2020 and had an accumulated deficit of $7,983,974 at December 31, 2020. These events or conditions along with other matters as set forth in Note 2[b], 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 circumstances, 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.

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- 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 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 | Chartered Professional Accountants
February 17, 2021 | Licensed Public Accountants

**The Hash Corporation**

## STATEMENTS OF FINANCIAL POSITION

As at December 31, 2020 and 2019
[expressed in Canadian dollars]
[see going concern uncertainty – note 2]

| | Notes | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **2,051,028** | 2,672,404 |
| Sales tax receivable | | **44,966** | 22,802 |
| Prepaid expenses and other assets | | **20,559** | 1 |
| | | **2,116,553** | 2,695,207 |
| **Non-current assets** | | | |
| Deposits | | **40,344** | — |
| Equipment, net | 4 | **103,645** | — |
| | | **2,260,542** | 2,695,207 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **224,825** | 252,391 |
| | | **224,825** | 252,391 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 5 | **8,020,096** | 6,629,052 |
| Warrants | 5 | **1,999,595** | 1,776,600 |
| Accumulated deficit | | **(7,983,974)** | (5,962,836) |
| | | **2,035,717** | 2,442,816 |
| | | **2,260,542** | 2,695,207 |
| Commitments and contingencies | 9 | | |
| Subsequent events | 13 | | |

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

On behalf of the Board:

*"Chris Savoie"*

*"Binyomin Posen"*

## STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

For the years ended December 31, 2020 and 2019
[expressed in Canadian dollars, except number of shares]

| | Notes | **2020** $ | 2019 $ |
|---|---|---|---|
| **Expenses** | | | |
| Share-based payments | 5 | **1,168,289** | 1,532,500 |
| Salaries and wages | | **546,202** | 312,391 |
| Rent, general office and travel | | **180,045** | 92,206 |
| Professional fees | | **107,920** | 103,999 |
| Depreciation | 4 | **18,682** | — |
| **Total operating expenses** | | **2,021,138** | 2,041,096 |
| **Net loss and comprehensive loss** | | **(2,021,138)** | (2,041,096) |
| Net loss per share | | | |
| Basic and diluted | 7 | **(0.01)** | (0.03) |
| Weighted average number of shares outstanding – basic and diluted | 7 | **190,399,252** | 65,887,914 |

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

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
For the years ended December 31, 2020 and 2019
[expressed in Canadian dollars, except number of shares]

| | Share capital | | Warrants | | Accumulated deficit | Total |
|---|---|---|---|---|---|---|
| | **#** | **$** | **#** | **$** | **$** | **$** |
| **Balance, December 31, 2018** | **25,024,167** | **3,845,851** | **22,250,000** | **82,538** | **(3,921,740)** | **6,649** |
| Shares issued *[note 5]* | 134,046,123 | 2,788,763 | 13,404,573 | 156,000 | — | 2,944,763 |
| Share-based payments *[note 5]* | — | — | 100,000,000 | 1,532,500 | — | 1,532,500 |
| Warrants extended | — | (5,562) | — | 5,562 | — | — |
| Net loss and comprehensive loss | — | — | — | — | (2,041,096) | (2,041,096) |
| **Balance, December 31, 2019** | **159,070,290** | **6,629,052** | **135,654,573** | **1,776,600** | **(5,962,836)** | **2,442,816** |
| Shares issued *[note 5]* | 3,000,000 | 127,845 | 300,000 | 7,155 | — | 135,000 |
| Warrants exercised *[note 5]* | 62,150,000 | 1,263,199 | (62,150,000) | (952,449) | — | 310,750 |
| Warrants extended *[note 5]* | — | — | — | 1,168,289 | — | 1,168,289 |
| Net loss and comprehensive loss | — | — | — | — | (2,021,138) | (2,021,138) |
| **Balance, December 31, 2020** | **224,220,290** | **8,020,096** | **73,804,573** | **1,999,595** | **(7,983,974)** | **2,035,717** |

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

**The Hash Corporation**

**STATEMENTS OF CASH FLOWS**
For the years ended December 31, 2020 and 2019
[expressed in Canadian dollars]

| | **2020** | **2019** |
|---|---|---|
| | **$** | $ |
| **Operating activities** | | |
| Net loss | **(2,021,138)** | (2,041,096) |
| Add items not affecting cash | | |
| Depreciation | **18,682** | — |
| Share-based payments | **1,168,289** | 1,532,500 |
| Changes in non-cash working capital balances | | |
| Sales tax receivable | **(22,164)** | (62,597) |
| Prepaid expenses and other assets | **(20,558)** | — |
| Trade and other payables | **(27,566)** | 193,110 |
| **Cash used in operating activities** | **(904,455)** | (378,083) |
| **Investing activities** | | |
| Deposits | **(40,344)** | — |
| Purchase of equipment | **(122,327)** | — |
| **Cash used in investing activities** | **(162,671)** | — |
| **Financing activities** | | |
| Proceeds from issuance of shares | **135,000** | 2,944,763 |
| Proceeds from exercise of warrants | **310,750** | — |
| **Cash provided by financing activities** | **445,750** | 2,944,763 |
| **Net change** | **(621,376)** | 2,566,680 |
| Cash and cash equivalents, beginning of year | **2,672,404** | 105,724 |
| **Cash and cash equivalents, end of year** | **2,051,028** | 2,672,404 |

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

# Notes to the financial statements

[expressed in Canadian dollars]

December 31, 2020 and 2019

## 1. Nature of business

The Hash Corporation (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.

The Company is positioning itself to focus on the production and sale of cannabis-based hashish and other cannabis products. The Company intends to apply its separation and curing techniques to produce a suite of high-quality cannabis resin products, which are all-natural and free of additive and carcinogenic solvents. At present, the Company does not possess the licences required to carry on its business in producing and selling cannabis-based hashish and other cannabis concentrates. In particular, the Company does not have a Standard Processing Licence and a Cannabis Licence under the Cannabis Act. The Company does not intend to apply for both these licences and instead relies on the Collaboration Agreement with Medz Cannabis Incorporated, an Ontario-based, privately-owned company, licensed for the cultivation, processing and sale of medical cannabis under the Cannabis Act (see Note 9).

The head office of the Company is located at 1 Adelaide Street East, Suite 801, Toronto, Ontario, M5C 2V9.

**Impact of COVID-19**

The outbreak of the novel strain of coronavirus, specifically identified as “COVID-19,” 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-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The extent to which COVID-19 and any other pandemic or public health crisis impacts the Company’s business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the actions required to contain the COVID-19 virus or remedy its impact, among others. The duration and impact of the COVID-19 outbreak is unknown at this time, 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 (“financial statements”) have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The polices set out below have been consistently applied to all periods presented, unless otherwise noted. Certain comparative figures have been reclassified to conform to the current year’s presentation.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on February 17, 2021.

**[b] Going concern uncertainty**

The financial statements of the Company for the years ended December 31, 2020 and 2019 have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at December 31, 2020, the Company has an accumulated deficit of $7,983,974 (2019 – $5,962,836), a net loss of $2,021,138 (2019 – $2,041,096) and a working capital surplus of $1,891,728 (2019 – $2,442,816). Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so. While the Company has been successful in obtaining financing to date, there can be no assurance that it will be able to do so in the future. The Company will need to raise capital in order to fund its operations. This need may be adversely impacted by uncertain market conditions, COVID-19, approval by regulatory bodies, and adverse results from operations. The above events and conditions indicate there is a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

**[c] Basis of measurement**

These financial statements have been prepared on a historical cost basis. Historical costs are generally based upon the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, expect for share-based payment transactions that are within the scope of *IFRS 2 Share-based payment*.

**[d] Functional currency and presentation currency**

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

**[e] Use of estimates and judgments**

The preparation of these financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

[i] Going concern

At each reporting period, management assesses the basis of preparation of the financial statements. These financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

[ii] Estimated useful lives, residual values and depreciation of equipment

Depreciation of equipment is dependent upon estimates of useful lives and residual values, which are determined through the exercise of judgment. The assessment of any impairment of these assets' is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

[iii] Impairment of equipment

Impairment testing requires management to make estimates related to future cash flow projections and market trends. Impairment of equipment is influenced by judgment in defining a cash generating unit and determining the indicators of impairment and estimates used to measure impairment losses.

[iv] Valuation of share-based payments and warrants

Management measures the costs for share-based payments and warrants using market-based option valuation techniques. Assumptions are made and estimates are used in applying the valuation techniques. These include estimating the future volatility of the share price, expected dividend yield, expected term, expected risk-free interest rate and the rate of forfeiture. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based payments and warrants.

## 3. Significant accounting policies

[a] Cash and cash equivalents

Cash and cash equivalents include deposits held with major financial institutions. There are no restrictions on cash held in trust or cash held in savings account.

[b] Equipment

Equipment is measured at cost less accumulated depreciation and impairment losses.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

The cost of replacing part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably.

The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized in the statements of loss and comprehensive loss.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statements of loss and comprehensive loss.

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in the statements of loss and comprehensive loss.

Depreciation is based on the estimated useful lives of the assets on a straight-line basis from the date the asset is available for use. The estimated useful lives are as follows:

| | |
|---|---|
| Production equipment | 3 years |
| Computer equipment | 3 years |

An item of equipment and any significant part initially recognized are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of loss and comprehensive loss when the asset is derecognized. The assets’ residual values, useful lives and methods of depreciation and the depreciation charge are adjusted prospectively, if appropriate.

[c] Income taxes

Income tax expense includes both current and deferred taxes. Current tax and deferred tax are recognized in net profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes receivable on taxable loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities arise from temporary differences between the carrying amounts of the assets and liabilities and their tax bases and are recorded in the statements of financial position. The Company calculates deferred tax assets and liabilities using enacted or substantively enacted tax rates that will apply in the years the temporary differences are expected to reverse.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

[d] Share-based compensation

Share options and warrants awarded to non-employees are accounted for using the fair value of the instrument awarded or service provided, whichever is considered more reliable. Share options and warrants awarded to employees are accounted for using the fair value of the equity instruments granted. The fair value of such share options and warrants granted is recognized as an expense on a proportionate basis consistent with the vesting features of each tranche of the grant. The fair value is calculated using the Black-Scholes option pricing model with assumptions applicable at the date of grant.

[e] Net loss per share

Net loss per share is calculated based on the profit for the financial year and the weighted average number of common shares outstanding during the year. Diluted net loss per share is calculated using the profit for the financial year adjusted for the effect of any dilutive instruments and the weighted average diluted number of shares (ignoring any potential issue of common shares that would be anti-dilutive) during the year.

[f] Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use assets are depreciated to the earlier of the end of useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of the consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset can be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Company's incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from the change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, unless it has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less and for leases of low value assets. The lease payments associated with those leases is recognized as an expense on a straight-line basis over the lease term.

[g] Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets are tested for impairment when there are indicators of impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. Intangible assets with an indefinite useful life are tested for impairment at least annually in the fourth quarter and whenever there is an indication that the asset may be impaired.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in net loss equal to the amount by which the carrying amount exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

[h] Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

*Financial assets*

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (‘‘FVOCI’’); or fair value through profit and loss (‘‘FVTPL’’). The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the hybrid financial asset as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- 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.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- 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 give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income (“OCI”). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

| | |
|---|---|
| Financial assets at FVTPL | Subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. |
| Financial assets at amortized cost | Subsequently measured at amortized cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. |
| Debt investments at FVOCI | Subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| Equity investments at FVOCI | Subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are not reclassified to profit or loss, even upon derecognition. |

*Financial liabilities*

The Company initially recognizes financial liabilities at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument.

The Company classifies its financial liabilities as either financial liabilities at fair value through profit or loss or amortized cost.

Subsequent to initial recognition, other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

*Financial liabilities and equity instruments*

- Classification as debt or equity

  Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

- Equity instruments

  An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

- Classification of financial instruments

  The Company classifies its financial assets and liabilities as outlined below:

| | |
|---|---|
| Cash and cash equivalents | Amortized cost |
| Trade and other payables | Amortized cost |

*Impairment of financial assets*

An expected credit loss ("ECL") model applies to financial assets measured at amortized cost. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of trade and other receivables. The Company applies the simplified approach to impairment for trade and other receivables by recognizing a loss allowance based on lifetime expected losses at each reporting date taking into considerations historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company does not have any trade and other receivables outstanding and therefore has not assessed the ECL.

### New standards, amendment and interpretation adopted by the Company

IFRS 3 - *Business combinations* ("IFRS 3")

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The amendment adoption did not have a significant impact on the Company's financial statements.

IAS 1 - *Presentation of financial statements* ("IAS 1")

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across International Financial Reporting Standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The amendment adoption did not have a significant impact on the Company's financial statements.

[expressed in Canadian dollars]

## 4. Equipment

Equipment as at December 31, 2020 is as follows:

| | Construction in progress<br>$ | Computer equipment<br>$ | Production equipment<br>$ | Total<br>$ |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, December 31, 2019 | — | — | — | — |
| Additions | 4,000 | 9,670 | 108,657 | 122,327 |
| **Balance, December 31, 2020** | **4,000** | **9,670** | **108,657** | **122,327** |
| **Accumulated depreciation** | | | | |
| Balance, December 31, 2019 | — | — | — | — |
| Depreciation | — | 302 | 18,380 | 18,682 |
| **Balance, December 31, 2020** | **—** | **302** | **18,380** | **18,682** |
| Balance, December 31, 2019 | — | — | — | — |
| **Balance, December 31, 2020** | **4,000** | **9,368** | **90,277** | **103,645** |

## 5. Share capital

### [a] Authorized

The authorized share capital of the Company consists of an unlimited number of common shares.

### [b] Issued and outstanding

The Company's share capital is as follows:

| | Common Shares | | Warrants | |
|---|---|---|---|---|
| | **#** | **$** | **#** | **$** |
| **December 31, 2018** | 25,024,167 | 3,845,851 | 22,250,000 | 82,538 |
| Shares issued [i] | 134,046,123 | 2,788,763 | 13,404,573 | 156,000 |
| Share-based payments [ii] | — | — | 100,000,000 | 1,532,500 |
| Warrants extended | — | (5,562) | — | 5,562 |
| **December 31, 2019** | **159,070,290** | **6,629,052** | **135,654,573** | **1,776,600** |
| Shares issued [iv] | 3,000,000 | 127,845 | 300,000 | 7,155 |
| Warrants exercised [iii] | 62,150,000 | 1,263,199 | (62,150,000) | (952,449) |
| Warrants extended [v] | — | — | — | 1,168,289 |
| **December 31, 2020** | **224,220,290** | **8,020,096** | **73,804,573** | **1,999,595** |

i. On August 30, 2019, the Company completed tranche 1 of a private placement through the issuance of 108,325,732 shares at a price of $0.02 per share for total gross proceeds of $2,166,514 ("Financing I"). The Company issued 10,832,573 compensation warrants. The Company estimated the fair value of the 10,832,573 warrants at $102,085 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.

On September 19, 2019, the Company completed tranche 2 of Financing I through the issuance of 5,000,000 common shares at a price of $0.02 per share for total gross proceeds of $100,000. The Company issued 500,000 compensation warrants. 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.

On November 4, 2019, the Company completed tranche 1 of a private placement through issuance of 18,580,391 common shares at a price of $0.05 per share for gross proceeds of $929,020 ("Financing II"). The Company issued 1,850,000 warrants. The Company estimated the fair value of the 1,858,000 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.

On December 23, 2019, the Company completed tranche 2 of Financing II through issuance of 2,140,000 common shares at a price of $0.05 per share for gross proceeds of $107,000. The Company issued 214,000 warrants. 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.

Total transaction costs for Financing I and Financing II were $513,771.

ii. On July 8, 2019, the Company granted 100,000,000 special warrants to an arm's length consultant, each special warrant entitling the holder thereof to acquire one common share at a price of $0.005.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%, Expected dividends – Nil, Share price $0.02, Exercise price - $0.005. The warrants were recorded as share-based payments in the statement of loss and comprehensive loss.

iii. On July 8, 2020, the Company issued 62,150,000 common shares as a result of 62,150,000 warrants being exercised to acquire one common share each at a price of $0.005 per share for gross proceeds of $310,750. Of the 62,150,000 warrants exercised, 17,900,000 warrants were exercised by related parties for gross proceeds of $89,500.

iv. On July 8, 2020, the Company completed a private placement through the issuance of 3,000,000 common shares at a price of $0.05 per share for total gross proceeds of $150,000. Total transaction costs related to the private placement were $15,000. The Company also issued 300,000 compensation warrants. The fair value of the warrants was determined to be $7,155. For purposes of calculating the fair value of the warrants, the following assumptions were used for the Black-Scholes model: Risk free interest rate 0.29%, Expected life – 2 years, Expected annual volatility – 90%, Expected dividends – Nil, Share price $0.05, Exercise price - $0.05.

v. On July 8, 2020, the Company extended 37,850,000 warrants that were to expire on July 8, 2020 to three months following the date the common shares are listed on a recognized exchange. The exercise price of the warrants was increased from $0.005 to $0.02 as a result of the extension. The fair value of the warrants was determined to be $1,168,289. For purposes of calculating the fair value of the warrants, the following assumptions were used for the Black-Scholes model: Risk free interest rate 0.29%, Expected life – 0.57 years, Expected annual volatility – 90%, Expected dividends – Nil, Share price $0.05, Exercise price - $0.02.

[expressed in Canadian dollars]

The change in the number of warrants issued during the years ended December 31, 2020 and 2019 were as follows:

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| | # | $ |
| Outstanding as at December 31, 2018 | 22,250,000 | 0.040 |
| Granted | 113,404,573 | 0.007 |
| Outstanding as at December 31, 2019 | 135,654,573 | 0.013 |
| Granted | 300,000 | 0.050 |
| Exercised | (62,150,000) | 0.005 |
| **Outstanding as at December 31, 2020** | **73,804,573** | **0.027** |

**Measurement of fair values**

The fair value of warrants outstanding during the years ended December 31, 2020 and 2019 were estimated at the date of grant using the Black-Scholes option pricing model with the following inputs:

| | **2020** | 2019 |
|---|---|---|
| Grant date share price | **$0.05** | $0.02 - $0.05 |
| Exercise price | **$0.02 - $0.05** | $0.005 - $0.05 |
| Expected dividend yield | — | — |
| Risk free interest rate | **0.29%** | 1.35% - 1.68% |
| Expected life | **0.57 - 2 Years** | 1 to 2 Years |
| Expected volatility | **90%** | 87% - 93% |

The following table is a summary of the Company's warrants outstanding as at December 31, 2020:

| Expiry Date | Exercise price $ | Number outstanding # |
|---|---|---|
| 3 months after listing on public exchange | 0.04 | 22,250,000 |
| 3 months after listing on public exchange | 0.02 | 37,850,000 |
| August 30, 2021 | 0.02 | 10,832,573 |
| September 19, 2021 | 0.02 | 500,000 |
| November 5, 2021 | 0.05 | 1,858,000 |
| December 23, 2021 | 0.05 | 214,000 |
| July 8, 2022 | 0.05 | 300,000 |
| | **0.03** | **73,804,573** |

## 6. Share-based compensation

The Company has established a share option plan (the "Option Plan") for directors, officers, employees and consultants of the Company. The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan, the term and vesting periods, and the exercise price of options granted to individuals under the Option Plan.

[expressed in Canadian dollars]

Each share option converts into one common share of the Company on exercise. No amounts are paid or payable by the individual on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The Company's option Plan provides that the number of common shares reserved for issuance may not exceed 10% of the aggregate number of common shares that are outstanding unless the Board has increased such limit by a Board resolution. If any options terminate, expire, or are cancelled as contemplated by the Option Plan, the number of options so terminated, expired or cancelled shall again be available under the option Plan.

**Share-based payment arrangements**

| | **Number of options** | **Weighted average exercise price** |
|---|---|---|
| | **#** | **$** |
| Outstanding as at December 31, 2018 | 75,000 | 1.00 |
| Granted (i) | 20,000,000 | 0.05 |
| Expired | (75,000) | (1.00) |
| Outstanding as at December 31, 2019 | 20,000,000 | 0.05 |
| Forfeited | (4,500,000) | 0.05 |
| **Outstanding as at December 31, 2020** | **15,500,000** | **0.05** |

(i) Options were granted to key management personnel of the Company on August 28, 2019. The options vest upon achievement of certain non-market performance conditions related to the Company's operations and activities. Upon issuance, as at December 31, 2019 and as at December 31, 2020, the Company does not expect that these non-market performance conditions will be met prior to the expiry of the options and therefore no share-based compensation has been recognized for these options.

| **Options outstanding** | | | **Options exercisable** | |
|---|---|---|---|---|
| Exercise price | Number outstanding | Weighted average remaining contractual life [years] | Exercise price | Number exercisable |
| $ | # | # | $ | # |
| 0.05 | 15,500,000 | 1.66 | — | — |

## 7. Loss per share

Net loss per common share represents net loss attributable to common shareholders divided by the weighted average number of common shares outstanding during the period.

For all the periods presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of warrants and share options. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but would have decreased the loss per share (anti-dilutive) for the years ended December 31, 2020 and 2019 presented are as follows:

| | **December 31, 2020** | December 31, 2019 |
|---|---|---|
| | **#** | # |
| Warrants | **73,804,573** | 135,654,573 |
| Share Options | **15,500,000** | 20,000,000 |
| | **89,304,573** | 155,654,573 |

[expressed in Canadian dollars]

## 8. 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 loss and comprehensive loss differs from the amount that would be computed by applying the federal and provincial statutory income tax rate of 26.5% for the years ended December 31, 2020 (2019 – 26.5%) to loss for the year.

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2019 – 26.5%) to the effective tax rate is as follows:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Net loss before tax | **(2,021,138)** | (2,041,096) |
| Expected tax rate | **26.5%** | 26.5% |
| Expected tax benefit resulting from loss | **(535,602)** | (540,890) |
| Non-deductible expenses | **311,343** | 311,308 |
| Other | **(3,974)** | 385 |
| Change in unrecognized deferred tax assets | **228,233** | 229,197 |
| Income tax recovery | **—** | — |

As at December 31, 2020, the deferred tax asset of $859,268 (2019 – $631,035) has not been recognized because at this stage of the Company's operations, 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:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Non-capital loss carry-forwards | **480,545** | 230,356 |
| Share issuance costs | **60,008** | 75,844 |
| Equipment | **(6,120)** | — |
| Other | **324,835** | 324,835 |
| | **859,268** | 631,035 |
| Valuation allowance | **(859,268)** | (631,035) |
| | **—** | — |

As at December 31, 2020 there were unused non-capital losses of $1,813,376 (2019 – $869,267) which expire as follows:

| | **$** | $ |
|---|---|---|
| 2037 | **19,294** | 19,294 |
| 2038 | **271,282** | 271,282 |
| 2039 | **578,691** | 578,691 |
| 2040 | **944,109** | — |
| | **1,813,376** | 869,267 |

[expressed in Canadian dollars]

## 9. Commitments and contingencies

### Commitments

*Medz Cannabis Collaboration Agreement*

On April 20, 2020, the Company entered into a five-year collaboration agreement with Medz Cannabis Inc. ("Medz") to produce and sell cannabis-based hashish and other cannabis concentrates. Per the agreement, Medz is to provide the Company with licensed processing space at the Medz licensed facility for the purposes of manufacturing, packing and selling products. The Company is responsible for all costs incurred related to the production and is to grant Medz certain profit sharing rights in connection with the sale of products produced within the Medz facility. The Company is to pay Medz a 3.5% royalty on all revenues generated from sale of the products produced in the Medz facility, and a 5% royalty on any tolling or service revenue earned by the Company on certain service contracts.

The Company has entered into a short-term lease for approximately 500 square feet of licensed production space in the Medz facility commencing May 1, 2020 and a long-term lease for approximately 1,880 square feet of production and office space as well as access to common space for a term of two years commencing on February 28, 2021. The Company has the option to renew the lease for additional terms.

### Contingencies

*Legal matters*

From time to time, the Company may be named as a party to claims or involved in proceedings, including legal, regulatory and tax related, in the ordinary course of its business. While the outcome of these matters may not be estimable at the reporting date, the Company makes provisions, where possible, for the estimated outcome of such claims or proceedings. Should a loss result from the resolution of any claims or proceedings that differs from these estimates, the difference will be accounted for as a charge to profit or loss in that period.

## 10. Related party transactions and balances

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly.

Key management personnel compensation during the year ended December 31, 2020 and 2019 comprised of:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Salaries, benefits, bonuses and management fees | **430,000** | 243,333 |

The Company owes related parties $41,753, recognized part of trade and other payables as at December 31, 2020. During the year ended December 31, 2020 there was 17,900,000 warrants exercised by related parties for gross proceeds of $89,500. Refer to Note 5[b][iii].

## 11. Capital management

The Company's capital management objectives are to maintain financial flexibility in order to focus on the production and sale of cannabis-based hashish and other cannabis products. The Company defines capital as the aggregate of its share capital and borrowings.

As at December 31, 2020, the Company's share capital is $8,020,096 (2019 – $6,629,052). The Company does not have any long-term debt.

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay financial liabilities, issue shares, repurchase shares, pay dividends or undertake any other activities as deemed appropriate under the specific circumstances. The Company is not subject to any externally imposed capital requirements.

## 12. Financial instruments and risk management

*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 contractual obligations, and arises principally from deposits with banks and outstanding receivables. The Company trades only with recognized, creditworthy third parties. The Company does not currently have any outstanding trade receivables with customers.

The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

*Liquidity risk*

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows, the issuance of share capital and if desired, the issuance of debt. The Company's trade and other payables are all due within twelve months from the date of these financial statements.

If unanticipated events occur that impact the Company's ability to complete products for sale, the Company may need to take additional measures to increase its liquidity and capital resources, including issuing debt or additional equity financing or strategically altering the business forecast and plan. In this case, there is no guarantee that the Company will obtain satisfactory financing terms or adequate financing. Failure to obtain adequate financing on satisfactory terms could have a material adverse effect on the Company's results of operations or financial condition.

*Market risk*

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

- Foreign currency risk

Foreign currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Company is not exposed to foreign currency risk as at December 31, 2020 as it does not hold any material financial instruments in foreign currency.

- Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as at December 31, 2020 as there are no borrowings outstanding.

- Other price risk

Other price risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk as at December 31, 2020.

*Fair values*

The carrying values of cash, sales tax receivables and trade and other payables approximate fair values due to the short-term nature of these items or they are being carried at fair value. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

- Level 1 – Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.

- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 – Significant unobservable inputs that are supported by little or no market activity. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. During the year, there were no transfers of amounts between levels. The Company did not have any financial instruments stated at fair value as at December 31, 2020 and 2019.

## 13. Subsequent events

On February 3, 2021, the Company entered into a five-year collaboration agreement with Black Rose Organics Inc. (“BRO”). Under the terms of the agreement the Company is to have access to a production space licensed for Cannabis Production within BRO’s facility. BRO is to also assist the Company with obtaining the necessary license amendments from Health Canada to permit the Company and BRO to produce and sell cannabis products. The Company and BRO are to share profits from the sale of products produced by the Company in the BRO facility.

On February 17, 2021, the Company granted a total of 4,000,000 share options to certain members of the Board of Directors. The share options vest immediately, have an exercise price of $0.11 per share option, and expire 3 years from the date of issuance.