Hempsana Holdings Ltd.

Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2022 and 2021

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hempsana Holdings Ltd.

Opinion

We have audited the consolidated financial statements of Hempsana Holdings Ltd. and its subsidiaries (together, the "Company"), which comprise the consolidated statement of financial position as at December 31, 2022 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year 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, 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit 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 Consolidated 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 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements which indicates that as at December 31, 2022 the Company has an accumulated deficit of $8,408,591 and for the year then ended the Company had a net loss of $1,476,069. 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.

Key Audit Matters

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

Except for the matter described above in the *Material Uncertainty Related to Going Concern* section, we have determined that there are no key audit matters to be communicated in our report.

Other Matter

The consolidated financial statements of the Company as at and for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on April 22, 2022.

Other information

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

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

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that is 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 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 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 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 consolidated 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 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 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 auditors' 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 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 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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.

From 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 benefits of such communication.

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

Zeifmans LLP

Toronto, Ontario
Jun 15, 2023

Chartered Professional Accountants
Licensed Public Accountants

Hempsana Holdings Ltd.
Consolidated Statements of Financial Position
As at December 31, 2022 and 2021
(Expressed in Canadian dollars)

	Notes		2022		2021
ASSETS					
Current assets					
Cash		**$**	**90,624**	$	46,189
Trade receivables			**251,144**		25,040
Inventory	4		**130,640**		118,108
Prepaids, deposits and other receivables	5		**59,606**		304,414
Total current assets			**532,014**		493,751
Non-current assets					
Intangible assets	6		**5,543**		27,269
Property, plant and equipment	7		**3,256,316**		3,496,955
Total non-current assets			**3,261,859**		3,524,224
Total assets		**$**	**3,793,873**	$	4,017,975
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**1,539,397**	$	893,206
Accounts payable to related parties	12		**967,252**		302,686
Government loan	8		**35,498**		-
Promissory note	8		**292,094**		129,096
Current portion of private loan	8		**190,745**		169,277
Total current liabilities			**3,024,986**		1,494,265
Non-current liabilities					
Long-term portion of debt	8		**187,613**		534,751
Total non-current liabilities			**187,613**		534,751
Total liabilities		**$**	**3,212,599**	$	2,029,016
Shareholders' equity					
Share capital	10		**8,367,973**		8,367,973
Other reserves	10		**621,892**		553,508
Accumulated deficit			**(8,408,591)**		(6,932,522)
Total shareholders' equity			**581,274**		1,988,959
Total liabilities and shareholders' equity		**$**	**3,793,873**	$	4,017,975

	Notes
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Approved on behalf of the Board of Directors:

__ //s// "Randy Ko"________
Randy Ko
Director
President and CEO

___//s// "Michael Bang"________
Michael Bang
Director

Hempsana Holdings Ltd.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

	Notes	2022	2021
Revenue			
Sale of goods		**$ 1,075,538**	$ 47,220
Manufacturing services		**333,796**	67,494
Total revenue		**1,409,334**	114,715
Cost of sales	13	**1,003,997**	66,281
Gross Profit		**405,337**	47,220
Expenses			
Management fees	12	**412,991**	436,800
Consulting fees	12	**282,290**	237,612
Wages		**271,854**	301,697
Depreciation and amortization	6 & 7	**170,898**	205,739
Insurance		**162,476**	49,250
Legal and professional fees		**146,938**	322,227
Office expenses		**119,960**	110,251
Share-based payments	10	**68,384**	32,345
Other operating expenses		**48,719**	87,344
Investor relations and marketing		**45,947**	313,647
Other selling, general and administrative expenses		**26,861**	22,661
Facility supplies		**23,979**	45,629
Auto expenses		**19,708**	33,214
License fees		**4,754**	28,208
Listing expenses	10	**-**	1,949,739
Total expenses		**1,805,759**	4,176,363
Net loss from operations		**(1,400,422)**	(4,127,929)
Other income (expenses)			
Other income	8	**28,523**	7,722
Fair value gain on government grant	8	**3,985**	-
Interest expense	8	**(108,155)**	(133,731)
Gain on conversion of convertible debentures	9	**-**	15,813
Loss on revaluation of convertible debentures	9	**-**	(345)
Net loss and comprehensive loss for the year		**$ (1,476,069)**	$ (4,238,470)
Loss per share			
Weighted average number of common shares outstanding			
Basic and diluted	14	**24,129,323**	22,281,791
Basic and diluted loss per share	14	**$ (0.06)**	$ (0.19)

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

Hempsana Holdings Ltd.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

	Notes	Number of shares	Share capital	Other reserves	Accumulated Deficit	Total shareholders' equity
Balance at January 1, 2021		**17,534,480**	**$ 2,904,877**	**$ 521,163**	**$ (2,694,052)**	**$ 731,988**
Shares issued	10	6,594,843	5,463,096	-	-	5,463,096
Share-based payments	10	-	-	32,345	-	32,345
Net loss for the year		-	-	-	(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**
Share-based payments	10	-	-	68,384	-	68,384
Net loss for the year		-	-	-	(1,476,069)	(1,476,069)
Balance at December 31, 2022		**24,129,323**	**$ 8,367,973**	**$ 621,892**	**$ (8,408,591)**	**$ 581,274**

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

Hempsana Holdings Ltd.
Consolidated Statements of Cash Flows
For the years ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

	Notes	2022	2021
Operating activities			
Net loss		**$ (1,476,069)**	$ (4,238,470)
Adjustments for non-cash items:			
Depreciation and amortization	6 & 7	**170,897**	205,740
Share-based payments	10	**68,384**	32,345
Interest expense	8	**103,705**	110,647
Interest paid	8	**(57,617)**	(76,669)
Write-off of intangible asset	6	**7,423**	-
Other income		**-**	(7,722)
Fair value gain on government grant	8	**(3,985)**	-
Other		**-**	617
Gain from settlement of convertible debentures	9	**-**	(15,813)
Listing expenses	10	**-**	1,747,239
Changes in non-cash working capital items:			
Trade receivables		**(226,103)**	(25,040)
Inventory		**71,513**	(87,366)
Prepaids, deposits and other receivables	5	**244,808**	(508)
Accounts payable, accrued liabilities		**646,191**	62,571
Accounts payable to related parties	12	**664,566**	-
Net cash flows from (used in) operating activities		**213,713**	(2,292,429)
Investing activities			
Purchase of property, plant and equipment	7	**-**	(228,410)
Additions to intangible assets	6	**-**	(27,375)
Net cash flows used in investing activities		**-**	(255,785)
Financing activities			
Payments of private loan	8	**(169,278)**	(150,225)
Proceeds from issuance of common shares	10	**-**	2,761,947
Share issuance costs	10	**-**	(97,835)
Net cash flows (used in) from financing activities		**(169,277)**	2,513,887
Net increase (decrease) in cash		**44,435**	(34,327)
Cash, beginning of year		**46,189**	80,516
Cash, end of year		**$ 90,624**	$ 46,189

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”) announced with Hempsana Inc. (see note 10). 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. The Company’s common shares are listed on the Canadian Securities Exchange under the trading symbol (CSE: HMPS).

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 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.

During the year ended December 31, 2022, the Company incurred a net loss of $1,476,069 (2021 - $4,238,470), had positive cash flows from operations of $213,713 (2021 – negative cash flows from operations of $2,292,429), and had a working capital deficit of $2,492,972 (2021 –$1,000,514) and an accumulative deficit of $8,408,591 as at December 31, 2022 (2021 - $6,932,522).

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.

2. Basis of presentation

Statement of compliance

These consolidated 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 June 15, 2023.

Basis of presentation

These consolidated financial statements have been prepared on a 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.

2. Basis of presentation (continued)

Presentation currency

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

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.

2. Basis of presentation (continued)

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.

Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECLs") for all debt financial assets not held at fair value through profit or loss requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

Determination of cash generating units

For the purpose of impairment testing, assets that cannot be tested individually are grouped at the lowest levels for which there are largely independent cash inflows. The Company determines which groups of assets (each a "Cash-Generating Unit" or a "CGU") can generate cash flows that are largely independent of other operations within the Company. Management exercises judgment in assessing where active markets exist including an analysis of the degree of autonomy each operation has in negotiating prices with customers. The Company has identified a separate CGU, based on the nature of the business and the assessment that the CGUs generate cash flows that are largely independent of the cash flows from other assets deployed in the Company.

3. Significant accounting policies

Cash

Cash consists of bank balances held in Canadian financial institutions. As at December 31, 2022 and 2021, the Company did not have any cash equivalents.

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. Production supplies are initially valued at cost and subsequently at the lower of cost and net realizable value.

3. Significant accounting policies (continued)

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.

3. Significant accounting policies (continued)

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

The Company classifies and measures financial instruments in accordance with IFRS 9 'Financial Instruments' ("IFRS 9"). A financial instrument is any contract that gives rise to a financial asset of one

3. Significant accounting policies (continued)

entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities, including derivatives, are recognized on the statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification
The Company classifies its financial instruments in the following measurement categories: (a) those to be measured subsequently at fair value through profit and loss (“FVTPL”); (b) those to be measured subsequently at fair value through other comprehensive income (“FVTOCI”); and (c) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at FVTPL, gains and losses are recorded in profit and loss.

The Company reclassifies financial assets when its business model for managing those assets changes.

FVTPL
This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category would also include debt instruments whose cash flow characteristics fail the solely principal and interest (“SPPI”) criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets and liabilities in this category are recorded at fair value with changes recognized in profit or loss. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives and separable embedded derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives and separable embedded derivatives are measured at fair value, and all changes in their fair value are recognized immediately in profit or loss.

FVTOCI
Equity instruments that are not held-for-trading can be irrevocably designated to have their change in FVTOCI instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income (loss). As at December 31, 2022 and 2021, the Company did not have any financial assets at FVTOCI.

Amortized cost
This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. Financial assets classified in this category are measured at amortized cost using the effective interest method.

Measurement
All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining

3. Significant accounting policies (continued)

whether their cash flows are solely payment of principal and interest. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods.

All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (loss) (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income (loss).

The Company's classification of financial assets and liabilities is summarized below:

	Classification
Cash	Amortized cost
Trade receivables	Amortized cost
Security deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Accounts payable to related parties	Amortized cost
Promissory note	Amortized cost
Government loan	Amortized cost
Private loan	Amortized cost

Expected credit loss impairment model
IFRS 9 introduced a single ECL impairment model, which is based on changes in credit quality since initial application. The adoption of the ECL impairment model had resulted in a provision of ECL recorded on the Company's consolidated statements of loss and comprehensive loss.

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

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts.

Derecognition
Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss.

3. Significant accounting policies (continued)

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

Fair value hierarchy
The determination of fair value requires judgment and is based on market information, where available and appropriate. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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.

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.

3. Significant accounting policies (continued)

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 is 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 revenues are recognized upon completion of services. Contract manufacturing services or fulfilment contracts involve white label manufacturing for third parties. Revenue for fulfillment services is recognized based upon the five-step process and can vary depending on the terms of each contract. The Company reports revenue at the full sales amount on fulfillment contracts which may include shipping and invoicing of end products on behalf of the customer at no additional cost as the Company is considered to be the principal seller under IFRS 15. Revenue is recognized when sales are completed with end customers. The Company's performance obligation includes selling finished products to end customers.

New standards, amendment and interpretation not yet adopted

IAS 1 - Presentation of Financial Statements
Amendments to IAS1, Presentation of Financial Statements (effective January 1, 2023) will help companies provide useful accounting policy disclosures. The key amendments to IAS 1 will require companies to disclose material accounting policies rather than their significant policies and clarifies that accounting policies relating to immaterial transactions need not to be disclosed and not all accounting policies that relate to material transactions are material to a company's financial statements. In addition, the amendment also clarifies the classification of liabilities as current or non-current. Management does not anticipate a material impact from this amendment.

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.

3. Significant accounting policies (continued)

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's consolidated financial statements.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") - Definition of Accounting
In February 2021, the IASB amendments to 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 Company's consolidated financial statements.

IAS 12, Income Taxes ("IAS 12") - Deferred Tax related to Assets and Liabilities Arising from a Single Transaction
In May 2021, the IASB issued 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 Company's consolidated 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 Company's consolidated financial statements.

Changes in accounting policies

IAS 16 - Property, Plant and Equipment
The amendments to IAS 16 prohibit deducting the proceeds from selling items produced from the cost of property, plant, and equipment, while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, a company will recognize such sales proceeds and related costs in profit or loss. With the adoption of the amended standard, precommercial production sales and related costs while bringing a project into a condition necessary for it to be capable of operating in the manner intended by management, are recognized in profit or loss in accordance with applicable standards. The entity measures the cost of those items applying the measurement requirements of “IAS 2 Inventories”. This amendment became effective January 1, 2022 with early adoption permitted.

The Company adopted this amendment as of January 1, 2022 with no impact on its the consolidated financial statements for the years ended December 31, 2022 and 2021.

4. Inventory

Inventory consists of the following:

	December 31, 2022		December 31, 2021
Extracted hemp and cannabis oil	$	**120,660**	$	82,493
Production supplies		**9,980**		35,615
	$	**130,640**	$	118,108

During the year ended December 31, 2022, the Company expensed $349,906 of inventory to cost of sales (2021 - $15,106).

5. Prepaids, deposits and other receivables

Prepaids, deposits and other receivables consist of the following:

		December 31, 2022		December 31, 2021
Sales tax recoverable	**$**	**39,430**	$	286,823
Prepaids and deposits		**20,176**		17,591
	$	**59,606**	$	304,414

6. Intangible assets

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

	Licenses	Website	Total
Cost			
December 31, 2020	$ 16,010	$ -	$ 16,010
Additions	19125	8,250	27,375
December 31, 2021	35,135	8,250	43,385
Accumulated amortization			
December 31, 2020	(3,113)	-	(3,113)
Amortization	(10,675)	(2,328)	(13,003)
December 31, 2021	(13,788)	(2,328)	(16,116)
Net book value			
December 31, 2021	$ 21,347	$ 5,922	$ 27,269
Cost			
December 31, 2021	$ 35,135	$ 8,250	$ 43,385
Write-off	(19,125)	-	(19,125)
December 31, 2022	16,010	8,250	24,260
Accumulated amortization			
December 31, 2021	(13,788)	(2,328)	(16,116)
Write-off	11,702	-	11,702
Amortization	(11,583)	(2,720)	(14,303)
December 31, 2022	$ (13,669)	$ (5,048)	$ (18,717)
Net book value			
December 31, 2022	**$ 2,341**	**$ 3,202**	**$ 5,543**

During the year ended December 31, 2022, consulting costs that were capitalized to obtain an additional license were written off as the Company was no longer pursuing the application.

7. Property, plant and equipment

	Land	Building	Machinery and equipment	Security equipment	Total
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
Cost					
December 31, 2021	$ 70,000	$ 2,352,041	$ 1,258,393	$ 219,770	$ 3,900,204
Additions	-	-	-	-	-
December 31, 2022	**70,000**	**2,352,041**	**1,258,393**	**219,770**	**3,900,204**
Accumulated depreciation					
December 31, 2021	-	(183,319)	(150,360)	(69,570)	(403,249)
Depreciation	-	(84,166)	(125,421)	(31,052)	(240,639)
December 31, 2022	**$ -**	**$ (267,485)**	**$ (275,781)**	**$ (100,622)**	**$ (643,888)**
Net book value					
December 31, 2022	**$ 70,000**	**$ 2,084,556**	**$ 982,612**	**$ 119,148**	**$3,256,316**

Depreciation of machinery and equipment commenced on May 5, 2021, when the Company was granted its processing license from Health Canada.

For the year ended December 31, 2022, the Company recognized $240,639 of depreciation (2021 – $223,479). Of this amount, $84,045 is included in cost of sales (2021 - $30,743).

8. Debt

	December 31, 2022			
	Private loan	Government loan	Promissory note	Total long-term debt
Maturity	November 1, 2024	December 31, 2022	August 25, 2023	
Principal outstanding	$ 386,774	$ 40,000	$ 294,419	**$ 721,193**
Deferred financing costs	(8,416)	(4,502)	(2,325)	**(15,243)**
Total	378,358	35,498	292,094	**705,950**
Less: Current portion	**190,745**	**35,498**	**292,094**	**518,337**
Non-current portion	**$ 187,613**	**$ -**	**$ -**	**$ 187,613**

8. Debt (continued)

	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

As at December 31, 2022, the Company did not capitalize any financing costs to machinery and equipment (December 31, 2021 - $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.

As at December 31, 2022, the principal value of the private loan was $386,774 (December 31, 2021 - $556,051) and the fair value of the private loan was $378,358 (December 31, 2021 - $538,391).

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 covered 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 from the Director, 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 was to be repaid on August 25, 2022, and the remaining half was due by August 25, 2023. On August 25, 2022, the Company and the Director agreed to extend the repayment date as the Company seeks to refinance its private loan. The Company can repay the promissory note early without penalty and it is secured by a second mortgage on the Company' land and building. As at December 31, 2022, the principal value of the promissory note was $294,419 (December 31, 2021 - $266,685) and the fair value of the promissory note was $292,094 (December 31, 2021 - $259,235).

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. In January 2022 the Government of Canada announced an extension to the forgiveness repayment date to December 31, 2023. The Company recognized the interest-free benefit extension and has been recorded in the consolidated statements of loss and comprehensive loss as other income. The principal value of the government loan was $40,000 as at December 31, 2022 (December 31, 2021 - $40,000), and the fair value of the government loan was $35,498 (December 31, 2021 - $35,498).

8. Debt (continued)

Interest and principal repayments		
Within one year	$	544,310
1 – 3 years		196,029
4 – 5 years		-
	$	740,339

The following table provides a continuity of the debt balances:

		Debt
December 31, 2020	$	705,604
Amortization of deferred financing costs		14,515
Repayments of private loan		(150,225)
Promissory note		266,685
Fair value gain on promissory note		(7,450)
Accretion of fair value on government grant		3,995
December 31, 2021	**$**	**833,124**
Amortization of deferred financing costs		**9,244**
Repayments of private loan		**(169,277)**
Accretion of fair value gain on promissory note		**5,125**
Accrued interest on promissory note		**27,734**
Fair value gain on government loan		**(3,985)**
Accretion of fair value on government grant		**3,985**
December 31, 2022	**$**	**705,950**

9. 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, 2021, 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.

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.

9. Convertible debentures and derivative liability (continued)

On July 12, 2021, the convertible debentures were converted into equity. No convertible debentures were issued during the year ended December 31, 2022. 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	**$ -**	**$ -**	**$ -**

10. Share capital

Transactions for the issuance of share capital during the year ended December 31, 2022 and the year ended December 31, 2021 are shown as follows:

	Common shares #	Per share $	Amount $
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 RTO	1,500,000	1.05	1,575,000
Finder's fee for the RTO	164,037	1.05	172,239
Costs			(97,835)
December 31, 2021	24,129,323		8,367,973
December 31, 2022	**24,129,323**		**8,367,973**

As at December 31, 2022, there were no shares held in escrow (December 31, 2021 - 2,888,698).

Private Placement

During the fiscal year of 2020, $735,767 was received in advance from investors for 981,023 common shares, 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 for a total of $3,186,914. 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. Each purchase warrant entitled 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.

10. Share capital (continued)

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 July 12, 2021, the Company and Hempsana Inc. completed 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. ("Hempsana Shares") in exchange for its common shares ("HHL Shares") on the basis of one HHL Share for each Hempsana Inc. common share issued and outstanding, as a result of which Hempsana Inc. became a wholly owned subsidiary of the Company. The Amalgamation also provided all outstanding warrants and options to purchase Hempsana Shares remain outstanding and entitled the holders thereof to acquire equivalent securities of HHL Shares in lieu of Hempsana Inc. on the same terms and conditions. The continuing company trading symbol was (CSE: HMPS).

As a result of the share exchange between the Company and Hempsana Inc., described above, the former shareholders of Hempsana Inc. acquired control of the Company. Accordingly, the acquisition was accounted for as a reverse takeover of the Company, and therefore did not constitute a business as defined under IFRS 3 Business Combination. The business combination was 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 was recorded on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2021, representing the difference between estimated fair value of consideration given.

Upon completion of the Amalgamation, Hempsana Inc. 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%. In addition, Hempsana Inc. had 1,655,345 stock options and 4,397,218 warrants (each exercisable to acquire one Hempsana Share) outstanding.

Upon completion of the Amalgamation, the convertible debentures (see note 9) 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.

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.

10. Share capital (continued)

	For the year ended December 31, 2022		For the year ended December 31, 2021	
	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	1,507,000	0.05	-	-
Options outstanding, end of year	3,162,345	0.21	1,655,345	0.36

As at December 31, 2022, the Company had stock options outstanding and exercisable as follows:

Options outstanding #	**Options exercisable #**	**Weighted average Exercise price $**	**Expiry date**	**Weighted average remaining life (years)**
1,318,532	1,318,532	0.30	March 4, 2024	1.17
336,813	336,813	0.60	August 31, 2024	1.68
757,000	757,000	0.05	April 22, 2032	9.32
750,000	750,000	0.05	August 27, 2027	4.66

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.

On April 22, 2022, the Company granted 757,000 options to Directors and Officers of the Company for service to the Company. On August 26, 2022, the Company granted 750,000 options to a Director of the Company for service to the Company. The options vested immediately upon grant date therefore were expensed during the year ended December 31, 2022.

The inputs used in the measurement of fair value of the share-based payments are as follows:

	August 26, 2022	**April 22, 2022**
Average base price	$ 0.05	$ 0.05
Period-end unit price	0.05	0.05
Average expected volatility	149%	170%
Average risk-free interest rate	3%	3%
Average expected remaining term	4.66	9.32

During the year ended December 31, 2022 the total share-based payments expense was $68,384 (December 31, 2021 - $32,345). This expense related to the stock options which were granted in the year which vested on the grant date, therefore expensed on the date they were granted.

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.

10. Share capital (continued)

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. These warrants expired 18 months after the distribution date. 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. These warrants will expire 24 months after the distribution date. 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, 2022 and December 31, 2021 and changes during the years then ended are as follows:

	For the year ended December 31, 2022		For the year ended December 31, 2021	
	Warrants #	**Weighted average exercise price $**	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of year	**4,397,218**	**1.50**	981,023	1.50
Warrants issued	**-**	**-**	3,416,195	1.50
Warrants expired	**(4,249,218)**	**1.50**	-	-
Warrants outstanding, end of year	**148,000**	**1.50**	4,397,218	1.50

Outstanding warrants as at December 31, 2022 expire on July 9, 2023.

11. Income taxes

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

	For the year ended December 31, 2022	For the year ended December 31, 2021
Net loss before recovery of income taxes	**$ (1,476,069)**	$ (4,238,470)
Expected income recovery	**(391,158)**	(1,123,195)
Share-based compensation	**18,122**	8,571
Other	**462**	1,367
Gain on conversion of debt and derivative	**-**	(4,190)
Non-deductible listing expense	**-**	417,375
Change in tax benefits not recognized	**372,574**	700,072
Income recovery expense	**$ -**	$ -

11. Income taxes (continued)

Deferred tax

The following table summarizes the components of deferred tax:

	December 31, 2022	December 31, 2021
Deferred Tax Assets		
Non-capital losses carried forward	**$ 201,119**	$ 183,223
Deferred Tax Liabilities		
Property, plant and equipment	**(178,847)**	(159,303)
Amortization capitalized in inventory	**(22,272)**	(8,147)
Intangible assets	**-**	(422)
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 assets
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.

	December 31, 2022	December 31, 2021
Intangible assets	**$ 33,743**	$ 346,634
Share issuance costs	**124,191**	191,069
Non-capital losses carried forward	**4,565,061**	2,758,079
Investment tax credits	**220,159**	241,431
	$ 4,943,154	$ 3,537,213

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 Company can utilize the benefits therefrom.

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

	December 31, 2022
Year 2038	**$ 18,820**
Year 2039	**805,097**
Year 2040	**1,711,806**
Year 2041	**1,391,445**
Year 2042	**1,396,833**
Total	**$ 5,324,001**

12. Related party 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, 2022 and 2021:

- 12813521 Canada Inc
- 2822477 Ontario Inc.
- rk3 Global Services Incorporated
- The CFO Centre
- Eurofins Experchem Laboratories Inc.

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 the years ended		**Balances outstanding as at**	
	December 31, 2022	December 31, 2021	**December 31, 2022**	December 31, 2021
12813521 Canada Inc	**$ 50,433**	$ 100,000	**$ 100,233**	$ 49,800
2822477 Ontario Inc.	**100,100**	100,000	**149,700**	49,800
rk3 Global Services Incorporated	**300,000**	187,500	**412,500**	112,500
The CFO Centre	**189,100**	104,525	**244,865**	77,405
Eurofins Experchem Laboratories Inc.	**66,402**	38,617	**59,954**	13,181
Total	**$ 706,035**	$ 530,642	**$ 967,252**	$ 302,686

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
Amounts charged by company 2822477 Ontario Inc., a company controlled by Director Sohil Mana, rk3 Global Services Incorporated, a company control by CEO and Director, Randy Ko, and 12813521 Canada Inc., a company controlled by shareholder, Woo Kim.

(b) Consulting fees
Includes the services of Eurofins Experchem Laboratories, 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 that have authority and responsibility for planning, directing and controlling the activities of the Company as a whole.

The remuneration of key management was as follows:

	For the years ended	
	December 31, 2022	December 31, 2021
Management and consulting fees	**$ 639,633**	$ 492,025
Share-based payments	**48,508**	16,173
Total	**$ 688,141**	$ 508,198

12. Related party transactions (continued)

Share-based payments
- Includes options granted in prior years as a bonus to Director Randy Ko.
- The year ended December 31, 2022 includes 1,107,000 options granted to Management, which vested and expensed on the date they were granted.

13. Cost of sales

The Company's cost of sales for the year ended December 31, 2022 and December 31, 2021 is as follows:

	For the years ended,	
	December 31, 2022	December 31, 2022
Cost sharing agreement	**$ 420,317**	$ -
Converted inventory	**349,906**	29,445
Direct materials and services	**233,774**	36,836
Total	**$ 1,003,997**	$ 66,281

- Cost sharing agreements: Costs associated for bio-mass provided by suppliers who are paid a portion of the proceeds from sales.
- Converted inventory: Cost of goods sold from inventory manufactured by the Company.
- Direct materials and services: Various supplies, input materials and third party services.

14. Loss per share

The calculation of basic loss per share for the year ended December 31, 2022 was based on the loss attributable to common shareholders of $1,476,069 (December 31, 2021 - $4,238,470), and a weighted average number of common shares outstanding of 24,129,323 (December 31, 2021 – 22,281,791).

All options and warrants outstanding as at December 31, 2022 and 2021, were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

15. 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, 2022. The Company is not subject to externally imposed capital requirements.

15. Capital management, financial instruments and financial risk (continued)

Financial instruments - fair value

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

The carrying value of cash, trade receivables, accounts payable and accrued liabilities and accounts payable to related parties 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

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company is also exposed to credit risk by holding cash in financial institutions. This risk is minimized by holding the funds in Canadian banks. The maximum exposure to credit risk at year end December 31, 2022, is limited to the accounts receivable balance. In assessing the valuation of accounts receivable, the Company evaluates expected or possible changes in future events or market conditions to determine whether an allowance for doubtful accounts should be recorded or reversed.

(b) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company only began generating revenues from its principal operations in 2022, and has been generating cash flows primarily from financing activities for the years ended December 31, 2022 and 2021. Considering the available liquidity as at December 31, 2022, the expected burn rates from operations and future commitments, the Company's exposure to liquidity risk as at December 31, 2022 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, 2022 are as follows:

	Carrying value	Total	Less than 1 year	1-3 years	4-5 years
Accounts payable	$ 1,539,397	$ 1,539,397	$ 1,539,397	$ -	$ -
Accounts payable to related parties	967,252	967,252	967,252	-	-
Government grant	35,498	40,000	40,000	-	-
Promissory note	292,094	313,565	313,565	-	-
Private loan	378,358	386,774	190,745	196,029	-
Interest on debt	-	-	36,148	11,957	-
Total	$ 3,212,599	$ 3,246,988	$ 3,087,107	$ 207,986	$ -

15. Capital management, financial instruments and financial risk (continued)

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	$ -

(c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hold any instruments subject to the interest rate fluctuation. The Company's interest on its debt obligations is fixed to maturity.

16. Contingencies

The Company is, from time to time, involved in various claims and legal proceedings. The Company cannot reasonably predict the likelihood or outcome of these activities. The Company does not believe that adverse decisions in any pending proceedings related to any matter, or any amount which may be required to be paid by reasons thereof, will have material effect on the financial condition or future results of operations. The Company has accrued any likely settlement and legal expense amounts as of December 31, 2022.

17. Events after the reporting period

On June 12, 2023, the Company closed a private placement financing of $900,000 consisting of 30,000,000 units at $0.03 per unit. Each unit was comprised of one (1) common share and one-sixth of one (1/6) common share purchase warrant. Each warrant is exercisable to acquire one (1) common share at a price of $0.05 per share for a period of 12 months. The warrants contain an acceleration clause whereby if the Company's common shares trade on a Canadian stock exchange at a volume weighted average price of $0.10 or more for 10 consecutive trading days, the Company will have the right to accelerate the exercise period to a period ending at least 30 days from the date that notice of such acceleration is provided to the holders of the warrants. The shares have not yet been issued as they are still subject to final approval by regulatory authorities.