

INDIGENOUS BLOOM HEMP CORP.

(formerly Veritas Pharma Inc.)

Consolidated Financial Statements

For the Years Ended May 31, 2022 and May 31, 2021

(Expressed in Canadian dollars)



INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Indigenous Bloom Hemp Corp.

Opinion

We have audited the consolidated financial statements of Indigenous Bloom Hemp Corp. (the "Company"), which comprise the consolidated statement of financial position as at May 31, 2022, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2022, and its financial performance and its 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 ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company incurred significant operating losses since inception and has an accumulated deficit of \$3,074,235 as at May 31, 2022. For the year ended May 31, 2022, the Company incurred a net loss and comprehensive loss of \$2,289,971. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist 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 Matter

The financial statements of the Company for the year ended May 31, 2021, were audited by another auditor who expressed an unmodified opinion on those statements on December 7, 2021.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, 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 in this auditor's report. We have nothing to report in this regard.

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Obtain an understanding of internal control relevant to the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

B F Borgers CPA PC

November 28, 2022
Lakewood, Colorado, USA

INDIGENOUS BLOOM HEMP CORP.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	May 31, 2022 \$	May 31, 2021 \$
Assets		
Current assets		
Cash	65,931	25,841
Amounts receivable	249	—
Inventory (Note 5)	241,864	—
Prepaid expenses	2,353	48,290
Due from Veritas Pharma Inc.	—	61,252
Total current assets	310,397	135,383
Non-current assets		
Property and equipment (Note 6)	424,041	415,491
Right-of-use assets (Note 7)	26,045	134,287
Total non-current assets	450,086	549,778
Total assets	760,483	685,161
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	932,804	243,829
Current portion of loans payable (Note 8)	674,616	127,050
Current portion of lease liabilities (Note 9)	20,088	41,434
Current portion of due to related parties (Note 10)	1,135,712	652,981
Total current liabilities	2,763,220	1,065,294
Non-current liabilities		
Loans payable (Note 8)	12,915	25,525
Lease liabilities (Note 9)	—	92,271
Due to related parties (Note 10)	433,725	—
Total non-current liabilities	446,640	117,796
Total liabilities	3,209,860	1,183,090
Shareholders' deficit		
Share capital (Note 11)	525,781	347,501
Share subscriptions receivable	(61,166)	(61,166)
Share-based payment reserve (Note 3)	160,243	—
Deficit	(3,074,235)	(784,264)
Total shareholders' deficit	(2,449,377)	(497,929)
Total liabilities and shareholders' deficit	760,483	685,161

Nature of operations and continuance of business (Note 1)

Commitment (Note 14)

Contingencies (Note 15)

Approved and authorized for issuance on behalf of the Board of Directors on November __, 2022:

/s/ "Lorne Mark Roseborough"

Lorne Mark Roseborough, Director

/s/ "Howard Ash"

Howard Ash, Director

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

INDIGENOUS BLOOM HEMP CORP.

Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

	Year ended May 31, 2022 \$	Year ended May 31, 2021 \$
Expenses		
Consulting fees (Note 10)	121,250	—
Depreciation (Notes 6 and 7)	109,220	117,044
Equipment rental	22,300	—
Insurance	14,664	—
Licenses	—	1,089
Office and miscellaneous	8,136	—
Production costs	176,476	196,774
Professional fees	138,499	72,330
Repairs and maintenance	17,617	1,005
Transfer agent and filing fees	29,826	—
Total expenses	637,988	388,242
Loss before other income (expense)	(637,988)	(388,242)
Other income (expense)		
Gain on disposal of right-of-use asset	89,789	—
Interest expense (Notes 8 and 9)	(8,415)	(11,573)
Listing costs (Note 3)	(1,814,488)	—
Unrealized gain on change in fair value of biological assets (Note 4)	98,176	—
Write-down of inventory (Note 5)	(17,045)	—
Total other income (expense)	(1,651,983)	(11,573)
Net loss and comprehensive loss for the year	(2,289,971)	(399,815)
Net loss per share, basic and diluted	(0.04)	(0.02)
Weighted average shares outstanding	68,303,027	19,178,086

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

INDIGENOUS BLOOM HEMP CORP.

Consolidated Statements of Changes in Shareholders' Deficit
(Expressed in Canadian dollars)

	Share capital		Share	Share-based		Total
	Number of	Amount	subscriptions	payment	Deficit	shareholders'
	shares	\$	receivable	reserve	\$	deficit
			\$	\$		\$
Balance, May 31, 2020	100	1	—	—	(384,449)	(384,448)
Shares returned and cancelled	(100)	—	—	—	—	—
Shares issued	20,000,000	347,500	(61,166)	—	—	286,334
Net loss for the year	—	—	—	—	(399,815)	(399,815)
Balance, May 31, 2021	20,000,000	347,501	(61,166)	—	(784,264)	(497,929)
Recapitalization	42,221,972	—	—	—	—	—
Shares of the Company pursuant to reverse merger	8,913,997	178,280	—	—	—	178,280
Revaluation of stock options pursuant to reverse merger	—	—	—	160,243	—	160,243
Net loss for the year	—	—	—	—	(2,289,971)	(2,289,971)
Balance, May 31, 2022	71,135,969	525,781	(61,166)	160,243	(3,074,235)	(2,449,377)

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

INDIGENOUS BLOOM HEMP CORP.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended May 31, 2022 \$	Year ended May 31, 2021 \$
Operating activities		
Net loss for the year	(2,289,971)	(399,815)
Items not involving cash:		
Depreciation	109,220	117,044
Gain on disposal of right-of-use asset	(89,790)	–
Interest expense	8,415	11,573
Listing costs	1,814,488	–
Unrealized gain on change in fair value of biological assets	(98,176)	–
Write-down of inventory	17,045	–
Changes in non-cash operating working capital:		
Biological assets	(160,733)	–
Prepaid expenses	45,937	(43,290)
Due from Veritas Pharma Inc.	61,252	(61,252)
Accounts payable and accrued liabilities	(52,334)	53,157
Due to related parties	339,789	(52,910)
Net cash used in operating activities	(294,858)	(375,493)
Investing activities		
Cash acquired in reverse merger	386	–
Net cash provided by investing activities	386	–
Financing activities		
Proceeds from loan payable	500,000	115,000
Repayment of loan payable	(165,438)	–
Proceeds from issuance of common shares	–	286,334
Net cash provided by financing activities	334,562	401,334
Change in cash	40,090	25,841
Cash, beginning of year	25,841	–
Cash, end of year	65,931	25,841
Non-cash investing and financing activities:		
Property and equipment included in accounts payable	77,336	64,541
Proceeds from disposal of right-of-use asset offset against accounts payable	87,353	–
Loan payments recorded in accounts payable and accrued liabilities	13,797	14,074
Lease payments recorded in accounts payable and accrued liabilities	120,285	70,959
Cash paid for:		
Interest	8,415	11,573
Income taxes	–	–

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

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements
Years Ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

1. Nature of Operations and Continuance of Business

Indigenous Bloom Hemp Corp. (the "Company") was incorporated on May 14, 2014 under the Business Corporations Act of British Columbia as Seashore Organic Marijuana Corp. for the purpose of completing the Plan of Arrangement between Noor Energy Corporation and Sechelt Organic Marijuana Corp. which was completed on August 7, 2014. On September 22, 2014, the Company changed its name from Seashore Organic Marijuana Corp. to Seashore Organic Medicine Inc. and had intentions to become a producer and distributor of medical marijuana in Canada. On December 29, 2015, the Company's name was changed to Veritas Pharma Inc. On September 24, 2021, the Company name was changed to Indigenous Bloom Hemp Corp. The Company's business is to produce and sell hemp extracts. The Company's head office is located at 2220 Horizon Drive East, Kelowna, BC, V1Z 3L4.

Effective September 24, 2021, the Company completed its acquisition of all the issued and outstanding shares of Indigenous Bloom Hemp Corporation ("HempCo"). This transaction constituted a reverse takeover acquisition of the Company by HempCo with HempCo being identified as the accounting acquirer. As a result, these consolidated financial statements are a continuation of HempCo. The Company's results of operations are included from September 24, 2021 onwards, except for share capital which has been retroactively adjusted to reflect the capital of the Company. Refer to Note 3.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The impact on the Company has not been material and management continues to monitor the situation.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. During the year ended May 31, 2022, the Company did not generate any revenue and had a net loss of \$2,289,971. As at May 31, 2022, had a working capital deficit of \$2,452,823 and an accumulated deficit of \$3,074,235. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholder and related parties, the ability to raise equity or debt financing, and the attainment of profitable operations from the Company's future business. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

2. Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board on a going concern basis.

These consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company's functional currency.

(b) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries, HempCo, Sechelt Organic Marijuana Corp. ("Sechelt"), Cannevert Therapeutics Ltd., 12302161 Canada Inc., and Veritas Hemp Corp. All significant inter-company balances and transactions have been eliminated on consolidation.

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements
Years Ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(c) Use of Estimates and Judgments

The preparation of these financial statements in conformity with IFRS requires the Company's management to make judgments, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include recognition and measurement of provisions: key assumptions about the likelihood and magnitude of an outflow of resources, useful lives and recoverability of property and equipment, fair value of share-based compensation, and unrecognized deferred income tax assets.

Useful lives of property and equipment

Depreciation is dependent upon estimates of useful lives and impairment is dependent upon estimates of recoverable amounts. Management reviews the useful lives of property and equipment at each reporting date and makes assessments of any impairment considering factors such as economic and market conditions, anticipated changes in laws, and technological improvements.

Deferred income taxes

The determination of income tax expense and the composition of deferred income tax assets and liabilities involves judgment and estimates as to the future taxable earnings, expected timing of reversals of deferred income tax assets and liabilities, and interpretations of tax laws. The Company is subject to assessments by tax authorities who may interpret the tax law differently. Changes in these interpretations, judgments, and estimates may materially affect the final amount of deferred income tax provisions, deferred income tax assets and liabilities, and results of operations.

Share-based compensation

Fair values are determined using the Black-Scholes option pricing model. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measurement of the fair value of the Company's stock options.

Provisions and contingent liabilities

Provisions are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the consolidated financial statements and the amount can be reasonably estimated. Where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time and a disclosure of contingent liability is made unless the possibility of settlement is remote. Management has applied significant judgments in assessing the possibility of any outflow in settlement based on factors and situations known to management at the time of preparing these consolidated financial statements. Actual results may differ. Refer to Note 12 for details.

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements

Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(c) Use of Estimates and Judgments (continued)

Significant Judgments

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

(d) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

(e) Biological Assets

The Company defines biological assets as hemp plants up to the point of harvest. Biological assets are recorded at fair value less estimated costs to sell, unless fair value cannot be reliably measured, in which case they are measured at cost less accumulated depreciation and impairment losses, in accordance with IAS 41 – Agriculture.

Biological assets include all direct and indirect costs relating to biological transformation.

(f) Inventory

The Company measures inventory at the lower of cost and net realizable value and estimates the sales prices, costs of completion, and selling costs.

(g) Property and Equipment

Property and equipment are recorded at cost. The Company depreciates the cost of property and equipment over their estimated useful lives at the following rates:

Building	4% declining balance
Farm equipment	30% declining balance

Residual values and useful economic lives are reviewed at least annually, and adjusted if appropriate, at each reporting date. Subsequent expenditure relating to an item of property and equipment is capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditures are recognized as repairs and maintenance expenses during the period in which they are incurred. Gains and losses on disposal of equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized net within other income in the consolidated statement of operations.

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements
Years Ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(h) Impairment of Non-Financial Assets

At each reporting date, the Company assesses whether there are indicators of impairment for its non-financial assets. If indicators exist, the Company determines if the recoverable amount of the asset or cash generating unit ("CGU") is greater than its carrying amount. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used geographical proximity, geological similarities, analysis of shared infrastructure, commodity type, assessment of exposure to market risks, and materiality to define its CGUs.

If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in the statement of operations. The recoverable amount is the greater of the value in use or fair value less costs to sell. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs to sell considers the continued development of a property and market transactions in a valuation model.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are recognized in the consolidated statement of operations. The recovery is limited to the original carrying amount less depreciation, if any, that would have been recorded had the asset not been impaired.

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(i) Financial Instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the statement of operations.

Fair value estimates are made at the statement of financial position date based on relevant market information and information about the financial instrument. All financial instruments are classified into either: fair value through profit or loss ("FVTPL") or amortized cost.

The Company has made the following classifications:

Cash	Amortized cost
Accounts payable	Amortized cost
Loans payable	Amortized cost
Lease liabilities	Amortized cost
Due to related parties	Amortized cost

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements
Years Ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(i) Financial Instruments (continued)

Financial Assets

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been decreased.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of operations. Loss allowances are based on the lifetime ECL's that result from all possible default events over the expected life of the trade receivable, using the simplified approach.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of operations 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.

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements

Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(i) Financial Instruments (continued)

Financial Liabilities and Equity Instruments

Classification as debt or equity

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

Equity instruments

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

Other financial liabilities

Other financial liabilities (including loans and borrowings and trade payables and other liabilities) are initially measured at fair value, net of transaction costs. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(j) Leases

At inception of the contract, the Company assesses whether a contract is, or contains, a lease by evaluating if the contract conveys the right to control the use of an identified asset. For contracts that contain a lease, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted by any initial direct costs, and costs to dismantle and remove the underlying asset less any lease incentives. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36, Impairment of Assets.

The lease liability is initially measured at the present value of lease payments to be paid subsequent to the commencement date of the lease, discounted either at the interest rate implicit in the lease or the Company's incremental borrowing rate. The lease payments measured in the initial lease liability include payments for an optional renewal period, if any, if the Company is reasonably certain that it will exercise a renewal extension option. The liability is measured at amortized cost using the effective interest method and will be remeasured when there is a change in either the future lease payments or assessment of whether an extension or other option will be exercised. The lease liability is subsequently adjusted for lease payments and interest on the obligation. Interest expense on the lease obligation is included in the consolidated statement of operations.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases with a lease term of less than 12 months and low value assets, and recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term, as permitted by IFRS 16.

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements

Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(k) Foreign Currency Translation

The functional and reporting currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the consolidated statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Revenue and expenses are recorded at the rates on the transaction dates. Foreign exchange gains and losses are included in the consolidated statement of operations.

(l) Income Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the consolidated statement of operations. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(m) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted loss per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted losses per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at May 31, 2022, the Company had 405,244 (2021 – nil) potentially dilutive shares outstanding.

(n) Comprehensive Loss

Comprehensive loss is the total non-owner change in equity for a reporting period. This change encompasses all changes in equity other than transactions from shareholders. For the periods ended May 31, 2022 and 2021, the Company did not have any transactions impacting comprehensive income (loss).

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements
Years Ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(o) Accounting Standards Issued But Not Yet Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended May 31, 2022, and have not been early adopted in preparing these consolidated financial statements. These new standards, and amendments to standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

Amendments to IAS 41: Agriculture As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendments to IAS 41. The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flow when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

3. Acquisition of Indigenous Bloom Hemp Corporation

On September 4, 2020, the Company entered into an agreement to acquire HempCo. Pursuant to which the Company agreed to acquire 100% of the issued and outstanding shares of HempCo. On September 24, 2021, the Company issued 62,221,972 common shares to complete its acquisition of HempCo.

As a result of the completion of the acquisition, the former shareholders of HempCo acquired 87% of the outstanding common shares of the Company, and, for accounting purposes, are considered to have acquired control of the Company. Accordingly, the transaction constitutes a reverse acquisition of the Company by HempCo and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2, Share-based Payment, and IFRS 3, Business Combinations. As the Company did not qualify as a business prior to the closing of the Qualifying Transaction according to the definition in IFRS 3, this reverse acquisition did not constitute a business combination; rather it was treated as an issuance of shares by HempCo for the net assets of the Company. Accordingly, no goodwill was recorded with respect to the transaction. The transaction was measured at the fair value of the common shares that HempCo would have had to issue to the shareholders of the Company, being 8,913,997 common shares with a fair value of \$178,280, and the fair value of 405,244 stock options of the Company with a fair value of \$160,243, to give the shareholders of the Company the same percentage of equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of HempCo acquiring the Company. These consolidated financial statements include the accounts of the Company as at September 24, 2021 and the historical accounts of the business of HempCo since its incorporation on July 31, 2019.

The purchase price is allocated as follows:

	\$
Fair value of Veritas Pharma Inc. shares (8,913,997 common shares)	178,280
Fair value of 405,244 stock options of Veritas Pharma Inc. outstanding	160,243
Total consideration	338,523
Less: fair value of identifiable assets and liabilities acquired:	
Cash	386
Amounts receivable	249
Due from HempCo	334,562
Accounts payable and accrued liabilities	(687,489)
Loans payable	(547,006)
Due to related parties	(576,667)
Net liabilities assumed	(1,475,965)
Listing costs	1,814,488

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements

Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

4. Biological Assets

	\$
Balance, May 31, 2020 and 2021	–
Increase due to capitalized costs	160,733
Changes in fair value due to biological transformation	98,176
Transferred to inventory upon harvest	(258,909)
Balance, May 31, 2022	–

Biological assets consisted of actively growing hemp plants harvested as agricultural produce.

The average grow cycle of plants up to the point of harvest is approximately 19 weeks. Plants in production are plants that are in the flowering stage and are valued at fair value less cost to complete and cost to sell, where fair value represents the Company's selling price per kilogram of cannabidiol ("CBD") oil extracted from hemp the hemp plants.

5. Inventory

	2022 \$	2021 \$
Harvested hemp kief	173,864	–
Harvested hemp seeds	68,000	–
	241,864	–

During the year ended May 31, 2022, the Company recognized a write-down of \$17,045 to net realizable value.

6. Property and Equipment

	Building \$	Equipment \$	Total \$
Cost:			
Balance, May 31, 2020	249,548	199,780	449,328
Additions	22,105	42,436	64,541
Balance, May 31, 2021	271,653	242,216	513,869
Additions	–	77,336	77,336
Balance, May 31, 2022	271,653	319,552	591,205
Accumulated depreciation:			
Balance, May 31, 2020	1,834	28,420	30,254
Additions	10,351	57,773	68,124
Balance, May 31, 2021	12,185	86,193	98,378
Additions	10,379	58,407	68,786
Balance, May 31, 2022	22,564	144,600	167,164
Carrying amounts:			
As at May 31, 2021	259,468	156,023	415,491
As at May 31, 2022	249,089	174,952	424,041

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements

Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

7. Right-of-use Assets

Right-of-use assets is comprised of the following:

	Equipment \$
Cost:	
Balance, May 31, 2020 and 2021	231,754
Disposition	(130,511)
Balance, May 31, 2022	101,243
Accumulated depreciation:	
Balance, May 31, 2020	48,547
Additions	48,920
Balance, May 31, 2021	97,497
Additions	40,434
Disposition	(62,733)
Balance, May 31, 2022	75,198
Carrying amount:	
As at May 31, 2021	134,287
As at May 31, 2022	26,045

8. Loans Payable

- (a) As at May 31, 2022, the Company owed \$25,525 (2021 - \$37,575) to a non-related party, of which \$12,915 is due within one year. Under the term of the loan, the amount is secured by first charge over certain of the Company's equipment, bears interest at 4.65% per annum, and is repayable in one payment of \$7,749 and four equal annual installments of \$13,797 to the maturity date of January 1, 2024. During the year ended May 31, 2022, the Company incurred interest expense of \$1,747 (2021 - \$2,561).
- (b) As at May 31, 2022, the Company owed \$115,000 (2021 - \$115,000) to a non-related party which is non-interest bearing, unsecured, and due on demand.
- (c) As at May 31, 2022, the Company owed \$500,000 (2021 - \$nil) which is non-interest bearing, unsecured, and due on demand.
- (d) As at May 31, 2022, the Company owed \$47,006 (2021 - \$nil) to a non-related party which is non-interest bearing, unsecured, and due on demand.

9. Lease Liabilities

	2022 \$	2021 \$
Balance, beginning of year	133,705	195,652
Repayments	(122,225)	(70,959)
Interest portion	8,608	9,012
Balance, end of year	20,088	133,705
Less: current portion	20,088	41,434
Non-current portion	–	92,271

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements

Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

10. Related Party Transactions

- (a) As at May 31, 2022, the Company owed \$110,800 (2021 – \$nil) to a company controlled by a director of the Company which is non-interest bearing and unsecured. For the amount owed, \$52,500 is due on June 30, 2023 and the remainder is due on demand. During the year ended May 31, 2022, the Company incurred consulting fees of \$47,250 (2021 – \$nil) to a company controlled by a director of the Company
- (b) As at May 31, 2022, the Company owed \$189,000 (2021 – \$nil) to a company controlled by the Chief Executive Officer of the Company which is unsecured and non-interest bearing. For the amount owed, \$42,000 is due on June 30, 2023 and the remainder is due on demand. During the year ended May 31, 2022, the Company incurred consulting fees of \$42,000 (2021 – \$nil) to a company controlled by the Chief Executive Officer of the Company.
- (c) As at May 31, 2021, the Company owed \$1,264,637 (2021 - \$647,981) to companies controlled by a significant shareholder of the Company which is unsecured and non-interest bearing. For the amount owed, \$339,225 is due on June 30, 2023 and the remainder is due on demand.
- (d) As at May 31, 2022, the Company owed \$5,000 (2021 - \$5,000) to a company with a common director and where a significant shareholder of the Company is a director. The amount owed is unsecured, non-interest bearing, and due on demand.

11. Share Capital

Authorized: Unlimited number of common shares without par value

On September 24, 2021, the Company issued 62,221,972 common shares for the acquisition of HempCo. Refer to Note 3.

Share transactions for HempCo during the year ended May 31, 2021:

On June 15, 2020, HempCo issued 16,500,000 common shares at \$0.02 per share for proceeds of \$330,000 to a significant shareholder of the Company, of which \$61,166 is receivable as at May 31, 2021.

On June 15, 2020, HempCo issued 3,500,000 common shares at \$0.005 per share for proceeds of \$17,500 to a significant shareholder of the Company.

On June 15, 2020, HempCo cancelled the 100 founder's shares.

12. Stock Options

The Company has adopted a stock option plan pursuant to which options may be granted to directors, officers, employees and consultants of the Company to a maximum of 10% of the issued and outstanding common shares. The exercise price of each option is set by the Board of Directors at the time of grant subject to a minimum price of \$0.10 per share but cannot be less than the market price (less permissible discounts) on the Canadian Securities Exchange. Options can have a maximum term of five years and typically terminate ninety days following the termination of the optionee's employment or engagement (thirty days for options granted for investor relations services), except in the case of retirement or death. Vesting of options is at the discretion of the Board of Directors at the time the options are granted.

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements

Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

12. Stock Options (continued)

The following table summarizes the continuity of the stock options:

	Number of stock options	Weighted average exercise price \$
Balance, May 31, 2020 and 2021	—	—
Veritas Pharma Inc.'s outstanding stock options prior to reverse acquisition	405,244	0.30
Balance, May 31, 2022	405,244	0.30

Additional information regarding stock options outstanding as at May 31, 2022 is as follows:

Outstanding and exercisable			
Range of exercise prices \$	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price \$
0.30	405,244	3.2	0.30

13. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and equity comprised of issued share capital and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2021.

14. Commitment

On January 21, 2021, the Company executed a Technology License Agreement dated November 30, 2020 (as amended on June 6, 2021) with a third party ("Licensor"). The Licensor has developed and invented patent pending technology that can efficiently separate hemp and cannabis plant matter making the harvesting costs effective and streamlined (the "Technology"). The Company and the Licensor intend to commercialize the Technology. The Licensor will be responsible for the support and services of the Technology for a period of five years from November 30, 2020. The Company has an exclusive, worldwide license for which it will pay a license fee of \$1,200,000 to the Licensor. The license fee will become due and payable upon the Company completing its first commercial sale of hemp products harvested using the technology and having a commercial value equal to or greater than the license fee. The Licensor will also be entitled to a royalty of 8% of gross sales on licensed products which are manufactured and sold by the licensee during the term of the agreement.

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements

Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

15. Contingencies

- (a) On June 25, 2018, the Company advanced \$1,000,000 to Fiore Cannabis Ltd. (formerly Marapharm Ventures Inc.) ("Fiore"), which was supposed to bear interest at 10% per annum compounded daily, was to be repayable within 90 days, and was to be secured by certain assets of Fiore, but the agreement was not executed. The Company and Fiore had common officers and directors at the time of the advance. During the year ended April 30, 2019, the Company recorded this as an unauthorized payment in the consolidated statement of operations and comprehensive loss. On May 31, 2019, the Company filed a civil claim against Fiore for the recovery of the \$1,000,000 advance plus interest. The interest payable on the advance was to be 10% per annum compounded daily from June 25, 2018 through and including the date on which it was repaid in full. The advance was to be repayable within 90 days and secured by certain assets of Fiore. The Company alleges that, even though the Company had advanced Fiore \$1,000,000, Fiore had refused to execute the loan agreement and has taken no steps to perfect the security of the advance. On August 28, 2018, the Company made a demand for the return of the \$1,000,000 and again on January 14, 2019 together with interest accrued totalling of \$1,055,068 on or before January 21, 2019. Fiore has refused to return any portion of the \$1,000,000 and any interest or deliver any consideration for the advance. The civil claim is ongoing and the Company believes that the advance to Fiore will be recovered, but the outcome cannot be reasonably determined at this time.
- (b) On June 26, 2019, the Company filed a civil claim against its former management for the breach of their fiduciary duty and duty of care to the Company with respect to the advance made to Fiore. This resulted in a loss and damage to the Company. The civil claim is ongoing and the amount of any damages recoverable cannot be reasonably determined or estimated at this time.

16. Financial Instruments and Risk Management

Fair Values

The fair values of the Company's financial instruments, which include cash, accounts payable, loans payable, lease liabilities, and amounts due to related parties, approximate their carrying values due to the relatively short-term maturity of these instruments.

Biological assets

The fair value of biological assets is categorized in Level 3 on the fair value hierarchy. The Company measures its biological assets at fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in kilograms for plants that are actively growing, and then adjusts that amount for the expected selling price per kilogram in the market in which the biological asset is growing. The estimates used in determining the fair value of biological assets are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. The significant assumptions used in determining the fair value of biological assets include:

- Expected yield by plant – represents the expected number of kilograms of finished hemp inventory which are expected to be obtained from each harvested hemp plant;
- Wastage of plants – represents the weighted average percentage of biological assets which are expected to fail to mature into hemp plants that can be harvested;
- Duration of the production cycle – represents the weighted average number of weeks out of the 19-week growing cycle that biological assets have reached as of the measurement date;
- Percentage of costs incurred as of this date compared to the total costs expected to be incurred – this is calculated as cost per kilogram of CBD oil extracted from harvested hemp to complete the sale of CBD oil post harvest, consisting of the cost of direct and indirect materials and labour related further production, labeling, and packaging;

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements

Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

16. Fair Value Measurements and Risk Management (continued)

Fair Values (continued)

Biological assets (continued)

- Percentage of costs incurred for each stage of plant growth – represents the direct and indirect production costs incurred that are capitalized; and
- Market values – this is calculated as the current market price per kilogram in the market in which the biological asset is being produced. This is expected to approximate future selling price.

The Company accretes fair value on a straight-line basis according to stage of growth. As a result, a hemp plant that is 50% through its 19 week growing cycle would be ascribed approximately 50% of its harvest date expected fair value. All plants are to be harvested hemp. An increase or decrease in the estimated sale price would result in a significant change in the fair value of biological assets.

Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

Foreign Exchange Rate Risk

Foreign exchange risk is the risk that the Company's financial instruments will fluctuate in value as a result of movements in foreign exchange rates. Foreign exchange risk arises from purchase transactions. The Company is not exposed to significant currency risk.

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 is not exposed to significant interest rate risk as it does not have any liabilities with variable rates.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt or equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

17. Income Taxes

The Company is subject to Canadian federal and provincial taxes at the rate of 27% (2021 – 11%). The tax effect of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2022 \$	2021 \$
Canadian statutory income tax rate	27%	11%
Income tax recovery at statutory rate	(618,292)	(43,980)
Tax effect of:		
Permanent differences and other	469,367	(213)
True up of prior year differences	(9,245)	–
Change in tax rates	(138,838)	–
Losses assumed upon reverse merger	(5,400,528)	–
Change in unrecognized deferred income tax assets	5,697,536	44,193
Income tax provision	–	–

INDIGNEOUS BLOOM HEMP CORP.

Notes to the Consolidated Financial Statements

Years Ended May 31, 2022 and 2021

(Expressed in Canadian dollars)

17. Income Taxes (continued)

The significant components of deferred income tax assets and liabilities are as follows:

	2022 \$	2021 \$
Deferred income tax assets (liabilities)		
Non-capital losses carried forward	5,837,394	92,021
Property and equipment	(52,044)	(5,751)
Right-of-use assets	(1,608)	(64)
Unrecognized deferred income tax assets	(5,783,742)	(86,206)
Net deferred income tax asset	—	—

As at May 31, 2022, the Company has not recognized a deferred income tax asset in respect of non-capital loss carryforwards of \$21,619,977 which may be carried forward to apply against future income for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	\$
2034	33,611
2035	572,339
2036	954,814
2037	2,598,810
2038	9,822,420
2039	4,002,821
2040	1,641,886
2041	1,130,319
2042	862,957
	<u>21,619,977</u>