Hempsana Holdings Ltd.
(formerly known as Stralak Resources Inc.)

Consolidated Annual Financial Statements

For the years ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Hempsana Holdings Ltd.:

Opinion

We have audited the consolidated financial statements of Hempsana Holdings Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and December 31, 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated 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.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits 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 1 in the consolidated financial statements, which indicates that the Company had a working capital deficit as at December 31, 2021, negative cash flows from operations and has incurred losses since inception. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's 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. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related 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.

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 Canadian generally accepted auditing standards 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 consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose 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 auditor's report to the related disclosures in the consolidated 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 auditor's 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 consolidated financial statements, including the disclosures, and whether the consolidated 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.

The engagement partner on the audit resulting in this independent auditor's report is Leanne Bjalek.

Calgary, Alberta

MNP LLP

April 22, 2022

Chartered Professional Accountants

Hempsana Holdings Ltd.
Consolidated Statements of Financial Position
As at December 31, 2021 and 2020
(Expressed in Canadian dollars)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Current assets			
Cash		**$ 46,189**	$ 80,516
Trade receivables		**25,040**	-
Inventory	4	**118,108**	-
Prepaids, deposits and other receivables	5	**304,414**	303,906
Total current assets		**493,751**	384,422
Non-current assets			
Intangible assets	6	**27,269**	12,897
Property, plant and equipment	7	**3,496,955**	3,343,171
Total non-current assets		**3,524,224**	3,356,068
Total assets		**$ 4,017,975**	$ 3,740,490
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$ 893,206**	$ 1,355,148
Accounts payable to related parties	8	**302,686**	947,750
Current portion of long-term debt	9	**298,373**	150,225
Total current liabilities		**1,494,265**	2,453,123
Non-current liabilities			
Long-term debt	9	**534,751**	555,379
Total non-current liabilities		**534,751**	555,379
Total liabilities		**$ 2,029,016**	3,008,502
Shareholders' equity			
Share capital	11	**8,367,973**	2,184,070
Shares to be issued	11	**-**	720,807
Other reserves	11	**553,508**	521,163
Deficit		**(6,932,522)**	(2,694,052)
Total shareholders' equity		**1,988,959**	731,988
Total liabilities and shareholders' equity		**$ 4,017,975**	$ 3,740,490

Nature of operations and going concern	1
Events after the reporting period	16

Approved on behalf of the Board of Directors:

//s// ***"Randy Ko"***	//s// ***"Sohil Mana"***
Randy Ko Director President and CEO	Sohil Mana Director

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

Hempsana Holdings Ltd.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2021 and 2020
(Expressed in Canadian dollars)

	Notes	For the year ended December 31, 2021	For the year ended December 31, 2020
Sales		$ 114,715	$ -
Cost of sales		66,281	-
Gross Profit		48,434	-
Expenses			
Auto expenses		33,214	38,377
Conference fees		2,163	18,036
Consulting fees	8	237,612	174,993
Depreciation and amortization	6 & 7	205,739	151,283
Facility supplies		45,629	33,862
License fees		28,208	15,403
Insurance		49,250	32,165
Investor relations and marketing		313,647	75,688
Legal and professional fees		322,227	61,065
Listing expenses	15	1,949,739	-
Management fees		436,800	531,482
Office expenses		110,251	44,834
Other operating expenses		66,751	18,006
Other selling, general and administrative expenses		20,498	10,698
Share-based payments	11	32,345	307,853
Utilities		20,593	26,630
Wages		301,697	95,635
Total expenses		4,176,363	1,636,010
Other income	9	(7,722)	(10,924)
Interest expense	9	133,731	28,765
Gain on conversion of convertible debentures	10	(15,813)	-
Loss on revaluation of convertible debentures	10	345	-
Net loss		$ (4,238,470)	$ (1,653,851)
Loss per share			
Weighted average number of common shares outstanding			
Basic #	13	22,281,791	16,653,667
Diluted #	13	22,281,791	16,653,667
Basic loss per share $	13	$ (0.19)	$ (0.10)
Diluted loss per share $	13	$ (0.19)	$ (0.10)

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

Hempsana Holdings Ltd.
Statements of Changes in Shareholders' Equity
For the years ended December 31, 2021 and 2020
(Expressed in Canadian dollars)

	Notes	Number of shares	Share capital	Other reserves	Deficit	Total shareholders' equity
Balance at January 1, 2020		**16,553,457**	**$ 2,184,070**	**$ 213,310**	**(1,040,201)**	**$ 1,357,179**
Shares to be issued	11	981,023	720,807	-	-	720,807
Share-based payments	11	-	-	307,853	-	307,853
Net loss		-	-	-	(1,653,851)	(1,653,851)
Balance at December 31, 2020		**17,534,480**	**$ 2,904,877**	**$ 521,163**	**$ (2,694,052)**	**$ 731,988**
Shares issued	11	6,594,843	5,463,096	-	-	5,463,096
Share-based payments	11	-	-	32,345	-	32,345
Net loss		-	-	-	(4,238,470)	(4,238,470)
Balance at December 31, 2021		**24,129,323**	**$ 8,367,973**	**$ 553,508**	**$ (6,932,522)**	**$ 1,988,959**

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

Hempsana Holdings Ltd.
Statements of Cash Flows
For the years ended December 31, 2021 and 2020
(Expressed in Canadian dollars)

	Notes	For the year ended December 31, 2021	For the year ended December 31, 2020
Operating activities			
Net loss		**$ (4,238,470)**	$ (1,653,851)
Adjustments for non-cash items:			
Interest expense		**33,978**	16,985
Depreciation and amortization	6 & 7	**205,740**	151,283
Share-based payments	11	**32,345**	307,853
Other income	9	**(7,722)**	(10,924)
Change in fair value of convertible debentures – derivative liability	10	**345**	-
Gain from settlement of convertible debentures	10	**(15,813)**	-
Exchange loss		**272**	-
Listing expenses	15	**1,747,239**	-
Changes in non-cash working capital items:			
Trade receivables		**(25,040)**	-
Prepaids, deposits and other receivables	5	**(508)**	148,914
Accounts payable, accrued liabilities and accounts payable to related parties		**62,571**	693,161
Inventory	4	**(87,366)**	-
Net cash flows used in operating activities		**(2,292,429)**	(346,579)
Investing activities			
Purchase of property, plant and equipment	7	**(228,410)**	(245,167)
Additions to intangible assets	6	**(27,375)**	-
Net cash flows used in investing activities		**(255,785)**	(245,167)
Financing activities			
Payments of private loan	9	**(150,225)**	(133,316)
Proceeds from government loan	9	**-**	40,000
Proceeds from issuance of common shares	11	**2,761,947**	735,767
Share issuance costs	11	**(97,835)**	(14,960)
Net cash flows from financing activities		**2,513,887**	627,491
Net (decrease)/increase in cash		**(34,327)**	35,745
Cash, beginning of year		**80,516**	44,771
Cash, end of year		**$ 46,189**	$ 80,516

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

1. Nature of operations and going concern

Hempsana Inc. was incorporated under the laws of Canada on October 15, 2018. Stralak Resources Inc. ("Stralak") was incorporated on January 31, 1980 under the laws of the Province of British Columbia.

On June 25, 2021, Stralak was renamed to Hempsana Holdings Ltd. (the "Company"), as part of the reverse takeover transaction ("RTO" or the "Transaction") announced with Hempsana Inc. On July 12, 2021 the announced RTO was completed and Hempsana Inc. became a wholly-owned subsidiary of Hempsana Holdings Ltd. Pursuant to RTO accounting standards, these consolidated financial statements reflect the continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, Hempsana Inc. (see note 15). The Company specializes in cannabis derivatives and is focused on extraction and purification, and end-product manufacturing. The Company has approval for Cannabidiol ("CBD") oil extraction in the European Union ("EU") and has been granted Health Canada's Standard Processing and Industrial Hemp Licenses. The Company's head office is located at 3080 Yonge Street, Suite 6060, Toronto, Ontario, Canada, M4N 3N1. The registered address is located at 148 Cranbrooke Avenue, Toronto, Ontario, Canada, M5M 1M5.

These consolidated financial statements are prepared on the basis that the Company will continue as a going concern, as management believes it will be successful in generating positive cash flows from operations, complete additional financings, and/or extend or modify its loan payable (see note 9) in order to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary should the Company be unable to continue in existence.

As at December 31, 2021, the Company had a working capital deficit of $1,000,514 (2020 - $2,068,701), has negative cash flows from operations of $2,292,429 (2020 - $346,579) and has incurred losses since inception. These events and conditions indicate a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements it could be necessary to restate the Company's assets and liabilities on a liquidation basis.

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

2. Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations (collectively, "IFRS"), as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors (the "Board") on April 22, 2022.

(b) Basis of presentation

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

(c) Presentation currency

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

(d) Use of estimates and judgments

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

The information about significant areas of estimation uncertainty and judgement considered by management in preparing these consolidated financial statements is as follows:

Property, Plant and Equipment

The estimated useful lives of property, plant and equipment are reviewed by management and adjusted if necessary. To estimate property, plant and equipment's useful life, management must use its past experience with the same or similar assets and use professional judgement in its determination of useful life.

Going concern

The assessment of the Company's ability to continue as a going concern as discussed in note 1 involves judgment regarding future funding available for its operations and working capital requirements.

Inventory

Inventory is carried at the lower of cost or net realizable value. The determination of net realizable value involves significant management judgement and estimates, including the estimation of future selling prices and potential obsolescence.

Share-based payments

The fair value of all share-based payments granted are determined using the Black-Scholes option pricing model which incorporates assumptions regarding risk-free interest rates, dividend yield, expected volatility, estimated forfeitures, and the expected life of the options. The Company has a significant number of options outstanding and expects to continue to make grants.

Deferred taxes

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference or tax loss carry-forwards can be utilized. The recognition of temporary differences and tax loss carry-forwards is based on the Company's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carry-forwards may be utilized.

Deferred tax liabilities are recognized when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Company records a provision for the amount that is expected to be settled, which requires judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Company's judgment of the likelihood of a future outflow and estimates of the expected settlement amount, timing of reversals, and the tax laws in the jurisdictions in which the Company operates.

Valuation of embedded derivatives of financial instruments

The convertible debentures were accounted for as hybrid contracts where the initial carrying value of the host debt was the residual amount after separating the embedded derivatives. The host debt was carried at amortized cost and the embedded derivatives were accounted for as financial liabilities measured at fair value through profit and loss. The fair value of the liability at the time of issuance is calculated as the discounted cash flows for the convertible debenture using the effective interest rate. The fair value of the host debt by the discounted cash flow approach could be impacted by the Company's assumptions and estimates used in the calculation.

3. Significant accounting policies

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost of cannabis and hemp biomass is comprised of initial third-party acquisition costs, if any. Costs of extracted cannabis and hemp oil inventory are comprised of initial acquisition cost of the biomass and all direct and indirect processing costs including supervisory labour costs, consumables, materials, analytical testing costs, utilities, facility costs, and production related depreciation. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Packaging and supplies are initially valued at cost and subsequently at the lower of cost and net realizable value.

Property, Plant and Equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized over the following terms, intended to depreciate the cost of property, plant and equipment, less its residual values if any, over its estimated useful lives:

Building	40 years straight line
Machinery and equipment	8-10 years straight line
Security equipment	7 years straight line

Cost includes expenditures that are directly attributable to the acquisition of the asset. 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 can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the period they are incurred. Any gain or loss on the disposal or retirement of equipment is recognized in profit or loss.

Intangible assets

Intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Leases

A contract is a lease, or considered a lease, if it conveys the right to control the use of an asset for a time period in exchange for consideration. To identify a lease, the Company (1) considers whether an explicit or implicit asset is specified in the contract and (2) determines whether the Company obtains substantially all the economic benefits from the use of the underlying asset by assessing numerous factors, including but not limited to substitution rights and the right to determine how and for what purpose the asset is used.

The Company does not recognize lease assets and lease liabilities for low-value assets or short-term leases with a term of 12 months or less. The lease payments are recognized in expenses over the lease term. The Company currently only has rental agreements that do not meet the lease criteria described above.

Government grants

The Company recognizes government grants when there is reasonable assurance that the Company will comply with the conditions associated with the grant, and that the grant will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes the related expenses for which the grants are intended to compensate as a deduction to the related expense.

Share capital

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from shareholders' equity. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of warrants attached to private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in the private placements to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve.

Share-based payments

The Company has a stock option plan that provides for the granting of options to Officers, Directors, consultants and others to acquire shares of the Company. Options granted are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The fair value of the equity instruments is determined using the Black-Scholes option pricing model which incorporates assumptions regarding risk-free interest rates, dividend yield, expected volatility, estimated forfeitures, and the expected life of the options.

Over the vesting period, share-based payments are recorded as an operating expense and as an increase to equity in other reserves. When options are exercised the consideration received, it is recorded as share capital and the related share-based payments originally recorded as other reserves are transferred to share capital. When an option is cancelled or expires, the initial recorded value is reversed from other reserves and credited to deficit.

Loss per share

Basic loss per share is computed by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period.

Diluted loss per share is computed similar to basic loss per share except that net loss attributable to common shareholders are adjusted for the dilutive effect of warrants and stock options. Under this method, the Company assumes that outstanding dilutive stock options and warrants were exercised and that the proceeds from such exercises (after adjustment of any unvested portion of stock options) were used to acquire common shares at the average market price during the reporting periods.

Financial instruments

IFRS 9 provides three different measurement categories for non-derivative financial assets – subsequently measured at amortized cost, fair value through profit or loss (“FVTPL”) or fair value through other comprehensive income – while all non-derivative financial liabilities are classified as subsequently measured at amortized cost. The category into which a financial asset is placed and the resulting accounting treatment is largely dependent on the nature of the business of the entity holding the financial asset. All financial instruments are initially recognized at fair value.

<u>Financial assets</u>

Measurement

The Company initially recognizes financial assets on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company classifies all of its financial assets as subsequently measured at amortized cost. All financial assets that do not meet the criteria to be recognized as subsequently measured at amortized cost or subsequently measured at fair value through other comprehensive income are classified as FVTPL.

Impairment of financial assets at amortized cost

An ‘expected credit loss’ impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset’s original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

The Company measures all of its financial liabilities as subsequently measured at amortized cost. Financial liabilities are recognized initially at fair value, net of transaction costs incurred, and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method.

Impairment of non-financial assets

The carrying amount of the Company’s long-lived assets is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset’s recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash generating units “CGU”). The recoverable amount of an asset group is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Where the carrying amount of an asset group exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Hybrid financial instruments

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

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

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

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

Revenue recognition

The Company earns revenue from product sales, toll processing services and contract manufacturing services.

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts. The Company considers the terms of the sales contracts as well as industry practices, taking into consideration the type of customer, the nature of the transaction and the specific circumstances of each arrangement.

The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

- Identify the contract with a customer;
- Identify the performance obligation(s) in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligation(s) in the contract; and
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Revenue from product sales, such as cannabis and hemp derived oils, vapes pens, tinctures, etc. and the related cost of sales are recognized on delivery of goods to the customer. Toll processing services are provided to other licensed companies who engage the Company to extract and refine their direct materials. Toll processing services revenue are recognized upon completion of services. Contract manufacturing services involve label manufacturing for third parties. Revenues for contract manufacturing services are recognized based upon the five-step process and can vary depending on the terms of each contract.

4. Inventory

Inventory consists of the following:

	December 31, 2021	December 31, 2020
Extracted hemp and cannabis oil	**$ 82,493**	$ -
Packaging and supplies	**35,615**	-
	$ 118,108	$ -

During the year ended December 31, 2021, the Company expensed $15,106 of inventory to cost of sales (2020 - $nil).

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

5. Prepaids, deposits and other receivables

Prepaids, deposits and other receivables consist of the following:

		December 31, 2021		December 31, 2020
Sales tax recoverable	**$**	**286,823**	$	290,406
Prepaids and deposits		**17,591**		13,500
	$	**304,414**	$	303,906

6. Intangible assets

Intangible assets comprise of licenses and website costs. A continuity of the intangible assets balance is provided below:

		Intangible assets
Cost		
December 31, 2019	$	16,010
Additions		-
December 31, 2020		16,010
Accumulated amortization		
December 31, 2019		-
Amortization		(3,113)
December 31, 2020	$	(3,113)
Net book value		
December 31, 2020		12,897
Cost		
December 31, 2020	$	16,010
Additions		27,375
December 31, 2021		43,385
Accumulated amortization		
December 31, 2020		(3,113)
Amortization		(13,003)
December 31, 2021	$	(16,116)
Net book value		
December 31, 2021	$	27,269

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

7. Property, plant and equipment

	Land	Building	Machinery and equipment	Security equipment	Total
Cost					
December 31, 2019	$ 70,000	$ 2,106,944	$ 515,620	$ 214,718	$ 2,907,282
Additions	-	149,490	460,692	5,477	615,659
December 31, 2020	70,000	2,256,434	976,312	220,195	3,522,941
Accumulated depreciation					
December 31, 2019	-	(23,715)	-	(7,886)	(31,601)
Depreciation	-	(76,659)	(40,905)	(30,605)	(148,169)
December 31, 2020	$ -	$ (100,374)	$ (40,905)	$ (38,491)	$ (179,770)
Net book value					
December 31, 2020	$ 70,000	$ 2,156,060	$ 935,407	$ 181,704	$ 3,343,171
Cost					
December 31, 2020	$ 70,000	$ 2,256,434	$ 976,312	$ 220,195	$ 3,522,941
Other adjustments	-	-	(950)	(5,477)	(6,427)
Additions	-	95,607	283,031	5,052	383,690
December 31, 2021	**70,000**	**2,352,041**	**1,258,393**	**219,770**	**3,900,204**
Accumulated depreciation					
December 31, 2020	-	(100,374)	(40,905)	(38,491)	(179,770)
Depreciation	-	(82,945)	(109,455)	(31,079)	(223,479)
December 31, 2021	**$ -**	**$ (183,319)**	**$ (150,360)**	**$ (69,570)**	**$ (403,249)**
Net book value					
December 31, 2021	**$ 70,000**	**$ 2,168,722**	**$ 1,108,033**	**$ 150,200**	**$ 3,496,955**

The machinery and equipment commenced depreciation on May 5, 2020, when the Company was granted their processing license from Health Canada.

As at December 31, 2021, the Company did not capitalize any borrowing costs included in machinery and equipment (December 31, 2020 - $93,577).

As at December 31, 2021, the Company recognized $223,479 of depreciation (December 31, 2020 – $148,169). Of this amount, $30,743 was applied to inventory during the year ended December 31, 2021 (December 31, 2020 - $nil).

8. Related party payables and transactions

Several key management personnel and Directors hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The following related parties transacted with the Company during the years ended December 31, 2021 and 2020:

(a) 12813521 CANADA INC
(b) 2822477 Ontario Inc.
(c) rk3 Global Services Incorporated
(d) The CFO Centre
(e) Eurofins Experchem Laboratories Inc

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

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

	Transactions for years ended		**Balances outstanding for years ended**	
	December 31, 2021	December 31, 2020	**December 31, 2021**	December 31, 2020
12813521 CANADA INC	**$ 100,000**	$ 150,000	**$ 49,800**	$ 300,000
2822477 Ontario Inc.	**100,000**	150,000	**49,800**	300,000
rk3 Global Services Incorporated	**187,500**	201,700	**112,500**	347,750
The CFO Centre	**104,525**	-	**77,405**	-
Eurofins Experchem Laboratories Inc.	**38,617**	10,072	**13,181**	-
	$ 530,642	$ 511,772	**$ 302,686**	$ 947,750

All related party balances are unsecured and are due without interest. The transactions with the key management personnel and Directors are included in operating expenses as follows:

(a) Management fees
- Includes the management consulting services charged to the Company by the Directors, Sohil Mana and Randy Ko, and by shareholder, Woo Kim.

(b) Consulting fees
- Includes the services of Eurofins, of which Director, Sohil Mana is President.
- Includes the consulting services of The CFO Centre, in which David Chan, CFO, serves as an independent contractor.

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole.

The remuneration of key management for the years ended December 31, 2021 and December 31, 2020 are as follows:

	December 31, 2021 $	December 31, 2020 $
Share-based payments	**16,173**	92,234
Wages and salaries	**-**	44,315
	16,173	136,549

Share-based payments
- Includes options granted in prior years as a bonus to Director Randy Ko as incentive to service the company for 2 years from grant date.

Wages and salaries
- Includes salaries paid to Director, Randy Ko, Sohil Mana and shareholder, Woo Kim. In 2021, all of the compensation to management was through Management and Consulting fees.

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

9. Long-term debt

		December 31, 2021		
	Private loan	Government loan	Promissory note	Total long-term debt
Maturity	November 1, 2024	December 31, 2022	August 25, 2023	
Principal outstanding	556,051	40,000	266,685	**862,736**
Deferred financing costs	(17,660)	(4,502)	(7,450)	**(29,612)**
Total	**538,391**	**35,498**	**259,235**	**833,124**
Less: Current portion	**169,277**	**-**	**129,096**	**298,373**
Non-current portion	**369,114**	**35,498**	**130,139**	**534,751**

		December 31, 2020	
	Private loan	Government loan	Total long-term debt
Maturity	November 1, 2024	December 31, 2022	
Principal outstanding	706,276	40,000	746,276
Deferred financing costs	(32,175)	(8,497)	(40,672)
Total	674,101	31,503	705,604
Less: Current portion	150,225	-	150,225
Non-current portion	523,876	31,503	555,379

On October 18, 2019, the Company entered into a private loan with a related party for $850,000 which bears interest at the rate of 12% per annum, calculated monthly. As at year ended December 31, 2021, the Company did not capitalize any financing costs to machinery and equipment (December 31, 2020 - $93,577). The private loan matures on November 1, 2024 and can be repaid before maturity without penalty and is secured by the Company's land and building.

The private loan is recorded at amortized cost, which was initially measured at fair value less transaction costs. Loan issuance costs were capitalized when incurred and are being amortized over the term of the loan using the effective interest rate method. The private loan is repayable in monthly installments, with a combined principal and interest payment of $18,908 per month.

On October 1, 2021 a Director of the Company agreed to finance the Company's private loan payments for three months. The total commitment is $56,723 and would cover the loan payments for October, November and December 2021. This Director is related to the holder of the existing private loan. Prior to this additional financing, the Company had owed $196,363 which comprised of the $189,108 previous loan payments made on the Company's behalf, as well as purchases for various equipment and services. As part of this additional financing, the Company restructured the entire amount owing as a new Promissory note which bears a 10.0% interest rate. Half of the total amount owing must be repaid on August 25, 2022 and the remaining half is due by August 25, 2023. The Company can repay the Promissory note early without penalty and it is secured by a second mortgage on the Company's Goderich property. As at December 31, 2021, the principal value of the Promissory note was $266,685 (December 31, 2020 - $nil) and the fair value of the loan was $259,235 (December 31, 2020 - $nil).

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

In response to COVID-19, many governments around the world have provided various subsidy programs to assist companies during the pandemic. The Company participated in the Canada Emergency Business Account ("CEBA") program in Canada, which was announced in March 2020. CEBA provides interest-free loans up to $60,000 to small businesses. On April 28, 2020, the Company received a $40,000 interest-free government loan from the CEBA program. The interest-free benefit has been recorded in the statement of loss and comprehensive loss. The loan bears no interest until December 31, 2022, and $10,000 loan forgiveness will be granted if repaid before this date. The principal value of the government loan was $40,000 as at December 31, 2021, and the fair value of the loan was $33,445.

Payments:		
Within one year	$	338,373
1 – 3 years		516,642
4 – 5 years		-
	$	855,015

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

		Long-term debt
December 31, 2019	$	792,858
Amortization of deferred financing costs		14,559
Repayments of private loan		(133,316)
Government loan		40,000
Government grant		(8,497)
December 31, 2020		705,604
Amortization of deferred financing costs		**14,515**
Repayments of private loan		**(150,225)**
Promissory note		266,685
Fair market value gain on Promissory note		**(7,450)**
Government grant		**3,995**
December 31, 2021	**$**	**833,124**

10. Convertible debentures and derivative liability

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

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

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

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

On July 12, 2021, the convertible debentures were converted into equity. A summary of the convertible debt liability and conversion feature is as follows:

	Convertible debentures	Derivative liability	Total
December 31, 2020	**$ -**	**$ -**	**$ -**
Initial recognition	191,859	58,141	250,000
Accretion of conversion and penalty feature	15,468	-	15,468
Change in fair value	-	345	345
Conversion of units into equity	(191,859)	(58,141)	(250,000)
Gain on conversion of units	(15,468)	(345)	(15,813)
December 31, 2021	**$ -**	**$ -**	**$ -**

11. Share capital

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

	Common shares #	Per share $	Amount $
December 31, 2019	16,553,457		2,184,070
Issuance:			
Shares to be issued	981,023	$ 0.75	735,767
Costs			(14,960)
December 31, 2020	17,534,480		$ 2,904,877
Issuance:			
Private Placement March 2021	3,268,195	$ 0.75	2,451,147
Shares for debt issuance	1,068,992	$ 0.75	801,745
Conversion of convertible debt	297,619	$ 0.84	250,000
Private Placement July 2021	296,000	$ 1.05	310,800
Issued for the Transaction	1,500,000	$ 1.05	1,575,000
Finder's fee for the Transaction	164,037	$ 1.05	172,239
Costs			(97,835)
December 31, 2021	**24,129,323**		**8,367,973**

As at December 31, 2021, there were 2,888,698 shares held in escrow.

Private Placement

During the fiscal year of 2020, $735,767 was received in advance from investors and recorded in equity as shares to be issued as at December 31, 2020. In March 2021, the private placement closed with additional proceeds of $2,451,147, and the shares to be issued were converted to common shares. In connection with the private placement, the Company issued 4,249,218 units comprised of one common share of the Company and one purchase warrant. Each purchase warrant entitles its holder to acquire one common share of the Company at an exercise price of $1.50 any time up to 18 months from the distribution date.

In July 2021, the Company successfully closed a private placement for gross proceeds of $310,800. In connection with the private placement, the Company issued 296,000 units comprised of one common share of the Company and one-half purchase warrant, for a total of 148,000 warrants. The Company intends to use the net proceeds for general operational and working capital purposes. Each purchase warrant entitles its holder to acquire one common share of the Company at an exercise price of $1.50 any time up to 24 months from the distribution date.

Shares for Debt Issuance

On March 19, 2021, the Company issued 1,068,992 common shares for the aggregate amount of $801,745 to settle amounts owing to multiple vendors and related parties.

Business Combination

On April 23, 2021, the Company and Hempsana Inc. executed a definitive business combination agreement whereby Hempsana Inc. subject to certain conditions and applicable shareholder and regulatory approvals, will affect a reverse takeover of the Company by way of a three-cornered amalgamation with Hempsana Inc.

On July 12, 2021, the Company and Hempsana Inc. closed the transaction which was completed by way of a three-cornered amalgamation (the “Amalgamation”). Pursuant to the terms of the Amalgamation, Hempsana Inc. amalgamated with a wholly owned subsidiary of the Company, and the Company acquired all the issued and outstanding common shares of Hempsana Inc. in exchange for its common shares (“HHL Shares”) on the basis of one HHL Share for each Hempsana Inc. Share issued and outstanding, as a result of which Hempsana Inc. has now become a wholly owned subsidiary of the Company. The Amalgamation also provides that all outstanding warrants and options to purchase Hempsana Inc. Shares remain outstanding and now entitle the holders thereof to acquire equivalent securities of HHL in lieu of Hempsana Inc. on the same terms and conditions. The continuing company trading symbol is (CSE: HMPS).

Upon completion of the Transaction, Hempsana had 24,129,323 HHL Shares issued and outstanding (non-diluted), of which the former shareholders of Stralak hold 1,500,000 Hempsana Shares representing approximately 6.2%, the former shareholders of Hempsana Inc. hold 22,629,323 Hempsana Shares representing approximately 93.8% (see note 15). In addition, Hempsana had 1,655,345 stock options and 4,397,218 warrants (each exercisable to acquire one Hempsana Share) outstanding.

Upon completion of the Transaction, the convertible debentures (see note 10) automatically converted into 297,619 shares of the Company at a 20% discount of the issue price of $1.05, for a total contributed capital of $250,000.

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

Stock options

The company has adopted a stock option plan (the "Plan") which provides eligible Directors, employees and consultants with the opportunity to acquire common shares of the Company. The stock options terms, vesting period and exercise price are determined by the Board of Directors at the date of the grant.

	December 31, 2021		December 31, 2020	
	Options #	**Weighted average exercise price $**	Options #	Weighted average exercise price $
Options outstanding, beginning of year	**1,655,345**	**0.36**	1,655,345	0.36
Granted	**-**	**-**	-	-
Exercised	**-**	**-**	-	-
Options outstanding, end of year	**1,655,345**	**0.36**	1,655,345	0.36

As at December 31, 2021, the Company had stock options outstanding and exercisable as follows:

Options outstanding #	**Options vested #**	**Weighted average Exercise price $**	**Expiry date**	**Weighted average remaining life (years)**
1,318,532	1,318,532	0.30	March 4, 2024	2.17
336,813	336,813	0.60	August 31, 2024	2.69

The fair value of all equity-settled share-based payments are determined using the Black-Scholes option pricing model. Expected volatility is estimated by considering historic average unit prices of comparable companies in the market. The risk-free interest rate is based on Canadian government bonds.

During the year ended December 31, 2019, 1,655,345 stock options were granted to a director and consultant of the Company with varying vesting terms. These options were granted as a bonus incentive for the Director and consultant to continue services for the company over the vesting term.

During the year ended December 31, 2021 the total share-based payments expense was $32,345 (December 31, 2020 - $307,853). This expense related to the stock options which were granted in previous years as no stock options were granted during the year ended December 31, 2021.

On initial recognition of the share-based payments expense, the Company estimated the likelihood of the options vesting as being 100%, which determined the estimated fair value of the options on the grant date. During the year ended December 31, 2021, there was no change in the estimate or value of the stock options previously granted.

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

Warrants

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

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

	December 31, 2021		December 31, 2020	
	Warrants #	**Weighted average exercise price $**	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of year	**981,023**	**-**	-	-
Warrants issued	**3,416,195**	**1.50**	-	1.50
Warrants to be issued - attached to units	**-**		981,023	
Warrants outstanding, end of year	**4,397,218**	**1.50**	981,023	1.50

12. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2020 – 26.5%) to the effective tax rate is as follows:

	December 31, 2021	December 31, 2020
Net loss before recovery of income taxes	**$ (4,238,470)**	$ (1,653,851)
Expected income recovery	**(1,123,195)**	(438,271)
Difference in tax rates		
Share-based compensation	**8,571**	81,581
Other	**1,367**	819
Non-deductible listing expense	**417,375**	-
Gain on conversion of debt & derivative	**(4,190)**	-
Change in tax benefits not recognized	**700,072**	355,871
Income recovery expense	**$ -**	$ -

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

Deferred tax

The following table summarizes the components of deferred tax:

	December 31, 2021	December 31, 2020
Deferred Tax Assets		
Non-capital losses carried forward	**$ 183,223**	$ 138,643
Deferred Tax Liabilities		
Property, plant and equipment	**(159,303)**	(137,583)
Amortization capitalized in inventory	**(8,147)**	
Intangible assets	**(422)**	(1,060)
Long-term debt	**(15,351)**	
Total Non-capital losses carried forward	$ -	$ -

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Unrecognized deferred tax liabilities

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax liabilities have not been recognized in respect of the following deductible temporary differences:

	December 31, 2021	December 31, 2020
Intangible assets	**$ 346,634**	$ -
Share issuance costs	**191,069**	165,562
Non-capital losses carried forward	**4,299,789**	2,215,594
Investment tax credits	**241,431**	-
	$ 5,078,923	$ 2,381,156

The non-capital loss carry forwards expire as noted in the table below. The net capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains. Share issuance and financing costs will be fully amortized in 2025. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's non-capital income tax losses expire as follows:

	December 31, 2021
Year 2038	**$ 18,820**
Year 2039	**805,097**
Year 2040	**1,711,806**
Year 2041	**2,455,471**
Total	**$ 4,991,194**

13. Loss per share

The calculation of basic loss per share for the year ended December 31, 2021 was based on the loss attributable to common shareholders of $4,238,470 (December 31, 2020 - $1,653,851), and a weighted average number of common shares outstanding of 22,281,791 (December 31, 2020 – 16,653,667).

All options and warrants outstanding as at December 31, 2021 and 2020, were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

14. Capital management, financial instruments and financial risk

Capital management

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

The Company manages its capital structure to maximize its financial flexibility and will make adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2021. The Company is not subject to externally imposed capital requirements.

Financial instruments - fair value

The Company's financial instruments consist of cash, trade receivables, accounts payable and accrued liabilities, and debt which are all carried at amortized cost.

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

Financial instruments - risk

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

(a) Credit risk

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

(b) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company began generating revenues from its principal operations in 2021, and has been generating cash flows primarily from financing activities for the years ended December 31, 2021 and 2020.

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

Considering the available liquidity as at December 31, 2021, the expected burn rates from operations and future commitments, the Company's exposure to liquidity risk as at December 31, 2021 is considered high. The Company expects to address this risk by raising funds through external financing as needed until revenues are sufficient to cover the operating requirements of the business.

The undiscounted cash flow requirements for financial liabilities as at December 31, 2021 are as follows:

	Carrying value	Total	Less than 1 year	1-3 years	4-5 years
Accounts payable	$ 893,206	$ 893,206	$ 893,206	$ -	$ -
Accounts payable to related parties	302,686	302,686	302,686	-	-
Long term debt	833,124	855,015	338,373	516,642	-
Interest on long-term debt	-	-	57,617	48,105	-
Total	$ 2,029,016	$ 2,050,907	$ 1,591,882	$ 564,747	$ -

15. Other events – reverse takeover transaction

As part of the Transaction previously mentioned (see note 11) the Company consolidated its Common Shares on the basis of 1 HHL Share for every 253.7067059 pre-consolidation Common Shares (the "Consolidation"). Prior to the Consolidation, Stralak had 269,563,375 Common Shares issued and outstanding. As a result of the Consolidation, the Company had 1,062,501 HHL Shares issued and outstanding. Following the Consolidation, the Company issued 437,499 HHL Shares to certain arm's-length finders, resulting in the former shareholders of Stralak holding 1,500,000 HHL shares. Hempsana Inc. also issued 164,037 Hempsana Inc. Shares to certain finders at a deemed price of $1.05 per share in connection with the Transaction. Upon closing of the RTO Transaction, the Company has 24,129,323 Common Shares issued and outstanding, as shown in the table below:

	Number outstanding	Percentage
Hempsana Inc. – opening	22,167,667	
Hempsana – adjusted	22,629,323	93.8%
Issued for consideration to Stralak	1,500,000	6.2%
Hempsana Holdings Ltd. – ending	24,129,323	100%

As a result of the share exchange between Stralak and the Hempsana Inc., described above, the former shareholders of Hempsana Inc. acquired control of Stralak. Accordingly, the acquisition is accounted for as a reverse takeover of Stralak, and therefore Stralak does not constitute a business as defined under IFRS 3 Business Combination. The business combination is accounted for under IFRS 2 Share-Based Transaction. As Hempsana Inc. is deemed to be the accounting acquirer for accounting purposes, its assets, liabilities and operations are included in the consolidated financial statements at their historical carrying value. As a result of this asset acquisition, a listing expense of $1,949,739 has been recorded on the statement of loss and comprehensive loss. This reflects the difference between estimated fair value of consideration given as follows:

Net assets acquired:		
Net asset value	$	-
Deemed consideration		1,949,739
Listing expense (the Transaction cost)	$	1,949,739
Consideration:		
Cash paid	$	202,500
Shares issued for the Transaction		1,747,239
	$	1,949,739