

The Hash Corporation

Financial Statements

For the years ended December 31, 2022 and 2021
[expressed in Canadian dollars, except share amounts]

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, 2022 and 2021, 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, 2022 and 2021 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 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 these 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 as at December 31, 2022 the Company has an accumulated deficit of \$14,030,448 and a working capital deficit of \$107,770 and for the year then ended the Company had a net loss of \$1,409,004. 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audits of the financial statements as at and for the year ended December 31, 2022. These matters were addressed in the context of our audits of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="203 287 797 344">Classification of convertible debentures and initial valuation of the liability component</p> <p data-bbox="203 380 797 436"><i>Refer to note 3 – Significant accounting policies and note 7 – Convertible debentures</i></p> <p data-bbox="203 472 797 892">In 2022, the Company issued 165 convertible debentures to related parties for gross proceeds of \$165,000 (the “Debentures”). Each Debenture was issued for \$1,000, bears coupon interest at 3% per annum and matures one year from issuance. Each Debenture can be converted into common shares of the Company at a conversion price of \$0.05 per share. As additional interest, the Company has agreed to pay the holders of the Debentures \$0.20 per gram in retail sales of its products, as a royalty obligation, until 57% of the principal amount of their Debenture is repaid. At issuance, the fair value allocated to the liability component, net of equity component of \$1,747, was \$163,253.</p> <p data-bbox="203 928 797 1138">The Debentures were determined to be a compound financial instrument. Management applied judgment in assessing the accounting treatment for the individual components of the Debentures and whether the conversion option qualified as an equity instrument, including whether the terms met the “fixed-for-fixed” requirement.</p> <p data-bbox="203 1173 797 1348">The fair value of the liability component at the time of issuance was calculated at the discounted cash flows, assuming a 50% discount rate, which was the effective interest rate when factoring in the royalty obligation. The fair value of the equity component was valued using the Black-Scholes model.</p> <p data-bbox="203 1383 797 1650">We considered this a key audit matter due to the judgment applied by management in assessing the treatment for the individual components of the Debentures and determining the assumptions used for the fair value of the equity component and liability component at initial recognition. This in turn, led to a high degree of auditor judgement and effort in performing procedures to test management’s assumptions.</p>	<p data-bbox="826 287 1414 344">Our approach to addressing the matter included the following procedures, among others:</p> <ul data-bbox="826 380 1414 865" style="list-style-type: none"> <li data-bbox="826 380 1414 655">• We read the underlying agreements and evaluated whether management’s interpretation of the agreements in relation to accounting for the financial instrument was reasonable, which included the accounting analysis of whether the Debentures qualified as a compound financial instrument, including assessing whether the criteria were met to recognize components within equity, including the fixed-to-fixed requirements. <li data-bbox="826 661 1414 772">• We verified that the terms of the Debentures and management’s assumptions and inputs utilized in the calculation are properly disclosed in the notes to the financial statements. <li data-bbox="826 779 1414 865">• We obtained direct confirmations from the lenders to verify the terms and outstanding balances at the reporting date.



Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis (“MD&A”), but does not include the financial statements and our auditors’ report thereon.

Our opinion on the financial statements does not cover the MD&A and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the MD&A identified above and, in doing so, consider whether the MD&A 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 MD&A, we conclude that there is a material misstatement of this MD&A, 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 from 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.
- 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 our 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 our 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 audits 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.

For the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audits resulting in this independent auditors' report is Laurence W. Zeifman, CPA, CA.

Toronto, Ontario
May 1, 2023

Zeifmans LLP

Chartered Professional Accountants
Licensed Public Accountants

The Hash Corporation

STATEMENTS OF FINANCIAL POSITION

[expressed in Canadian dollars]

[see going concern uncertainty – note 2]

As at	Notes	December 31, 2022 \$	December 31, 2021 \$
ASSETS			
Current assets			
Cash		39,820	354,173
Trade receivables	15	223,320	490,711
Prepaid expenses and other assets		145,502	334,942
		<u>408,642</u>	<u>1,179,826</u>
Non-current assets			
Equipment, net	4	89,868	188,158
Right-of-use asset, net	5	5,461	38,230
		<u>95,329</u>	<u>226,388</u>
		<u>503,971</u>	<u>1,406,214</u>
LIABILITIES			
Current liabilities			
Trade and other payables		269,014	192,787
Convertible debentures	7	213,052	—
Sales tax payable		28,097	7,742
Lease obligations	6	6,249	35,235
		<u>516,412</u>	<u>235,764</u>
Non-current liabilities			
Lease obligations	6	—	6,249
		<u>516,412</u>	<u>242,013</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	8	11,938,008	11,938,008
Warrants	8	98,948	106,103
Contributed surplus	9	1,981,051	1,741,534
Accumulated deficit		(14,030,448)	(12,621,444)
		<u>(12,441)</u>	<u>1,164,201</u>
		<u>503,971</u>	<u>1,406,214</u>
Commitments and contingencies	12		

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

On behalf of the Board:

"Chris Savoie"

"Binyomin Posen"

The Hash Corporation

STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

For the years ended December 31, 2022 and 2021

[expressed in Canadian dollars, except number of shares]

	Notes	2022	2021
		\$	\$
Revenue			
Product sales		747,568	827,100
Accessory sales		58,032	—
		805,600	827,100
Expenses			
Salaries and wages		793,789	879,788
General and administrative		426,410	1,549,519
Production expenditures		423,569	553,155
Share-based compensation	9	230,615	1,497,434
Professional fees		149,915	873,813
Amortization and depreciation	4 & 5	137,742	106,414
Accretion on convertible debentures	7	49,799	—
Interest on lease liabilities	6	2,765	4,447
Total operating expenses		2,214,604	5,464,570
Net loss and comprehensive loss		(1,409,004)	(4,637,470)
Net loss per share			
Basic and diluted	10	(0.005)	(0.018)
Weighted average number of shares			
outstanding – basic and diluted	10	280,120,290	260,617,139

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

The Hash Corporation

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

For the years ended December 31, 2022 and 2021

[expressed in Canadian dollars, except number of shares]

	Share capital		Warrants		Contributed	Accumulated	Total
	#	\$	#	\$	Surplus	deficit	
					\$	\$	\$
Balance – December 31, 2020	224,220,290	8,020,096	73,804,573	1,999,595	—	(7,983,974)	2,035,717
Shares issued [note 8]	18,050,000	1,412,572	1,805,000	98,948	—	—	1,511,520
Warrants exercised [note 8]	37,850,000	2,505,340	(37,850,000)	(1,748,340)	—	—	757,000
Warrants expired	—	—	(35,654,573)	(244,100)	244,100	—	—
Share-based compensation [note 9]	—	—	—	—	1,497,434	—	1,497,434
Net loss and comprehensive loss	—	—	—	—	—	(4,637,470)	(4,637,470)
Balance – December 31, 2021	280,120,290	11,938,008	2,105,000	106,103	1,741,534	(12,621,444)	1,164,201
Share-based compensation [note 9]	—	—	—	—	230,615	—	230,615
Issuance of convertible debt [note 7]	—	—	—	—	1,747	—	1,747
Warrants expired	—	—	(300,000)	(7,155)	7,155	—	—
Net loss and comprehensive loss	—	—	—	—	—	(1,409,004)	(1,409,004)
Balance – December 31, 2022	280,120,290	11,938,008	1,805,000	98,948	1,981,051	(14,030,448)	(12,441)

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

The Hash Corporation

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2022 and 2021
[expressed in Canadian dollars]

	2022	2021
	\$	\$
Operating activities		
Net loss	(1,409,004)	(4,637,470)
Add items not affecting cash		
Depreciation	137,742	106,414
Share-based compensation	230,615	1,497,434
Accretion on convertible debenture	49,799	—
Interest on lease liabilities	2,765	4,447
Changes in non-cash working capital balances		
Trade receivables	267,391	(490,711)
Sales tax recoverable	—	44,966
Prepaid expenses and other assets	189,440	(314,383)
Trade and other payables	76,227	(32,038)
Sales tax payable	20,355	7,742
Cash used in operating activities	(434,670)	(3,813,599)
Investing activities		
Deposits	—	40,344
Purchase of equipment	(6,683)	(163,620)
Cash used in investing activities	(6,683)	(123,276)
Financing activities		
Proceeds from borrowings	165,000	—
Repayment of lease obligation	(38,000)	(28,500)
Proceeds from issuance of shares, net	—	1,511,520
Proceeds from exercise of warrants	—	757,000
Cash provided by financing activities	127,000	2,240,020
Net decrease in cash for the year	(314,353)	(1,696,855)
Cash, beginning of the year	354,173	2,051,028
Cash, end of the year	39,820	354,173

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

The Hash Corporation

Notes to the financial statements

[expressed in Canadian dollars]

December 31, 2022 and 2021

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 focused on the production and sale of cannabis-based hashish and other cannabis products. The Company applies 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 either of these licences and instead relies on the Collaboration Agreement with Medz Cannabis Inc. (“Medz”) an Ontario-based, privately-owned company, licensed for the cultivation, processing and sale of medical cannabis under the Cannabis Act (see Note 12).

On June 3, 2021, the Company’s common shares commenced trading on the Canadian Securities Exchange under the stock ticker “REZN”.

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

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 policies 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 (note 16).

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 1, 2023.

[b] Going concern uncertainty

The financial statements of the Company for the years ended December 31, 2022 and 2021, 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.

As at December 31, 2022, the Company has an accumulated deficit of \$14,030,448 (December 31, 2021 – \$12,621,444) and a working capital deficit of \$107,770 (December 31, 2021 – surplus of \$944,062). For the year ended December 31, 2022, the Company had a net loss of \$1,409,004 (2021 – \$4,637,470). 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, 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. 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.

[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.

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Notes to the financial statements

[expressed in Canadian dollars]

December 31, 2022 and 2021

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, except 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 for 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.

The Hash Corporation
Notes to the financial statements

[expressed in Canadian dollars]

December 31, 2022 and 2021

[v] Convertible debentures

The identification of the components of convertible notes is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability and equity components may also be based on various assumptions including contractual cash flows, discounts rates, volatility, credit spread, and the presence of any derivative financial instruments.

Management applies judgment in assessing the accounting treatment of the individual components of debentures and whether the conversion options qualify as equity instruments, including whether the terms meet the fixed-for-fixed criteria.

3. Significant accounting policies

[a] Cash

Cash 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.

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[expressed in Canadian dollars]

December 31, 2022 and 2021

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] Restricted Share Units

The Company also operates a Restricted Share Units ("RSU") plan, where RSUs are granted to directors, employees and consultants from time to time. Under the RSU plan, employees and directors are granted RSUs where each RSU has a value equal to one common share of the Company. RSUs are equity-settled share-based payments and are measured at fair on the date of the grant, based on the closing price of the Company's common shares on the grant date. Share-based compensation is recognized over the vesting period with a corresponding credit to contributed surplus.

Amounts recorded for cancelled RSUs are transferred to retained earnings (accumulated deficit) in the period of which the cancellation or expiry occurs.

Upon issuance of common shares on vested RSU's, the amounts of the RSUs are transferred to share capital from contributed surplus.

[f] Net loss per share

Net loss per share is calculated based on the profit (loss) 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.

[g] 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

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Notes to the financial statements

[expressed in Canadian dollars]

December 31, 2022 and 2021

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.

[h] 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.

[i] 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.

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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

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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 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	Amortized cost
Trade receivable	Amortized cost
Trade and other payables	Amortized cost
Convertible debentures	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.

[j] Compound Financial Instruments

Compound financial instruments issued by the Company are comprised of convertible debt that can be converted to share capital at a fixed price, at the option of the holder. The liability component of a compound financial instrument is recognized initially at fair value, which is equal to the net present value of future cash flows applying an interest rate at the date of issue of a similar liability that does not have an equity convertible option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not-measured subsequent to initial recognition.

Interest, losses and gains relating to the financial liability are recognized in profit or loss.

[k] Revenue Recognition

The Company's accounting policy for revenue recognition under IFRS 15, Revenue from Contracts with Customers ("IFRS 15") is to follow a five-step model to determine the amount and timing of revenue to be recognized i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the Company satisfies a performance obligation.

Revenue from sales is recognized when the Company transfers control of the goods to the customer. This is generally considered to have occurred when products have been delivered to the location specified in the sales contract and accepted by the customer. The Company recognizes revenue in an amount that reflects the consideration the Company expects to receive, net of excise tax. Areas of judgment include identifying the customer per the definition within IFRS 15 and determining whether control has passed to the customer.

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[I] New standards, amendment and interpretation not yet adopted by the Company

IAS 1, Presentation of financial statements (“IAS 1”)

Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current (Amendments to IAS 1). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the consolidated statements of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2, Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policies disclosures that are more useful by replacing the requirement for entities to disclose “significant” accounting policies with a requirement to disclose their “material” accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to IFRS Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The amendments are not expected to have a material impact on the Company financial statements.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”)

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment will require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarifies how to distinguish changes in accounting policies from changes in accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Company has determined that adoption of these amendments has no significant effect on the financial statements.

IAS 12, Income Taxes (“IAS 12”)

In May 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a single transaction (Amendments to IAS 12). The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal taxable and deductible temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company has determined that adoption of these amendments has no significant effect on the financial statements.

All other IFRSs and amendments issued but not yet effective have been assessed by the Company and are not expected to have a material impact on the Consolidated Financial Statements.

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4. Property and equipment

Property and equipment as at December 31, 2022, is as follows:

	Leasehold improvements \$	Computer equipment \$	Production equipment \$	Total \$
Cost				
Balance, December 31, 2020	4,000	9,670	108,657	122,327
Additions	39,954	—	123,666	163,620
Balance – December 31, 2021	43,954	9,670	232,323	285,947
Additions	—	—	6,683	6,683
Balance – December 31, 2022	43,954	9,670	239,006	292,630
Accumulated depreciation				
Balance, December 31, 2020	—	302	18,380	18,682
Depreciation	18,114	3,172	57,821	79,107
Balance – December 31, 2021	18,114	3,474	76,201	97,789
Depreciation	21,612	3,269	80,092	104,973
Balance – December 31, 2022	39,726	6,743	156,293	202,762
Carrying value				
Balance – December 31, 2021	25,840	6,196	156,122	188,158
Balance – December 31, 2022	4,228	2,927	82,713	89,868

5. Right-of-use assets

The right-of-use assets as at December 31, 2022, is as follows:

Cost		\$
Balance – December 31, 2020		—
Additions		65,537
Balance – December 31, 2021 and December 31, 2022		65,537
Accumulated amortization		
Balance – December 31, 2020		—
Amortization		27,307
Balance – December 31, 2021		27,307
Amortization		32,769
Balance – December 31, 2022		60,076
Carrying value		
Net balance – December 31, 2021		38,230
Net balance – December 31, 2022		5,461

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6. Lease obligations

The lease obligations as at December 31, 2022, is as follows:

	\$
Balance – December 31, 2020	—
Additions	65,537
Add: Interest expense	4,447
Less: Lease payments	(28,500)
Balance – December 31, 2021	41,484
Add: Interest expense	2,765
Less: Lease payments	(38,000)
Balance – December 31, 2022	6,249
Current	6,249
Non-current	—

Lease obligations are related to the Medz facility (Note 12). The lease obligations were valued using a discount rate of 11.33%.

Expenses incurred for the fiscal year ended December 31, 2022, relating to variable lease costs were \$nil (2021 – \$8,481) and for short-term leases were \$nil (2021 – \$33,000).

The following table sets out a maturity analysis of the lease payments payable, showing the undiscounted lease payments to be paid on annual basis, reconciled to the lease obligation.

	\$
Less than one year	6,333
One to two years	—
Total undiscounted lease payments payable	6,333
Less: impact of present value	(84)
Balance – December 31, 2022	6,249

7. Convertible Debentures

	\$
Balance – December 31, 2021	—
Issuance of convertible debentures	165,000
Less equity portion of convertible debentures	(1,747)
Accretion expense	49,799
Balance – December 31, 2022	213,052

Between June 28, 2022 and August 22, 2022, the Company issued 165 convertible debentures (the “Debentures”) to related parties for gross proceeds of \$165,000. Each Debenture is made up of principal amount of \$1,000, bearing an interest rate of 3% per annum payable at maturity. The Debentures mature one year from the date of issuance. Each Debenture can be converted into common shares of the Company at a conversion price of \$0.05 per share on conversion. As additional consideration, the Company has agreed to pay the holders of the Debentures \$0.20 per gram in retail sales of their products, as a royalty, until 57% of the principal amount of their Debenture is repaid.

For accounting purposes, the fair value of the liability component at the time of issuance was calculated as the discounted cash flows, assuming a 50% discount rate, which was the effective interest rate when factoring in the royalty obligation. The fair value of the equity component was valued using the Black-Scholes model.

The Debentures were issued to the CEO and COO of the Company and to an entity related to the CFO of the Company.

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The conversion option value was calculated using the Black-Scholes model with the following inputs:

	2022
Grant date share price	\$0.01
Exercise price	\$0.05
Expected dividend yield	—
Risk free interest rate	2.98% - 3.49%
Expected life	1 years
Expected volatility	109% - 121%

8. 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	
	#	\$	#	\$
Balance – December 31, 2020	224,220,290	8,020,096	73,804,573	1,999,595
Shares issued [i] [ii]	18,050,000	1,412,572	1,805,000	98,948
Warrants exercised [iii]	37,850,000	2,505,340	(37,850,000)	(1,748,340)
Warrants expired	—	—	(35,654,573)	(244,100)
Balance – December 31, 2021	280,120,290	11,938,008	2,105,000	106,103
Warrants expired	—	—	(300,000)	(7,155)
Balance – December 31, 2022	280,120,290	11,938,008	1,805,000	98,948

[i] On March 15, 2021, the Company completed a private placement through the issuance of 15,050,000 common shares at a price of \$0.10 per share for total gross proceeds of \$1,505,000. Total transaction costs related to the private placement were \$263,480. The Company also issued 1,505,000 compensation warrants. The fair value of the warrants was determined to be \$82,422. For purposes of calculating the fair value of the warrants, the following assumptions were used for the Black-Scholes option pricing model: risk free interest rate 0.31%, expected life – 2 years, expected annual volatility – 106%, expected dividend yield – nil, share price \$0.10, exercise price – \$0.10.

[ii] On May 27, 2021, the Company completed a private placement through the issuance of 3,000,000 common shares at a price of \$0.10 per share for total gross proceeds of \$300,000. Total transaction costs related to the private placement were \$30,000. The Company also issued 300,000 compensation warrants. The fair value of the warrants was determined to be \$16,526. For purposes of calculating the fair value of the warrants, the following assumptions were used for the Black-Scholes option pricing model: risk free interest rate 0.32%, expected life – 2 years, expected annual volatility – 107%, expected dividend yield – nil, share price \$0.10, exercise price – \$0.10.

[iii] On May 27, 2021, 37,850,000 warrants were exercised for total proceeds of \$757,000 resulting in the issuance of 37,850,000 common shares.

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The number of warrants outstanding for the years ended December 31, 2022 and 2021, were as follows:

	Number of warrants #	Weighted average exercise price \$
Outstanding as at December 31, 2020	73,804,573	0.03
Granted	1,805,000	0.10
Exercised	(37,850,000)	0.02
Expired	(35,654,573)	0.03
Outstanding as at December 31, 2021	2,105,000	0.09
Expired	(300,000)	0.05
Outstanding as at December 31, 2022	1,805,000	0.10

Measurement of fair values

There were no warrants granted during the year ended December 31, 2022. The fair value of warrants granted for the year ended December 31, 2021, were estimated at the date of grant using the Black-Scholes model with the following inputs:

	<u>2021</u>
Grant date share price	\$0.10
Exercise price	\$0.10
Expected dividend yield	—
Risk free interest rate	0.31% - 0.32%
Expected life	2 years
Expected volatility	106% - 107%

The following table is a summary of the Company's warrants outstanding as at December 31, 2022:

Expiry Date	Exercise price \$	Number outstanding #
March 15, 2023	0.10	1,505,000
May 27, 2023	0.10	300,000
	0.10	1,805,000

The following table is a summary of the Company's warrants outstanding as at December 31, 2021:

Warrants Outstanding		
Expiry Date	Exercise price \$	Number outstanding #
July 8, 2022	0.05	300,000
March 15, 2023	0.10	1,505,000
May 27, 2023	0.10	300,000
	0.09	2,105,000

9. Share-based compensation

[a] Share-based payment arrangements

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.

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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 share options carry neither rights to dividends nor voting rights. Share 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.

The changes in the number of share options for the years ended December 31, 2022 and 2021, were as follows:

	Number of options	Weighted average exercise price
	#	\$
Outstanding as at December 31, 2020	15,500,000	0.05
Granted	17,700,000	0.10
Forfeited	(3,500,000)	0.05
Expired	(6,000,000)	0.08
Cancelled	(3,000,000)	0.05
Outstanding as at December 31, 2021	20,700,000	0.09
Exercisable as at December 31, 2021	20,700,000	0.09
Outstanding as at December 31, 2021	20,700,000	0.09
Expired	(6,000,000)	0.05
Forfeited	(500,000)	0.10
Outstanding as at December 31, 2022	14,200,000	0.10
Exercisable as at December 31, 2022	14,200,000	0.10

There were no options granted during the year ended December 31, 2022.

The fair value of share options granted during the year ended December 31, 2021 were estimated at the date of grant using the Black-Scholes model with the following inputs:

	2021
Grant date share price	\$ 0.10
Exercise price	\$0.10 - \$0.11
Expected dividend yield	—
Risk free interest rate	0.26% - 0.51%
Expected life	3 years
Expected volatility	105% - 106%

Expected volatility was estimated by using the historical volatility of comparable companies in similar industries as the Company. The expected option life represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on government bonds with a remaining term equal to the expected life of the options.

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The following table is a summary of the Company's share options outstanding as at December 31, 2022:

Expiry Date	Options outstanding			Options exercisable	
	Exercise Price	Outstanding	Weighted Average Remaining Contractual Life [years]	Exercise Price	Exercisable
	\$	#	#	\$	#
February 17, 2024	0.11	1,000,000	1.13	0.11	1,000,000
June 2, 2024	0.10	13,200,000	1.42	0.10	13,200,000
	0.10	14,200,000	1.40	0.10	14,200,000

The following table is a summary of the Company's share options outstanding as at December 31, 2021:

Expiry Date	Options outstanding			Options exercisable	
	Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life [years]	Exercise Price	Number Exercisable
	\$	#	#	\$	#
August 28, 2022	0.05	6,000,000	0.66	0.05	6,000,000
February 17, 2024	0.11	1,000,000	2.13	0.11	1,000,000
June 2, 2024	0.10	13,700,000	2.42	0.10	13,700,000
	0.09	20,700,000	1.90	0.09	20,700,000

For the year ended December 31, 2022, the Company recognized \$nil (2021 – \$1,188,382) of share-based compensation expense associated with options issued under the Option Plan.

[b] Restricted Share Units

In May 2021, the Company established a restricted share unit ("RSU") plan for directors, officers, employees and consultants of the Company. The Company's Board of Directors determines the eligibility of individuals to participate in the RSU plan in order to align their interests with those of the Company's shareholders.

No amounts are paid or payable by the individual on receipt of the restricted share unit. Each RSU converts into one common share of the Company on the date of vesting at \$nil exercise price, expiry 3 years from the date of issuance. RSUs vest over a term of one year from the date of grant at various intervals.

The Company's RSU 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.

The change in the number of RSUs for the year ended December 31, 2022, is as follows:

	Number of RSUs
	#
Outstanding as at December 31, 2020	—
Granted	6,900,000
Outstanding as at December 31, 2021	6,900,000
Forfeited	(800,000)
Outstanding as at December 31, 2022	6,100,000

For the year ended December 31, 2022, the Company recognized \$230,615 (2021 – \$309,052) of share-based compensation related to RSUs.

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10. 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 years presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of warrants, share options and RSUs. 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, 2022 and 2021 presented are as follows:

	December 31, 2022	December 31, 2021
	#	#
Warrants	1,805,000	2,105,000
Share Options	14,200,000	20,700,000
RSUs	6,100,000	6,900,000
Convertible debentures	3,300,000	—
	<u>25,405,000</u>	<u>29,705,000</u>

11. 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 year ended December 31, 2022 (2021 – 26.5%) to loss for the year.

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2021 – 26.5%) to the effective tax rate is as follows:

	2022	2021
	\$	\$
Net loss and comprehensive loss before income taxes	<u>(1,409,004)</u>	<u>(4,637,470)</u>
Expected income tax recovery	(373,386)	(1,228,930)
Share issuance cost	—	(77,772)
Non-deductible expenses	79,889	406,315
Change in unrecognized deferred tax assets	<u>293,497</u>	<u>900,387</u>
Income tax recovery	—	—

As at December 31, 2022, the deferred tax asset of \$2,053,152 (2021 – \$1,759,655) 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.

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

	2022	2021
Capital assets	25,628	7,469
Share Issuance Costs	67,160	102,470
Non-Capital loss carryforward	1,637,305	1,327,472
Other	323,059	322,244
	2,053,152	1,759,655
Valuation allowance	(2,053,152)	(1,759,655)
	—	—

As at December 31, 2022 there were unused non-capital losses of \$6,178,510 (2021 – \$5,009,329) which expire as follows:

	\$
2037	19,294
2038	271,282
2039	578,691
2040	942,908
2041	3,197,154
2042	1,169,181
	\$ 6,178,510

12. Commitments and contingencies

Commitments

Medz Cannabis Collaboration Agreement

On April 20, 2020, the Company entered into a five-year collaboration agreement with 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, packaging, 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 the 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 long-term lease for approximately 1,900 square feet of production and office space as well as access to common space through February 28, 2023. 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.

13. 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.

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Key management personnel compensation for the years ended December 31, 2022 and 2021 is comprised of:

	2022	2021
	\$	\$
Salaries, benefits, bonuses and other fees	345,260	630,950
Share-based payments	167,671	1,119,766
Total	512,931	1,750,716

During the year ended December 31, 2022, Debentures were issued to the CEO, COO of the Company and to an entity related to the CFO of the Company (Note 7). For the year ended December 31, 2022, the Company recognized accretion on the Debentures of \$49,799 (2021 - \$nil).

During the year ended December 31, 2021, the Company granted the Board of Directors and officers of the Company a total of 11,500,000 share options, vesting immediately, with an exercise price of \$0.10 to \$0.11 and expiry date of 3 years from the date of grant. The fair value of the share options was determined to be \$863,690 using the Black-Scholes option pricing model.

During the year ended December 31, 2021, the Company modified 2,000,000 share options held by related parties to vest immediately. The Company recognized the fair value of the original awards in the amount of \$23,748.

During the year ended December 31, 2021, the Company granted certain directors and officers of the Company 4,000,000 RSUs. The RSUs vest on June 1, 2022 and expire on June 1, 2024. For the year ended December 31, 2022, the Company recognized share-based compensation of \$167,671 (2021 – \$232,328) related to the RSUs granted.

During the year ended December 31, 2021, the Company incurred professional fees expense of \$220,000 with a Company related to the Company's CFO for services provided in relation to the Canadian Securities Exchange listing.

During the year ended December 31, 2021, the Company recognized revenue of \$7,534 from a Company owned by one of the Directors. The amount is included in trade and other receivables as at December 31, 2021.

The Company owes related parties \$59,799 (2021 – \$36,040), included in trade and other payables, as at December 31, 2022.

14. 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 equity and borrowings.

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.

The Company's capital structure includes the following:

	2022	2021
	\$	\$
Share capital	11,938,008	11,938,008
Warrants	98,948	106,103
Contributed surplus	1,981,051	1,741,534
Convertible debentures	213,052	—
Deficit	(14,030,448)	(12,621,444)
Total	200,611	1,164,201

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[expressed in Canadian dollars]

December 31, 2022 and 2021

15. 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 majority of the trade receivable outstanding is with one customer.

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.

The aging of trade receivables is as follows:

	December 31, 2022	December 31, 2021
	\$	\$
Current	218,835	335,163
31 to 60 days	—	15,573
> 60 days	4,485	139,975
Total trade receivables	223,320	490,711

Credit loss impairment is determined based upon review of specific accounts as the Company does not have significant historical uncollectable receivables. As at December 31, 2022, allowance for expected credit losses is \$nil (2021 – \$nil).

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.

The Company is obligated to the following contractual maturities of undiscounted cash flows as at December 31, 2022:

	Contractual cash flows				
	Carrying amount	Year 1	Year 2	Year 3 and beyond	Total contractual cash flows
	\$	\$	\$	\$	\$
Trade and other payables	269,014	269,014	—	—	269,014
Convertible debentures	213,052	264,069	—	—	264,069
Lease liabilities	6,249	6,333	—	—	6,333
Total	488,315	539,416	—	—	539,416

The Hash Corporation
Notes to the financial statements

[expressed in Canadian dollars]
December 31, 2022 and 2021

The Company was obligated to the following contractual maturities of undiscounted cash flows as at December 31, 2021:

	Contractual cash flows				
	Carrying amount	Year 1	Year 2	Year 3 and beyond	Total contractual cash flows
	\$	\$	\$	\$	\$
Trade and other payables	192,787	192,787	—	—	192,787
Lease liabilities	41,484	38,000	6,333	—	44,333
Total	234,271	230,787	6,333	—	237,120

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, 2022, 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 significant interest rate risk as at December 31, 2022, except for the royalty obligation on the Debentures.

- 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, 2022.

Fair values

The carrying values of cash, trade 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.

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December 31, 2022 and 2021

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. For the years ended December 31, 2022 and 2021 there were no financial instruments recorded at fair value.

16. Comparative figures

Certain comparative figures have been reclassified to conform with the adequate presentation adopted in the current year. Excise tax in the amount of \$65,293 was reclassified out of production expense and into revenue on the statement of net loss and comprehensive loss.

17. Subsequent events

On March 15, 2023, 1,505,000 warrants expired unexercised.

On February 24, 2023, the Company issued a secured convertible debenture in the amount of \$750,000. The debenture bore interest at 5% per annum, was to mature on May 31, 2023 and was convertible, including accrued interest, into common shares of the Company at \$0.05 per common share. On April 28, 2023, the Company repaid \$740,000 and the remaining \$16,473 (including accrued interest) owed by the Company under the debenture was converted into 329,452 common shares of the Company at \$0.05 per common share.