



VERITAS PHARMA INC.

Consolidated Financial Statements
Years Ended April 30, 2021 and 2020
(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Veritas Pharma Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Veritas Pharma Inc. (the "Company"), which comprise the consolidated statement of financial position as at April 30, 2021, and the consolidated statement of operations and comprehensive loss, consolidated statement of changes in shareholders' equity (deficit) and consolidated statement of 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 financial statements present fairly, in all material respects, the consolidated financial position of the Company as at April 30, 2021, and its consolidated financial performance and its consolidated cash flows for the years 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. 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 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

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt about Veritas Pharma Inc. ability to continue as a going concern.

Comparative Information

The consolidated financial statements of the Company for the year ended April 30, 2020 were audited by another auditor who expressed an unmodified opinion on those statements on August 28, 2020.

Information other than the Consolidated Financial Statements and the Auditor's Report thereon

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in Management's discussion and analysis report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's discussion and analysis report 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 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 are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements.

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 Mickey Goldstein.

HARBOURSIDE CPA LLP

Vancouver, British Columbia
September 3, 2021

Harbourside CPA, LLP
Chartered Professional Accountants

VERITAS PHARMA INC.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	April 30, 2021 \$	April 30, 2020 \$
Assets		
Current assets		
Cash	481	8,891
Amounts receivable	249	249
Prepaid expenses	—	5,969
Total assets	730	15,109
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	580,946	524,729
Convertible note payable (Note 5)	68,829	—
Derivative liability (Note 6)	22,117	—
Due to related parties (Note 7)	622,847	365,427
Total liabilities	1,294,739	890,156
Shareholders' deficit		
Share capital (Note 8)	29,564,397	29,381,213
Share-based payment reserve	1,443,613	1,443,613
Warrant reserve	684,135	684,135
Deficit	(32,986,154)	(32,384,008)
Total shareholders' deficit	(1,294,009)	(875,047)
Total liabilities and shareholders' deficit	730	15,109

Nature of operations and going concern (Note 1)

Contingencies (Note 14)

Subsequent events (Note 16)

Approved and authorized for issuance on behalf of the Board of Directors on September 3, 2021:

/s/ Lorne Mark Roseborough

Lorne Mark Roseborough, Director

/s/ Blair Lowther

Blair Lowther, Director

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

VERITAS PHARMA INC.

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

	Year ended April 30, 2021 \$	Year ended April 30, 2020 \$
Expenses		
Consulting fees (Note 7)	233,582	278,758
Office and miscellaneous	8,257	20,266
Professional fees	287,375	294,272
Rent	—	150,300
Share-based compensation (Note 8)	—	765,749
Transfer agent and filing fees	31,573	20,912
Travel and promotion	—	4,952
Wages and benefits	—	197,596
Total expenses	560,787	1,732,805
Loss before other income (expense)	(560,787)	(1,732,805)
Other income (expense)		
Accretion of discount on convertible note payable	(14,482)	—
Gain on fair value of derivative liability (Note 6)	8,536	—
Gain on sale of property and equipment (Note 3)	—	15,221
Legal settlement (Note 14)	(13,486)	—
Loss on settlements of debt (Notes 7 and 8)	(91,933)	(31,369)
Write off of accounts payable	70,006	—
Write off of amounts receivable	—	(33,535)
Total other income (expense)	(41,359)	(49,683)
Net loss and comprehensive loss for the year	(602,146)	(1,782,488)
Net loss per share, basic and diluted	(0.07)	(0.29)
Weighted average shares outstanding	8,179,454	6,193,107

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

VERITAS PHARMA INC.

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

	Share capital		Share-based payment reserve	Warrant reserve	Deficit	Total shareholders' equity (deficit)
	Number of shares	Amount \$	\$	\$	\$	\$
Balance, April 30, 2019	6,078,706	28,778,344	677,864	684,135	(30,601,520)	(461,177)
Common shares issued pursuant to debt settlements	1,636,957	602,869	—	—	—	602,869
Fair value of stock options vested	—	—	765,749	—	—	765,749
Net loss for the year	—	—	—	—	(1,782,488)	(1,782,488)
Balance, April 30, 2020	7,715,663	29,381,213	1,443,613	684,135	(32,384,008)	(875,047)
Common shares issued pursuant to debt settlements	631,667	183,184	—	—	—	183,184
Net loss for the year	—	—	—	—	(602,146)	(602,146)
Balance, April 30, 2021	8,347,330	29,564,397	1,443,613	684,135	(32,986,154)	(1,294,009)

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

VERITAS PHARMA INC.Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended April 30, 2021 \$	Year ended April 30, 2020 \$
Operating activities		
Net loss for the year	(602,146)	(1,782,488)
Items not involving cash:		
Accretion of discount on convertible note payable	14,482	—
Gain on fair value of derivative liability	(8,536)	—
Gain on sale of property and equipment	—	(15,221)
Loss on settlements of debt	91,933	31,369
Loss on legal settlement	13,486	—
Share-based compensation	—	765,749
Write off of accounts payable	(70,006)	—
Write off of amounts receivable	—	33,535
Changes in non-cash operating working capital:		
Amounts receivable	—	9,735
Prepaid expenses and deposits	5,969	(5,969)
Accounts payable and accrued liabilities	288,988	139,306
Due to/from related parties	257,420	212,519
Net cash used in operating activities	(8,410)	(611,465)
Investing activities		
Proceeds received from disposition of 3 Carbon Extractions Ltd. investment	—	375,000
Repayment of cash acquired from advance payable	—	(180,000)
Proceeds received from sale of property and equipment	—	334,660
Net cash provided by (used in) investing activities	—	529,660
Financing activities		
Advances from related party	—	70,700
Net cash provided by financing activities	—	70,700
Change in cash	(8,410)	(11,105)
Cash, beginning of year	8,891	19,996
Cash, end of year	481	8,891
Non-cash investing and financing activities:		
Fair value of shares issued to settle debt	183,184	602,869
Convertible debt issued for legal settlement	85,000	—

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

VERITAS PHARMA INC.

Notes to the Consolidated Financial Statements

Years Ended April 30, 2021 and 2020

(Expressed in Canadian dollars)

1. Nature of Operations and Going Concern

Veritas Pharma Inc. (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., and its trading symbol was changed to "VRT". Its current focus is to develop the most effective proprietary cannabis strains for specific disease conditions. The Company's head office is located at Suite 3200, 650 West Georgia Street, Vancouver, BC.

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 significant, but 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 April 30, 2021, the Company did not generate any revenues and has a net loss of \$602,146. As at April 30, 2021, has a working capital deficit of \$1,294,009 and has an accumulated deficit of \$32,986,154. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, 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 consolidated 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 ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") in effect as at May 1, 2020.

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

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.

VERITAS PHARMA INC.

Notes to the Consolidated Financial Statements
Years Ended April 30, 2021 and 2020
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(c) Use of Estimates and Judgments

The preparation of these consolidated 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, fair value of share-based compensation, and unrecognized deferred income tax assets.

Current and 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 current and 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 16 for details.

VERITAS PHARMA INC.

Notes to the Consolidated Financial Statements
Years Ended April 30, 2021 and 2020
(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:

Going concern

Management has applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its consolidated financial statements for the year ended April 30, 2021. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considered a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing. As a result of the assessment, management concluded there is a significant doubt as to the ability of the Company to meet its obligations as they fall due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

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) 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 consolidated 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.

VERITAS PHARMA INC.

Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(e) Impairment of Non-Financial Assets (continued)

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.

(f) 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 consolidated statement of operations.

Fair value estimates are made at the consolidated 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 and accrued liabilities	Amortized cost
Convertible note payable	Amortized cost
Derivative liability	FVTPL
Due to related parties	Amortized cost

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.

VERITAS PHARMA INC.

Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(f) Financial Instruments (continued)

Financial Assets (continued)

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.

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.

VERITAS PHARMA INC.

Notes to the Consolidated Financial Statements
Years Ended April 30, 2021 and 2020
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(g) Foreign Currency Translation

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

(h) 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.

(i) Share-based Payments

The grant date fair value of share-based payment awards granted to employees is recognized as stock-based compensation expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

All equity-settled share-based payments are reflected in share-based payment reserve, unless exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

VERITAS PHARMA INC.

Notes to the Consolidated Financial Statements
Years Ended April 30, 2021 and 2020
(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(j) Provisions

Provisions for legal claims and obligations are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

(k) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. 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 loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at April 30, 2021, the Company had 607,869 (2020 – 757,869) potentially dilutive shares outstanding.

(l) 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 years ended April 30, 2021 and 2020, the Company did not have any transactions impacting comprehensive income (loss).

(m) 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 April 30, 2021, 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.

3. Property and Equipment

On November 28, 2019, the Company sold its land for gross proceeds of \$350,000. A gain of \$15,221 on the sale of land was recognized after deducting selling costs of \$15,340.

4. Investment

On July 9, 2018, the Company issued 75,000 common shares with a fair value of \$367,500 and paid \$400,000 (US\$300,000) to acquire 1,000 Class A voting common shares of 3 Carbon Extractions Inc. ("3 Carbon"), a private company.

The Company determined that the investment no longer fit into its business plan. The Company recorded an impairment of \$392,500 on April 30, 2019 to bring the carrying value to its estimated fair value of \$375,000.

On June 25, 2019, the Company entered into an agreement for the Company to sell the 1,000 Class A voting shares of 3 Carbon for \$375,000. The amount was received on June 28, 2019.

5. Convertible Note Payable

On November 5, 2020, the Company issued a non-interest bearing convertible promissory note for principal of \$85,000 to a former employee to settle a civil claim (Note 14). The convertible promissory note will automatically convert into common shares of the Company at a price equal to the greater of (i) the closing price of the Company's shares on the Canadian Securities Exchange ("CSE") on the Maturity Date (the first day on which the Company's shares are reinstated for trading on the CSE), less the

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Notes to the Consolidated Financial Statements
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5. Convertible Note Payable (continued)

maximum discount permitted by Policy 6 of the CSE; and (ii) \$0.15. The Company must issue the shares to the former employee within 5 business days of the Maturity Date. At issuance, the Company recognized the host liability of the convertible note to be \$54,347, and recorded accretion expense of \$14,482 during the year ended April 30, 2021. The conversion feature of this instrument has been identified as an embedded derivative liability. Refer to Note 6.

6. Derivative Liability

On November 5, 2020, the Company issued a non-interest bearing convertible promissory note for principal of \$85,000 (refer to Note 5). The debt instrument allows for an automatic conversion into common shares upon the Company's shares being reinstated on the CSE.

The conversion feature of this instrument has been identified as an embedded derivative liability. The fair value of the derivative liability was calculated using the Black-Scholes model, with a volatility of 100%, discount rate of 0.18%, and expected life of 1 year, and recognized on the respective issuance date of the instrument, with any fair value gains (losses) recognized in the consolidated statement of operations and comprehensive. During the year ended April 30, 2021, the Company recognized the derivative liability at initial recognition of \$30,653, and recorded a fair value gain of \$8,536 during the year ended April 30, 2021.

7. Related Party Transactions

- (a) As at April 30, 2021, the Company owed \$42,550 (2020 – \$26,250) to a company controlled by a director of the Company, which is recorded in accounts payable and accrued liabilities. The amount is unsecured, non-interest bearing, and due on demand. During the year ended April 30, 2021, the Company incurred consulting fees of \$60,000 (2020 – \$57,903) to a company controlled by a director of the Company. During the year ended April 30, 2021, the Company settled \$42,000 owing to this company by issuing shares. Note 8(a)
- (b) As at April 30, 2021, the Company owed \$nil (2020 – \$21,000) to a company controlled by a director of the Company, which is recorded in accounts payable and accrued liabilities. The amount is unsecured, non-interest bearing, and due on demand. During the year ended April 30, 2021, the Company incurred consulting fees of \$40,000 (2020 – \$20,000) to a company controlled by a director of the Company. Refer to Note 8(a) for debt settlement. During the year ended April 30, 2021, the Company settled \$31,750 owing to this company by issuing shares. Note 8(a)
- (c) As at April 30, 2021, the Company owed \$42,000 (2020 – \$10,500) to a company controlled by the Chief Executive Officer of the Company, which is recorded in accounts payable and accrued liabilities. The amount is unsecured, non-interest bearing, and due on demand. During the year ended April 30, 2021, the Company incurred consulting fees of \$120,000 (2020 – \$85,000) to a company controlled by the Chief Executive Officer of the Company. During the year ended April 30, 2021, the Company settled \$21,000 owing to this company by issuing shares. Note 8(a)
- (d) As at April 30, 2021, the Company owed \$575,841 (2020 - \$318,420) to a company where a director of the Company is a director. The amount is unsecured, non-interest bearing, and due on demand. Refer to Note 8(c) for debt settlement.
- (e) As at April 30, 2021, the Company owed \$47,006 (2020 - \$47,006) to a former director of Sechelt. The amount is unsecured, non-interest bearing, and due on demand.
- (f) During the year ended April 30, 2020, the Company granted 1,207,869 stock options with a fair value of \$765,749 to officers and directors of the Company.

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8. Share Capital

Authorized: Unlimited number of common shares without par value

Share transactions for the year ended April 30, 2021:

- (a) On August 5, 2020, the Company issued a total of 631,667 common shares with a fair value of \$183,184 to settle debt of \$21,000 owing to the Chief Executive Officer of the Company, \$31,750 owing to a director of the Company, and \$42,000 owing to a company controlled by a director of the Company, resulting in a loss on debt settlements of \$88,434.

Share transactions for the year ended April 30, 2020:

- (b) On March 9, 2020, the Company issued 136,957 common shares with a fair value of \$32,869 to settle debt owing to a company controlled by the Chief Executive Officer of the Company. This resulted in a loss on settlement of debt of \$1,369.
- (c) On April 8, 2020, the Company issued 1,500,000 common shares with a fair value of \$570,000 to settle debt of \$540,000 owing to a company where a director of the Company is a director. This resulted in a loss on settlement of debt of \$30,000.

9. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of warrants	Weighted average exercise price \$
Balance, April 30, 2019	600,000	9.58
Expired	(450,000)	8.12
Balance, April 30, 2020	150,000	14.00
Expired	(150,000)	14.00
Balance, April 30, 2021	–	–

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10. 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 CSE. 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.

The following table summarizes the continuity of the Company's stock options:

	Number of stock options	Weighted average exercise price \$
Outstanding, April 30, 2019	250,000	4.30
Granted	1,207,869	0.66
Expired/cancelled	(850,000)	1.98
Outstanding, April 30, 2020 and 2021	607,869	0.30

Additional information regarding stock options outstanding as at April 30, 2021, is as follows:

Range of exercise prices \$	Outstanding and exercisable		
	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price \$
0.30	607,869	4.0	0.30

The fair value for stock options granted have been estimated using the Black-Scholes option pricing model assuming no expected dividends or forfeitures and the following weighted average assumptions:

	2021	2020
Risk-free interest rate	—	1.04%
Expected life (in years)	—	5.0
Expected volatility	—	168%

The total fair value of stock options vested during the year ended April 30, 2020 was \$765,733 which was recorded as share-based payment reserve and charged to operations. The weighted average grant date fair value of stock options granted during the year ended April 30, 2020 was \$0.64 per option.

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11. 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, share-based payment reserve, and warrant 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 April 30, 2020.

12. Financial Instruments and Risk Management

(a) Fair Values

Fair value measurements are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on 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 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of financial instruments, which include cash, accounts payable and accrued liabilities, convertible note payable, and amounts due to related parties, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) 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.

(c) 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. As at April 30, 2021 and 2020, the Company is not exposed to significant currency risk as it did not have material assets or liabilities held in currencies other than its functional currencies.

(d) 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.

(e) 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.

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13. Proposed Business Acquisition

On September 4, 2020, the Company entered into an agreement to acquire ("HempCo"). The Company will acquire 100% of the issued and outstanding shares of HempCo for aggregate consideration of \$28,000,000 to be provided in common shares of the Company, at a deemed price per share equal to the closing price on the Canadian Securities Exchange ("CSE") on the day prior to closing. Prior to closing, the Company is to consolidate its common shares on a 1-for-2 basis.

On April 29, 2021, the acquisition agreement was approved by the shareholders of the Company. The closing of the acquisition is subject to regulatory and CSE approval. Refer to Note 16(d).

14. Contingencies

- (a) On June 25, 2018, the Company advanced \$1,000,000 to Liht Cannabis Corp. (formerly Marapharm Ventures Inc.) ("Liht"), 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 Liht, but the agreement was not executed. The Company and Liht 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 February 28, 2019, the Company filed a civil claim against Liht 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 Liht. The Company alleges that, even though the Company had advanced Liht \$1,000,000, Liht 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. Liht 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 Liht 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 Liht. 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.
- (c) On May 14, 2020, a civil claim was filed against the Company by a former employee. The former employee is claiming \$114,061 in relief as follows: \$31,500 in damages for breach of contract, \$31,500 in damages for outstanding wages, \$1,061 in damages for outstanding business expenses, and \$50,000 in damages for the breach of common law duty to perform contract obligations honestly and in good faith. The Company initially recorded \$63,873 in the accounts payable and accrued liabilities for previous services rendered, outstanding business expenses, and damages for breach of contract. On October 28, 2020, the Company and the former employee agreed that the Company will pay the former employee a sum of \$85,000 through the issuance of a convertible promissory note. The promissory note is non-interest bearing and will automatically convert into common shares of the Company at a price equal to the greater of (i) the closing price of the Company's shares on the Canadian Securities Exchange ("CSE") on the Maturity Date (the first day on which the Company's shares are reinstated for trading on the CSE), less the maximum discount permitted by Policy 6 of the CSE; and (ii) \$0.15. The Company must issue the shares to the former employee within 5 business days of the Maturity Date. The settlement fee of \$14,093 is recorded in the statement of operations.

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15. Income Taxes

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended April 30, 2021 and 2020.

	2021 \$	2020 \$
Net loss before tax	(602,146)	(1,782,488)
Statutory tax rate	27%	27%
Expected income tax recovery	(162,580)	(481,272)
Tax effect of:		
Permanent differences and other	–	206,752
True up of prior year differences	9,746	525,028
Change in unrecognized deferred income tax assets	152,834	(250,508)
Income tax provision	–	–

The significant components of deferred income tax assets and liabilities as at April 30, 2021 and 2020 are as follows:

	2021 \$	2020 \$
Deferred income tax assets		
Non-capital losses carried forward	5,315,644	5,153,296
Capital losses carried forward	84,920	84,920
Investments	731,250	731,250
Investment tax credits carried forward	48,214	48,214
Share issuance costs	4,076	13,590
Unrecognized deferred income tax assets	(6,184,104)	(6,031,270)
Net deferred income tax asset	–	–

As at April 30, 2021, the Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of \$19,687,571 (2020- \$19,086,282) 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	1,101,467
2041	601,289
	<u>19,687,571</u>

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16. Subsequent Events

- (a) On May 1, 2021, the Company entered into an agreement with a company controlled by the Chief Executive Officer of the Company whereby the Company agreed to pay \$20,000 per month for a period of one year. The agreement can be terminated by either party by providing a minimum of 90 days' written notice.
- (b) On May 1, 2021, the Company entered into an agreement with Chairman of the Board of Directors of the Company whereby the Company agreed to pay consulting fees of \$20,000 per month for a period of one year. The agreement will automatically renew for successive one year terms until and unless either party provides to the other written notice of its desire not to automatically renew this agreement. The agreement can be terminated by either party by providing a minimum of 30 days' written notice.
- (c) On June 21, 2021, the Company entered into four debt postponement agreements whereby the debtors agreed to postpone the obligation of the Company to repay accounts payable totaling \$124,250 and related party payables totaling \$309,475 until June 30, 2023.
- (d) On June 29, 2021, the Company entered into an agreement to transfer its 250 common shares of 1182372 B.C. Ltd. for consideration of \$100,000.
- (e) On September 1, 2021, the Company received conditional approval of the CSE in respect to its business combination with HempCo. Effective September 1, 2021, the Company consolidated its common shares on a 1-for-2 basis. All share amounts have been retroactively restated for all periods presented.
- (f) Subsequent to April 30, 2021, the Company received loan proceeds of \$500,000 which is non-interest bearing, unsecured, and due on demand. On June 4, 2021, the Company advanced the \$500,000 to HempCo.