High Fusion Inc.

(Formally Nutritional High International Inc.)

Consolidated Financial Statements

July 31, 2021 and 2020

(Expressed in Canadian Dollars, unless otherwise noted)

HARBOURSIDE CPA

INDEPENDENT AUDITORS' REPORT

To the Shareholders of High Fusion Inc. (formerly Nutritional High International Inc.)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of High Fusion Inc. (the "Company"), which comprise the consolidated statement of financial position as at July 31, 2021 and the consolidated statement of loss and comprehensive loss, consolidated statement of cash flow, and the consolidated statement of changes in shareholders' equity (deficiency) 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 July 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 consolidate 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.

Other Matters

The consolidated financial statements of High Fusion Inc. for the year ended July 31, 2020, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 1, 2021.

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 High Fusion Inc.'s ability to continue as a going concern.

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

Harbourside CPA, LLP
Chartered Professional Accountants

Vancouver, British Columbia
December 14, 2021

High Fusion Inc.
(Formally Nutritional High International Inc)
Consolidated Statements of Financial Position
Years ended July 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Notes	2021	2020
ASSETS			
Current assets			
Cash		**$ 21,268**	$ 243,860
Amounts receivable	4	**78,054**	2,292,789
Prepaid expenses		**207,377**	58,163
Deposits	5	**-**	159,252
Inventory	6	**202,488**	301,383
Investments	7	**1,204,321**	45,844
		1,713,508	3,101,291
Non-current assets			
Investment property	8	**-**	1,311,536
Capital assets	10	**2,689,614**	2,268,829
Intangible assets	9	**2,227,756**	-
Goodwill	9	**648,519**	-
		$ 7,279,397	$ 6,681,656
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities	11,18	**$ 4,695,212**	$ 13,421,428
Income tax payable	27	**151,795**	1,926,375
Promissory note payable	12	**-**	200,000
Derivative liabilities	14	**1,245,645**	285,572
Convertible debentures	14	**-**	6,279,820
Lease liabilities	13	**698,541**	1,482,352
Deferred gain on sale and leaseback	13	**25,487**	69,085
		6,816,680	23,664,632
Non-current liabilities			
Convertible debentures	14,18	**6,625,337**	4,420,806
Lease liabilities	13	**-**	468,354
Deferred gain (loss) on sale and leaseback	13	**-**	27,267
		13,442,017	28,581,059
Shareholders' deficiency			
Share capital	15	**50,666,804**	38,421,113
Shares to be issued		**85,001**	85,001
Reserve for share based payments	16	**5,531,058**	4,591,263
Reserve for warrants	17	**6,577,402**	3,382,530
Reserve for foreign currency translation		**(92,373)**	408,177
Equity component of convertible debenture		**773,462**	773,462
Deficit		**(69,689,224)**	(69,546,199)
		(6,147,870)	(21,884,653)
Non-controlling interest		**(14,750)**	(14,750)
		(6,162,620)	(21,899,403)
		$ 7,279,397	$ 6,681,656

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 22)
Subsequent events (Note 29)

Approved by the Board:
"Adam Szweras" Director "Brian Presement" Director

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

High Fusion Inc.

(Formally Nutritional High International Inc)
Consolidated Statements of Loss and Comprehensive Loss
Years ended July 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Notes	2021	2020 (Note 26)
Sales		**$ 96,067**	$ 11,052
Cost of goods sold	6	**(75,723)**	(13,816)
Gross margin		**$ 20,344**	(2,764)
Interest	4	**217,848**	201,375
Rental	10	**-**	26,924
		$ 238,192	225,535
Operating expenses:			
Salaries, benefits and consulting fees	18	**2,192,936**	2,309,667
Professional fees	18	**462,874**	568,628
General and administrative	23	**917,498**	1,088,655
Acquisition and project evaluation costs		**4,916**	151,636
Share based payments	16	**947,848**	1,293,188
Sales, marketing and promotion	18	**78,045**	285,102
Loss and reserve on inventory	6	**-**	179,113
Depreciation and amortization	9,10	**483,573**	1,346,712
Allowance for amounts receivable	4	**95,199**	159,204
Allowance for amounts due from Palo Verde LLC		**(1,514)**	(1,349)
Total operating expenses		**5,181,375**	7,380,556
Other items:			
Foreign exchange loss (gain)		**177,075**	(30,201)
Finance costs	13,14	**1,277,115**	4,035,388
Gain on sale and leaseback	13	**(700,445)**	(69,384)
Other loss (income)		**-**	(160,642)
Unrealized gain on FVTPL investments		**-**	(48,823)
Loss (gain) on sale of investments	7	**(416,201)**	746,423
Change in fair value of derivative liability	14,21	**960,073**	(1,566,417)
Loss (gain) on debt settlement	17	**344,710**	(69,221)
Loss on modification of debt	14	**1,559,244**	-
Loss (gain) on extinguishment of debt	14	**(2,219,744)**	(335,100)
Impairment of capital assets	10	**-**	1,117,809
Gain on modification of lease	13	**-**	(103,819)
Impairment of intangible assets	9	**5,628,006**	28,345
Total other items		**6,609,833**	3,544,358
Operating loss from continuing operations before income taxes		**(11,553,016)**	(10,699,379)
Income tax expense (recovery)			
Current		**67,816**	65,611
Deferred		**-**	-
		67,816	65,611

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

High Fusion Inc.

(Formally Nutritional High International Inc)
Consolidated Statements of Loss and Comprehensive Loss
Years ended July 31, 2021 and 2020
(Expressed in Canadian Dollars)

Net loss before discontinued operations			**(11,620,832)**		(10,764,990)
Net (loss) gain total from discontinued operations	26		**9,771,214**		(11,323,631)
			(1,849,618)		(22,088,621)
Other comprehensive loss					
Exchange differences on translating foreign operations			**1,206,043**		165,960
Comprehensive loss		**$**	**(643,575)**	$	(21,922,661)
Weighted average number of common shares outstanding					
Basic			**45,201,322**		16,477,169
Diluted			**45,201,322**		16,477,169
Net loss per share					
Basic		**$**	**(0.041)**	$	(1.341)
Diluted		**$**	**(0.041)**	$	(1.341)

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

High Fusion Inc.

(Formally Nutritional High International Inc.)

Consolidated Statement of Cash Flow

Years ended July 31, 2021 and 2020

(Expressed in Canadian Dollars)

	2021	2020
Cash Provided by (used in)		
Operating activities:		
Net loss	**$ (1,849,618)**	$ (22,088,621)
Items not affecting cash:		
Interest Income	**-**	(199,350)
Amortization of capital assets and intangible assets	**483,573**	2,421,925
Unrealized (gain) loss on FVTPL investments	**-**	(48,823)
Impairment of capital assets	**-**	2,061,292
Share issued for services	**-**	23,447
Foreign Exchange	**177,075**	(16,366)
Bad debt expense (recovery)	**32,350**	(8,888)
Impairment of net investment in sublease	**-**	46,755
Impairment of intangible assets	**5,628,006**	1,537,987
Change in fair value of derivative liabilities	**960,073**	(1,566,417)
Loss (Gain) on debt settlement	**344,710**	(69,221)
Accretion and finance costs	**1,277,115**	4,004,356
Impairment of goodwill	**-**	1,611,220
Loss (gain) on extinguishment of debt	**1,559,224**	(335,100)
Gain on modification of debt	**(2,219,744)**	-
Share based payments	**947,848**	1,293,188
Gain on sale and leaseback	**(700,445)**	(69,384)
Gain on modification of lease	**-**	(104,676)
Gain on sublease	**-**	27,994
Loss (gain) on sale of investment	**(416,201)**	746,423
Allowance for amounts receivable	**95,199**	265,636
Allowace (recovery) for amounts due to Palo Verde LLC	**-**	(1,349)
Write -down of inventory	**-**	179,113
Gain on disposal of Calyx	**(11,322,463)**	-
Net change in non-cash working capital:		
Amounts receivable	**(1,419,716)**	1,312,844
Prepaid	**(149,705)**	333,424
Inventory	**(330,192)**	(1,440,000)
Deposits	**153,767**	26,060
Investments	**-**	2,979
Income taxes payable	**(1,699,931)**	992,640
Accounts payable and accrued liabilities	**7,004,880**	7,044,657
Net cash generated used in operating activities	**$ (1,444,195)**	$ (2,016,255)

High Fusion Inc.

(Formally Nutritional High International Inc.)

Consolidated Statement of Cash Flow

Years ended July 31, 2021 and 2020

(Expressed in Canadian Dollars)

	2021	2020
Investing activities:		
Proceeds from sale of investments	**$ 1,090,476**	$ 186,723
Increase in promissoary note	**-**	(121,158)
Settlement of promissory note receivable	**-**	437,520
Purchase of capital assets	**(62,480)**	(239,995)
Cash acquired on acquisition of Palo Verde LLC	**217,879**	-
Cash acquired on acquisition of Psycedelic Sciences Corp.	**15,987**	(228,218)
Net cash generated from investing activities	**$ 1,261,862**	$ 34,872
Financing activities:		
Issuance of convertible debentures units, net of issue costs	**$ -**	$ 1,868,743
Interest paid on promissory note	**-**	(19,599)
Issuance (Repayment) of promissory notes	**-**	200,000
Repayment of promissory note	**-**	(131,480)
Lease payments	**(31,323)**	(1,328,051)
Net cash generated from (used in) financing activities	**$ (31,323)**	$ 589,613
Net decrease in cash	**(213,656)**	(1,391,770)
Effects of exchange rate changes on cash	**(8,936)**	143,397
Cash at beginning of period	**243,860**	1,492,233
Cash at end of period	**$ 21,268**	$ 243,860

Supplementary cash flow information (Note 28)

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

(Formally Nutritional Hight International Inc.)

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian Dollars)

Description	Share capital	Shares to be issued	Reserve for share-based payments	Reserve for warrants	Reserve for foreign currency translation	Equity component of convertible debentures	Accumulated deficit	Attributable to owners of parent	Non-controlling interest	Total shareholders' equity (deficiency)
Balance as at July 31, 2019	**$ 34,022,041**	**$ 52,501**	**$ 3,358,075**	**$ 4,101,867**	**$ 242,217**	**$ 349,548**	**$ (47,457,578)**	**$ (5,331,329)**	**$ (14,750)**	**$ (5,346,079)**
Share based payments	-	-	1,460,653	-	-	-	-	1,460,653	-	1,460,653
Fair value reversal of cashless warrant exercise	1,282,711	-	-	(1,282,711)	-	-	-	-	-	-
Shares issued for exercise of RSU	60,000	-	(60,000)	-	-	-	-	-	-	-
Forfeiture of stock options	-	-	(167,465)	-	-	-	-	(167,465)	-	(167,465)
Conversion of debentures	-	-	-	563,374	-	438,025	-	1,001,399	-	1,001,399
Shares issued for debt settlement	247,065	-	-	-	-	-	-	247,065	-	247,065
Shares issued for service	23,447	-	-	-	-	-	-	23,447	-	23,447
Conversion of debentures	441,110	-	-	-	-	(14,111)	-	426,999	-	426,999
Shares issued pursuant to Moses Garden acquistion	659,050	-	-	-	-	-	-	659,050	-	659,050
Shares issued for interest on convertible debenture	1,685,689	-	-	-	-	-	-	1,685,689	-	1,685,689
Shares issuable for TKO debt assignment	-	32,500	-	-	-	-	-	32,500	-	32,500
Foreign exchange translation	-	-	-	-	165,960	-	-	165,960	-	165,960
Net loss for the period	-	-	-	-	-	-	(22,088,621)	(22,088,621)	-	(22,088,621)
Balance as at July, 31 2020	**38,421,113**	**85,001**	**4,591,263**	**3,382,530**	**408,177**	**773,462**	**(69,546,199)**	**(21,884,653)**	**(14,750)**	**(21,899,403)**
Balance as at July 31, 2020	**$ 38,421,113**	**$ 85,001**	**$ 4,591,263**	**$ 3,382,530**	**$ 408,177**	**$ 773,462**	**$ (69,546,199)**	**$ (21,884,653)**	**$ (14,750)**	**$ (21,899,403)**
Share-based payments	-	-	87,848	-	-	-	-	87,848	-	87,848
RSU's issued to board members	-	-	860,000	-	-	-	-	860,000	-	860,000
Shares issued for AP debt settlements	1,098,044	-	-	-	-	-	-	1,098,044	-	1,098,044
Acquisition of Psycedelic Sciences Corp.	4,125,689	-	66,947	2,776,860	-	-	-	6,969,496	-	6,969,496
Shares issued for conversion of debentures	6,906,958	-	-	-	-	-	-	6,906,958	-	6,906,958
Acquisition of Palo Verde LLC	40,000	-	-	73,302	-	-	-	113,302	-	113,302
Exercise of RSUs	75,000	-	(75,000)	-	-	-	-	-	-	-
Loss on settlement of AP debt	-	-	-	344,710	-	-	-	344,710	-	344,710
Reclassification of AOCI on disposal of Calyx	-	-	-	-	(1,706,593)	-	1,706,593	-	-	-
Foreign exchange translation	-	-	-	-	1,206,043	-		1,206,043	-	1,206,043
Net loss for the period	-	-	-	-	-	-	(1,849,618)	(1,849,618)	-	(1,849,618)
Balance as at July 31, 2021	**$ 50,666,804**	**$ 85,001**	**$ 5,531,058**	**$ 6,577,402**	**$ (92,373)**	**$ 773,462**	**$ (69,689,224)**	**$ (6,147,869)**	**$ (14,750)**	**$ (6,162,619)**

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

1. Nature of operations and going concern

High Fusion Inc. (formally Nutritional High International Inc.) ("High Fusion" or the "Company" or "HFI") is a publicly traded company incorporated in Canada on July 19, 2004 under the Canada Business Corporations Act. The Company is listed on the Canadian Securities Exchange (CSE) under the symbol "FUZN", quoted on the OTCQB Marketplace under the symbol "SPLIF" and on the Frankfurt Stock Exchange (FRANKFURT) under the symbol "2NU". The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1. The Company is focused on developing, manufacturing, and distributing products and recognized brands in the marijuana and marijuana-infused products industries, including edibles and oil extractions for nutritional, medical, and adult recreation use in the United States. The Company works exclusively through licensed facilities in jurisdictions where such activity is permitted and regulated by US state law. Effective November 15, 2021, the Company changed its name to High Fusion Inc. and changed its symbol on the CSE to "FUZN".

The consolidated financial statements for the year ended July 31, 2021 were approved by the Board of Directors on December 13, 2021.

On September 3, 2021, the Company completed a share consolidation of its common share on a twenty -to-one basis. The consolidated financial statements have been adjusted retrospectively for the impact of the share consolidation.

The Company has been incurring operating losses and cash flow deficits since its inception, as it executes on its business plan to capitalize on the opportunity that is emerging in the United States in the cannabis sector, a sector that has been legalized by certain U.S. states but remains federally illegal and is subject to legislative uncertainty. The Company's operations are not yet self-sustaining. As such, the Company has been depleting its invested capital and is dependent upon obtaining necessary financing from time to time to finance its on-going and planned activities and to cover administrative costs. There is no assurance that any prospective project in the medical cannabis industry will be successfully initiated or completed. Further, regulatory evolution and uncertainty may require the Company to alter its business plan and make further investments to react to regulatory changes.

As at July 31, 2021, the Company had working capital deficit of $5,103,172 (July 31, 2020 – $20,563,341), spent $1,444,195 (2020 - $2,016,255) of cash for operating activities, had not yet achieved profitable operations, had accumulated losses of $69,689,224 (July 31, 2020 - $69,546,199), had shareholders' deficit of $6,162,620 (July 31, 2020 - $21,899,403) and expects to incur further losses in the development of its business, all of which describe the material uncertainties that cast significant doubt upon the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on its ability to obtain further funding, manage cash flows, and restructure borrowings. There is a significant uncertainty as to whether the Company will be able to continue as a going concern and therefore, whether it will continue its normal business activities and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the consolidated financial statements. These consolidated financial statements do not include adjustments relating to the recoverability and classification of recorded assets or to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern which could be material.

In March 2020, the World Health Organization declared a global pandemic resulted from the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19". This has resulted in a widespread health crisis that has affected economies and financial markets around the world resulting in an economic downturn. This pandemic may also impact expected credit losses on amounts due from customers, staff shortages, reduced customer demand, and increased government regulations or interventions, all of which may negatively impact the business, financial condition, or results of operations of the Company.

2. Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Standards Committee ("IFRIC") in effect for the year ended July 31, 2021.

2.2 Basis of measurement

The consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information, and on historical cost basis, except for certain financial instruments and acquisition-related contingent consideration, which are measured at fair value (refer to Note 21 – Financial Instruments). All figures are presented in Canadian dollars unless otherwise noted.

2.3 Basis of consolidation

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, formally 100% owned subsidiary, Calyx Brands Inc. ("Calyx") and 51% owned subsidiary, Eglinton Medicinal Advisory Ltd. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

Intercompany balances and transactions and unrealized and realized gains or losses arising from intercompany transactions are eliminated in preparing these consolidated financial statements.

Non-controlling interest is shown as a component of equity on the statement of financial position and the share of the profit or loss attributable to non-controlling interest is shown as a component of profit or loss for the period in the statement of loss and comprehensive loss.

(Expressed in Canadian Dollars)

The Company's subsidiaries and investments in associate are listed below:

	Ownership Interest		
Subsidiary/Affiliate	**July 31, 2021**	**July 31, 2020**	**Accounting method**
NHII Holdings Ltd. ("NHHL")	100%	100%	Consolidation
NHC IP Holdings Corp. ("NHCIP")	100%	100%	Consolidation
Nutritional High (Colorado) Inc. ("NHCI")	100%	100%	Consolidation
NH Properties Inc. ("NHPI")	100%	100%	Consolidation
NHC Edibles LLC ("NHC")	100%	100%	Consolidation
Nutritional High (Oregon) LLC ("NHOL")	100%	100%	Consolidation
Nutritional Traditions Inc. ("NTI")	100%	100%	Consolidation
Nutritional IP Holdings LLC ("NIPH")	100%	100%	Consolidation
NH (Oregon) Properties LLC ("NHOP")	100%	100%	Consolidation
NH Processing (Nevada) Inc. ("NHPN")	100%	100%	Consolidation
NH Operations LLC ("NHOC")	100%	100%	Consolidation
NH Nevada LLC ("NHNC")	100%	100%	Consolidation
NH (Pennsylvania) LLC ("NHPL")	100%	100%	Consolidation
NH Properties (Nevada) LLC ("NPNL")	100%	100%	Consolidation
Eastgate Property Holding LLC ("EPHC")	100%	100%	Consolidation
NH Processing (California) LLC ("NHPC")	100%	100%	Consolidation
NH Bellingham Property Holdings LLC ("NHBH")	100%	100%	Consolidation
NH Distribution California LLC ("NHDC") (2)	-	100%	Consolidation
Pasa Verde, LLC ("Pasa Verde")	100%	100%	Consolidation
NH Washington Inc. ("NHWI") (6)	-	100%	Consolidation
Nutritional High Group, LLC ("NHG")	100%	100%	Consolidation
Eglinton Medicinal Advisory Ltd. ("EMAL")	51%	51%	Consolidation
NH Medicinal Holdings LLC ("NHMH") (5)	100%	100%	Consolidation
Calyx Brands Inc. ("Calyx") (1,2)	-	80%	Consolidation
Psychedelic Sciences Corp ("PSC") (3)	100%	-	Consolidation
Palo Verde LLC ("Palo Verde") (4)	100%	-	Consolidation

(1) On October 30, 2019, the Company amended its asset purchase agreement (Note 3) to recast it as a share purchase agreement. The Company held 80% of the issued and outstanding shares of Calyx, with the option to purchase the remaining 20% for nominal consideration which it purchased on August 31, 2020.

(2) On November 6, 2020, the Company sold its 100% interest in Calyx and NH Distribution California LLC to a third party (Note 3).

(3) The Company purchased Psychedelic Sciences Corp on August 6th, 2020 (Note 3).

(4) The Company purchased Palo Verde LLC on March 12, 2021 (Note 3).

(5) NH Medicinal Holdings LLC was dissolved subsequent to Year Ended July 31, 2021 on August 12, 2021.

(6) NH Washington was dissolved June 3, 2020.

2.4 Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars unless otherwise noted. The functional currency of the Company, NHHL, NHCIP, PSC and EMAL is the Canadian dollar. The functional currency of the remaining subsidiaries is the US dollar.

2.5 Significant accounting policies

Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is measured at fair value, along with identifiable assets acquired, and liabilities and contingent liabilities assumed.

In a business acquisition goodwill is initially measured at cost being the excess of the purchase consideration of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities, and contingent liabilities. Any gain on a bargain purchase is recognized directly in the statement of loss and comprehensive loss. Transaction costs are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Asset acquisitions

The Company identifies and recognizes the individual identifiable assets acquired and liabilities assumed. Consideration paid is allocation to the identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Asset acquisitions do not give rise to goodwill.

Discontinued operations

A discontinued operation is a component of the Company's business, the operations, and cash flows of which can be clearly distinguished from the rest of the Company and which:

- Represents a separate major line of business or geographic area of operations.
- Is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Classification as discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative consolidated statement of loss and comprehensive loss is re-presented as if the operation has been discontinued from the start of the comparative year.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of there carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, or deferred tax assets, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

Revenue recognition

Revenue recognition is based on identifying the contract with the customer, identifying the performance obligations, determining the individual transaction price, and allocating the transaction price to the individual performance obligations making up the contract. Revenue is then recognized when or as the associated performance obligations are delivered and based on the expected consideration to be received.

Revenue from the sale of products is recognized when all of the following criteria have been satisfied: significant risks and rewards of ownership have been transferred to the buyer, there is no continuing managerial involvement with respect to the goods sold, revenue can be reliably measured at the fair value of the consideration received or expected to be received, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is recognized at the fair value of consideration received or receivable.

Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average cost method. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell.

On acquisition, raw materials are recorded at their replacement cost at the date of acquisition. The cost of finished goods is marked up such that the acquirer will only recognize the benefit of the selling effort of a product.

The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written-down to net realizable value.

Investment property

Investment property earns lease income and is not for sale in the ordinary course of business, is not used in the production or supply of goods or services or for administrative purposes. Investment property is carried at historical cost less any accumulated depreciation and impairment losses. Amortization is computed using the declining balance methods based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period. Depreciation is provided at rates as follows:

Building	4% Declining balance
Leasehold improvements	Straight-line over the lease term

Interests in equity accounted investees and joint ventures

The Company's interest in equity accounted investees is comprised of its interest in associates and joint ventures.

In accordance with IFRS 10, Consolidated Financial Statements, associates are those in which the Company has significant influence, but not control or joint control over the financial and accounting policies. In accordance with IFRS 11 Joint Arrangements; a joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in associates and joint ventures are accounted for using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures. They are recognized initially at cost, which includes transaction costs. After initial recognition, the consolidated financial statements include the Company’s share of the profit or loss and other comprehensive income (“OCI”) of equity accounted investees until the date on which significant influence or joint control ceases.

Investments in equity instruments without significant influence are recorded in fair value.

Capital assets

Capital assets are carried at cost less any residual value, accumulated depreciation, and impairment losses. Cost includes the acquisition costs or construction costs, as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When capital assets include significant components with different useful lives, they are recorded and depreciated separately. Depreciation is computed based on the estimated useful life of the assets. The residual value, useful life and depreciation methods are reviewed at the end of each reporting period. Such a review takes into consideration the nature of the asset, the intended use and impact of technological changes. Where parts of an item of capital assets have different useful lives, they are accounted for as separate items of capital assets. Subsequent costs are included in the asset carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Building	4% Declining balance
Leasehold improvements	Term of lease
Vehicles	5 years
Furniture and equipment	3 years
Manufacturing equipment	25%-40% Declining balance
Computer and software	25%-33% Declining balance

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful life, amortization method, and residual values are reviewed at end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortization is provided on a straight-line basis over the estimated useful lives as follows:

License and management agreement	Indefinite
Trade name	Indefinite
Proprietary data	5 years
Customer relationships	2 years

The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination or asset acquisition, that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash-generating unit (“CGU”) or CGUs which are expected to benefit from the synergies of the combination.

Goodwill has an indefinite useful life that is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment loss is recognized in the consolidated statement of loss and comprehensive loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. The Company’s most recent goodwill impairment test during the fourth quarter did not result in the recognition of any impairment losses.

Goodwill is tested for impairment annually, or more frequently if events or circumstances indicate there may be impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the goodwill, the impairment loss is first allocated to reduce the amount of goodwill and to the other assets of the unit on pro-rata, based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss and any impairment loss recognized for goodwill is not reversed in subsequent periods.

Leases

At inception, the Company assesses whether a contract is, or contains, a lease. The assessment involves the exercise of judgment about whether the lease depends on a specified asset, whether the Company obtains substantially all the economic benefits for the use of that asset during the lease term, and whether the Company has the right to direct the use of the asset. If the lease contains an extension option that the Company considers reasonably certain to be exercised, the term of the lease becomes the base lease plus renewal option, including any associated costs. For contracts that are, or contain, leases, the Company recognizes a right-of-use asset and a lease liability at the commencement date.

The right-of-use asset is initially measured at cost, which includes the initial amount of the liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimates of costs to remove or dismantle the underlying asset or to restore the underlying asset or site on which the asset is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the shorter of the lease term or the useful life of the underlying asset. The right-of-use asset is subject to testing for impairment if there is an indicator for impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid as of the lease commencement date, discounted using the rate implicit in the lease or, if the implicit rate cannot be readily determined, the Company's incremental borrowing rate.

The measurement of lease liabilities includes the following types of lease payments:

- Fixed payments, including in-substance fixed payments.
- Variable lease payments that depend on an index or rate, initially measured using the index or rate as of the commencement date.
- Amounts expected to be payable under any residual value guarantees; and
- Exercise price for options that the Company is reasonably certain to exercise for an extension or option to buy, and penalties for early termination of a lease unless the Company is reasonably certain that it will not terminate the lease early.

The lease liability is measured at amortized cost using the effective interest method.

Lease liabilities are remeasured in the following circumstances:

- If there is a change in the future lease payments resulting from a change in index or rate.
- If there is a change in the Company's estimation of the amount expected to be payable under a residual guarantee; and
- If the Company changes its assessment of whether it will exercise an option to purchase, extend or terminate.

When the Company subleases a right-of-use asset, the Company classifies the sublease as an operating lease if the head lease is a short-term lease. Otherwise, the sublease is classified as a finance lease. When the sublease is classified as a finance lease, the lessor derecognizes the right-of-use asset pertaining to the head lease that it transfers to the sublessee, at the sublease commencement date, but continues to account for the original lease liability. The sublessor recognizes a net investment in sublease and evaluates it for impairment and may use the discount rate in the head lease to measure the net investment in sublease. The Company recognizes finance income on the net investment in the lease, and also records income relating to variable lease payments not included in the measurement of the net investment in the lease.

Compound financial instruments

Compound financial instruments issued by the Company comprise of convertible debentures that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at a fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component and is included within equity.

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

Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

Valuation of equity units issued

When the Company issues equity units that include both common shares and share purchase warrants, the proceeds from the issuance of equity units are allocated between the common shares and common share purchase warrants on a pro-rated basis using the relative fair values of common shares and common share purchase warrants. The fair value of the common shares is determined using the share price at the date of the issuance of the units. The fair value of the share purchase warrants is determined using the Black-Scholes valuation model.

Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the stock options at the grant date and recognized in expense over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve.

The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are retained in share-based payment reserve. Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

Restricted Share Units ("RSUs")

RSUs are measured at fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant and is recognized as share-based compensation expense on a straight-line basis over the vesting period. The corresponding amount is recorded to the share-based payment reserve. Upon the exercise of RSUs, the related share-based payment reserve is transferred to share capital.

Earnings (loss) per share

Basic earnings (loss)per share is calculated by dividing the net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method of calculating the weighted average number of common shares outstanding. The treasury stock method assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average price of the common shares for the period.

Related party transactions

The Company considers a person or entity as a related party if they are a member of key management personnel including their close relatives, an associate or joint venture, those having significant influence over the Company, as well as entities that are controlled by related parties.

Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods 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 by the date of the statement of financial position.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive loss.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision 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 issuance of financial assets and financial liabilities, other than financial assets and financial liabilities at FVTPL, 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 FVTPL are recognized immediately in profit or loss.

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument.

Refer to Note 21 for the Company's financial instruments and their respective financial instrument classification and carrying values.

(i) FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statements of income and comprehensive income. Transaction costs are expensed as incurred.

(ii) Amortized cost financial assets

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 is initially measured at fair value, including transaction costs and subsequently at amortized cost.

(iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are 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 impacted.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of income (loss) and comprehensive income (loss). With the exception of FVOCI equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statements of income (loss) and comprehensive income (loss).

(iv) Financial liabilities and other financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of income (loss) and comprehensive income (loss). Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(v) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value at the reporting date and changes therein are recognized in profit or loss.

Impairment

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the date of statement of financial position. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its amount's receivable using the ECL model, and no difference was noted. As a result, no impairment loss has been recognized at July 31, 2021.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Foreign currency translation

Monetary assets and liabilities denominated in currencies other than Canadian dollars are translated into Canadian dollars at the rate of exchange in effect at the statement of financial position date.

Nonmonetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the transaction exchange rate. Foreign currency gains and losses resulting from translation are reflected in loss and comprehensive loss for the period.

The assets and liabilities of entities with a functional currency that differs from the presentation currency are translated to the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the financial period end;
- Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions).
- Equity transactions are translated using the exchange rate at the date of the transaction; and
- All resulting exchange differences are recognized as a separate component of equity as reserve for foreign exchange translation.

When a foreign operation is disposed of, the relevant amount in the reserve for foreign exchange in other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal.

On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, and which in substance, is considered to form part of the net investment in the foreign operation, are recognized in the reserve for foreign exchange assumptions

2.6 Significant accounting estimates and judgments

The preparation of the Company’s consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant estimates

Useful life of long-lived assets

Depreciation of capital assets and amortization of intangible assets are dependent upon estimates of their useful lives. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions.

Business combination and asset acquisitions

In a business combination and asset acquisitions, all identifiable assets, liabilities, and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, Financial Instruments, or IAS 37, Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. See Note 3 – Business acquisitions and disposals.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

Share-based payments and warrants

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and warrants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company's future share price, risk free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Fair value of financial instruments

The individual fair values attributed to the different components of a financing transaction, notably investment in equity securities, convertible debentures, and promissory notes are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

Recoverability of long-lived assets

Long-lived assets, including capital assets, investment properties and intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts, and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Convertible debentures

The accounting for convertible debentures involves discounted cash flow technique which includes both inputs that are not based on observable market data and inputs that are available from observable market data. Where available, the Company seeks comparable interest rates and, if unavailable uses those considered appropriate based on management's assessment of the Company's risk profile.

Deferred tax

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax loss carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore, do not necessarily provide certainty as to their recorded values.

Significant judgments

Going concern

Each reporting period, management exercises judgment in assessing whether there is a going concern issue by reviewing the Company's performance, resources, and future obligations.

Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. The Company must determine whether it is the acquirer or acquiree in each acquisition. Under IFRS 3 – Business Combinations, the acquirer is the entity that obtains control of the acquiree in the acquisition. If it is not clear which company is the acquirer, additional information must be considered, such as the combined entity's relative voting rights, existence of a large minority voting interest, composition of the governing body and senior management, and the terms behind the exchange of equity interest. The acquisition of Palo Verde LLC was determined to be business combination by management. (See Note 3). The acquisition of PSC was determined to be an asset acquisition (See Note 3).

Judgment is also required to determine when the Company gains control of an investment. This requires an assessment of the relevant activities of the investee, being those activities that significantly affect the investee's returns, including operating and capital expenditure decision-making; financing of the investee; the appointment, remuneration and termination of key management personnel; and when decisions in relation to those activities are under the control of the Company. Difficulties surrounding the control of acquired entities exists within the cannabis industry, due to certain state legislative requirements to structure cannabis license holders.

Functional currency

The determination of the functional currency often requires significant judgment where the primary economic environment in which an entity operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

Leases

Significant judgments related to lessee and lessor accounting primarily include evaluation of the appropriate discount rate to use to discount lease liabilities and net investment in sublease, the determination of lease term, and assessing if the Company was reasonably certain that it would exercise any lease renewal option.

Adoption of new or amended pronouncements

The Company has adopted the following new or amended IFRS standards for the period beginning August 1, 2020.

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued Definition of a Business (Amendments to IFRS 3 Business Combination) which: (a) clarifies that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; (b) narrows the definition of a business and of outputs by focusing on goods and services provided to customers; and (c) removes certain assessments and adds guidance and illustrative examples. The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Company adopted the standard effective August 1, 2020 with no impact on the preparation of the consolidated financial statements.

Recent IFRS Pronouncements

Management has reviewed the recent or amended IFRS standards effective August 1, 2021 and have determined that there are no new or amended pronouncements that will not have a significant impact on the Company's consolidated financial statements.

3. Business and asset acquisitions and disposals

Calyx Brands Inc.

On March 15, 2018, the Company acquired all of the assets of Calyx Brands Inc. ("Calyx"), a California-based distributor of cannabis products for a large network of dispensaries (the "Acquisition"). The Company amended the Acquisition agreement (the "Amended Acquisition"), to recast it as a share purchase agreement on October 28, 2019. Under the Amended Acquisition, the Company acquired 80% of issued and outstanding in Calyx for no additional consideration, with the option to purchase the remaining 20% for nominal consideration. The remaining 20% was acquired by the Company on August 31, 2020.

During the year ended July 31, 2020, the Company paid the final consideration of $228,218 (US$172,500) in cash pursuant to the Acquisition agreement.

On August 7, 2020, the Company entered into a Stock Purchase and Sale Agreement with DB12, LLC ("DB12") to sell 100% of the Company's interest in NHDC and Calyx for no consideration ("Calyx Sale Agreement"). On November 6, 2020, the Stock Purchase and Sale Agreement was amended, and the sale closed on that date. Pursuant to the Calyx Sale Agreement, the Company and DB12 have agreed to cooperate in negotiating and obtaining a settlement and release of all amounts due and owing under the lease agreement with respect to the facility in Chatsworth, California ("Lease Settlement"), wherein the Company is guarantor on the lease. In connection with the Lease Settlement, the Company may be liable to reimburse DB12 for up to US$50,000 of the amounts paid by DB12 in respect of the Lease Settlement, of which US$25,000 may be settled by cash payment and the remaining US$25,000 may be settled by issuance of common shares (see Note 22).

Psychedelic Sciences Corp.

On August 14, 2020, the Company acquired all the outstanding common shares of Psychedelic Science Corp. ("PSC"), a related party by virtue of common directors, in exchange for common shares of the Company on a one-for-one basis (the "Transaction"). Shareholders of PSC were issued an aggregate of 6,876,148 common shares of the Company. Pursuant to the Transaction, outstanding warrants and stock options of PSC were exchanged on a one-for-one basis for the warrants and stock options of the Company, resulting in the issuance of 6,876,148 warrants and 150,092 stock options. Each warrant is exercisable for one common share at the price of $1 per common share. Each compensation option is exercisable for one common share and one compensation warrant at a share price of $0.60 per share until July 16, 2022. The compensation warrants attached to the compensation options are exercisable for 24 months from issuance at a price of $0.60.

(Expressed in Canadian Dollars)

The acquisition of the PSC did not meet the definition of a business, and as a result has been accounted for as an asset acquisition in accordance with IFRS 2 – Share-based Compensation. The following table summarizes the estimated fair values of the identifiable assets and liabilities acquired at the date of acquisition.

Total purchase price consideration	**$**
Issued shares	4,125,689
Options granted	66,947
Warrants granted	2,776,860
	6,969,496
Identified tangible assets and liabilities assumed	
Cash	217,879
Accounts receivable	1,178,611
Accounts payable	(55,000)
Identified intangible assets	
Intangible assets	5,628,006
	6,969,496

Palo Verde LLC.

On March 12, 2021 the Company acquired 100% of the interest in Palo Verde LLC ("Palo Verde").

Consideration for the acquisition included a nominal cash payment and the assumption of liabilities. These liabilities include third party debt due to High Pita Corporation ("High Pita") and outstanding rent due to the Company arising from a lease agreement for the building and equipment. The transaction was accounted for as a business combination in accordance with IFRS 3 – *Business Combinations*.

Prior to the current fiscal year, the Company held an amount that was due from Palo Verde as follows:

High Pita Revolving Loan

Palo Verde had a US$200,000 obligation to High Pita under a revolving loan agreement dated April 11, 2019.

Pursuant to the closing of the acquisition, on March 19, 2021 the Company executed an assignment agreement with High Pita whereby, the Company will assume all indebtedness due from Palo Verde to High Pita in the aggregate amount of US$1,884,355 together with accrued interest ("PV Debt") broken down as follows:

a) US$1,384,355 line of credit plus US$300,000 promissory note was settled upon the purchase of Palo Verde by the issuance of 100,000 shares and warrants (See Notes 15, 17)
b) US$200,000 revolving line of credit was settled upon the purchase of Palo Verde by the issuance of a debenture.

Pursuant to IFRS 3 the Company undertook an evaluation of the purchase to determine the fair purchase price for the acquisition.

(Expressed in Canadian Dollars)

The chart below summarizes the acquisition, cost, and evaluation of those assets for this transaction:

Total purchase price consideration	**$**
Cash	100
Common shares issued	40,000
Warrants issued	73,302
Convertible debenture (2 years)	250,761
Debt assumed	2,413,684
	2,777,847
Identified tangible assets and liabilities assumed	
Cash	16,087
Net working capital	(173,299)
Identified intangible assets	
Customer relationships	766,770
Licences	868,260
Tradename	651,510
Goodwill	648,519
	2,777,847

4. Amounts receivable

The breakdown of the amounts receivable balance is as follows:

	July 31, 2021	July 31, 2020
	$	$
Harmonized Sales Tax (HST) recoverable **(iv)**	**56,443**	57,281
Other accounts receivable (ii)	**15,548**	-
Trade accounts receivable **(ii)(iii)**	**6,063**	309,260
Promissory note receivable **(i)**	**-**	1,926,248
Total	**78,054**	2,292,789

(i) The promissory note receivable due from GTL has been settled with shares being issued to the Company. On January 6, 2021 the Company entered into a Settlement and Release Agreement with the shareholders of Green Theraputics, LLC (“GTL”) with respect to the repayment of the promissory note receivable from GTL. (“GTL Settlement Agreement”). In accordance with the terms of the agreement, as part of the sale of GT to Australis Capital Inc. (“Australis”) which closed on March 23, 2021, the debt due to the Company has been repaid in the form of common shares of Australis. The Australis shares issued as repayment of the debt were priced at $0.20 per share and are subject to volume restrictions when the Company elects to sell the Australis shares. (Note 7). The promissory note bore interest at a rate of 12% per annum.

(ii) During the year the Company recorded a provision for trade accounts receivable of $95,199 (2020 - $72,160), and $Nil (2020 - $59,233) for other receivables.

(iii) HST has been filed for the period and prior period returns have been accepted and refunded subsequent to the year end.

(Expressed in Canadian Dollars)

5. Deposits

Deposits consists of $Nil (US - $Nil) (July 31, 2020 - $159,252 (US $116,280)) of security deposits on leased facilities.

6. Inventory

The breakdown of inventory is as follows:

	July 31, 2021	July 31, 2020
	$	$
Raw materials	**62,306**	-
Packaging	**53,379**	-
Finished goods	**86,804**	301,383
Total	**202,488**	301,383

Inventory recognized as cost of goods sold during the year ended July 31,2021 was $75,723 (Calyx $1,106,379) (July 31, 2020 - $9,550,928). For the year ended July 31, 2021, the Company recorded a loss and reserve on inventory of $Nil (2020 - $179,113), which primarily consisted of inventory loss adjustment, $Nil (2020 – $64,768) relating to destruction of raw materials and expired products, and $Nil (2020 - $114,345) for slow moving inventory.

7. Investments

The Company's investments are comprised of the following:

	July 31, 2021	July 31, 2020
	$	$
Pharmadrug Inc.		
436,606 shares (July 31, 2020 - 1,309,818 shares)	**26,196**	45,844
Nil warrants (July 31, 2020 - 200,000 warrants)	**-**	-
Australis inc.		
4,595,617 shares (July 31, 2020 - nil shares)	**1,178,125**	-
	-	
Balance	**1,204,321**	45,844

Pharmadrug Inc. ("Pharmadrug")

During the year ended July 31, 2020, the Company sold 7,643,297 shares in Pharmadrug for gross proceeds of $171,534 resulting in a realized loss of $679,031.

As of July 31, 2021, the Company held 436,606 shares of Pharmadrug (July 31, 2020 – 1,309,818 shares), of which 436,606 shares (July 31, 2020 – 1,309,818 shares) were held in escrow, to be released on August 16, 2021.

During the year ended July 31, 2021 the Company sold 873,212 shares for net proceeds of $69,861, recognizing a gain on disposal of $39,298. The Company recognized an unrealized gain of $10,915 during the year ended July 31, 2021.

The Pharmadrug warrants expired unexercised during the year ended July 31, 2021.

(Expressed in Canadian Dollars)

Australis Inc.

During the year ended July 31, 2021 the Company exchanged Note receivable of Green Therapeutics LLC for shares of Australis Inc. (AUSA Shares) as per the agreement (refer to Note 4). Of the total consideration of 9,267,341 AUSA Shares 1,792,724 were held by agreement until August 2021 the 1,792,724 shares were subsequently received by the Company (refer to Note 29).

Of the net holdings of 7,474,617 of AUSA Shares 937,500 were sold via private sale and 1,941,500 shares were exchange traded for total net consideration to the Company of $849,081. During the year ended July 31, 2021 the Company recognized realized and unrealized gains of $295,829 on the AUSA Shares. As of July 31, 2021, the Company held 4,595,617 AUSA Shares in a trading account and 1,792,724 AUSA shares pending release. (See Subsequent event Note 29).

8. Investment property

Cost	Land	Building	Leasehold Improvements	Total
	$	$	$	$
Balance at July 31, 2019	**164,350**	**999,248**	**486,939**	**1,650,537**
Effect of movement in exchange rates	3,200	19,456	9,481	32,137
Balance at July 31, 2020	**167,550**	**1,018,704**	**496,420**	**1,682,674**
Effect of movement in exchange rates	(11,351)	(69,008)	(33,628)	(113,987)
Reclass to capital assets	(156,199)	(949,696)	(462,792)	(1,568,687)
Balance at July 31, 2021	**-**	**-**	**-**	**-**

Accumulated Depreciation	Land	Building	Leasehold Improvements	Total
	$	$	$	$
Balance at July 31, 2019	**-**	**173,173**	**109,222**	**282,395**
Depreciation	-	33,219	50,386	83,605
Effect of movement in exchange rates	-	3,228	1,911	5,139
Balance at July 31, 2020	**-**	**209,620**	**161,518**	**371,138**
Depreciation	-	23,041	36,193	59,234
Effect of movement in exchange rates	-	(14,913)	(12,055)	(26,968)
Reclass to capital assets	-	(217,748)	(185,656)	(403,404)
Balance at July 31, 2021	**-**	**-**	**-**	**-**

Net Book Value	Land	Building	Leasehold Improvements	Investment property
	$	$	$	$
Balance at July 31, 2020	**167,550**	**809,084**	**334,902**	**1,311,536**
Balance at July 31, 2021	**-**	**-**	**-**	**-**

As a result of the acquisition of the Palo Verde property the Company has reclassed the property located in Pueblo West, Colorado (“Pueblo”) as capital assets as of the year end July 31, 2021.

(Expressed in Canadian Dollars)

9. Intangible assets and goodwill

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Cost	Licenses, Management agreement	Trade name and IP	Proprietary data and development in progress	Customer relationships	Total intangible assets	Goodwill	Total of intangible assets and Goodwill
	$	$	$	$	$	$	$
Balance at July 31, 2019	**1,287,342**	**399,236**	**71,013**	**909,036**	**2,666,627**	**1,573,638**	**4,240,265**
Impairment	(1,301,953)	(413,313)	(80,450)	(933,363)	(2,729,079)	(1,611,220)	(4,340,299)
Effect of movement in exchange rate	14,611	14,077	9,437	24,327	62,452	37,582	100,034
Balance at July 31, 2020	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Additions	693,000	520,000	5,628,006	612,000	7,453,006	648,519	8,101,525
Impairment	-	-	(5,628,006)	-	(5,628,006)	-	(5,628,006)
Effect of movement in exchange rate	175,260	131,510	-	154,770	461,540	-	461,540
Balance at July 31, 2021	**868,260**	**651,510**	**-**	**766,770**	**2,286,540**	**648,519**	**2,935,059**

Accumulated Amortization	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total intangible assets	Goodwill	Total of Intangible assets and Goodwill
	$	$	$	$	$	$	$
Balance at July 31, 2019	**12,884**	**144,702**	**21,861**	**592,776**	**772,223**	-	**772,223**
Additions	10,308	82,663	15,837	291,928	400,736	-	400,736
Impairment	(23,192)	(196,325)	(38,214)	(933,361)	(1,191,092)	-	(1,191,092)
Effect of movement in exchange rate	-	(31,040)	516	48,657	18,133	-	18,133
Balance at July 31, 2020	**-**	**-**	**-**	**-**	**-**	-	**-**
Additions	-	-	-	(46,920)	(46,920)	-	(46,920)
Effect of movement in exchange rate	-	-	-	(11,864)	(11,864)	-	(11,864)
Balance at July 31, 2021	**-**	**-**	**-**	**(58,784)**	**(58,784)**	**-**	**(58,784)**

Net Book Value	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total intangible assets	Goodwill	Total of intangible assets and Goodwill
	$	$	$	$	$	$	$
Balance at July 31, 2020	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at July 31, 2021	**868,260**	**651,510**	**-**	**707,986**	**2,227,756**	**648,519**	**2,876,275**

Calyx

Management assessed the carrying values of the intangible assets and the goodwill, and as a result of the decision to sell Calyx, the Company wrote off the carrying values of the intangible assets and goodwill amounting to $1,509,642 and $1,611,220, respectively, during the year ended July 31, 2020.

Mile High FLI Club Rewards Program

Effective August 1, 2020, the Mile High FLI Club Rewards Program was discontinued. Therefore, the carrying value of the intangible asset amounting to $28,345 was written off during the year ended July 31, 2020.

Purple Haze

On June 5, 2015, the Company entered into an agreement with Purple Haze Properties LLC ("PHP") for the exclusive right to manufacture and distribute cannabis and hemp oil-infused products, and non-exclusive rights to manufacture and distribute certain apparel and accessories in the United States and Canada ("Licensing Agreement").

The agreement provides for annual exclusivity fees and royalties ("annual fees") of no less than US$1,000,000 over five years (US$200,000 for license and US$50,000 for royalty per year) with an additional renewal option for an additional five years.

The Company was informed by PHP that a complaint was filed with the United States District Court, Southern District of New York ("Complaint") alleging that PHP and parties related to PHP attempted to improperly exploit the intellectual property rights contained in the Licensing Agreement and are seeking equitable relief and damages. Due to the uncertainties of the outcome of the Complaint, the Company had written the license and prepaid royalty down to $1 in 2017. On January 25, 2018, the parties entered into a license agreement addendum ("Addendum") whereby, the third (2017) and fourth (2018) annual fees are to be satisfied through the payment of $340,869 (US$265,000) (paid) in cash and issuance of 37,500 common shares (issued), respectively. The payments were expensed and recorded in the consolidated statement of loss and comprehensive loss.

As per the terms of the Addendum, one-half (50%) of all common share issuances and 100% of monetary royalties shall be placed in a litigation escrow account ("Escrow account") for contingencies until the sum of $2,680,800 (US$2,000,000) is reached. The Addendum also includes two one-year options to extend the Licensing Agreement at the Company's sole discretion.

As at July 31, 2019, the Company has included the fifth and final license and royalty fee of $328,700 (US$250,000) in accounts payable and accrued liabilities. During the year ended July 31, 2020, the Company terminated the Licensing Agreement as PHP has filed for bankruptcy and recognized a gain on extinguishment of debt amounting to $335,100 (US$250,000).

PSC

At year end management assessed the value of the assets and determined that there was an impairment, and they were all written down to $nil at July 31, 2021.

(Expressed in Canadian Dollars)

10. Capital assets

Cost	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Vehicles	Furniture and Equipment	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, July 31, 2019	**213,877**	**334,526**	**1,607,784**	**3,166,708**	-	**331,636**	**23,705**	**5,678,236**
Reclassification of equipment under sales	**-**	**-**	**-**	(1,888,773)	1,888,773	**-**	**-**	-
Adoption of IFRS 16	-	-	-	-	2,390,826	-	-	2,390,826
Additions	-	-	104,062	16,297	-	122,026	-	242,385
Impairment	-	-	(1,065,794)	(817,416)	(1,760,760)	(224,194)	(19,224)	(3,887,388)
Modification of lease	-	-	-	-	(1,601,410)	-	-	(1,601,410)
Effect of movement in exchange rates	4,164	6,513	35,509	38,485	93,873	8,972	(4,481)	183,035
Balance at July 31, 2020	**218,041**	**341,039**	**681,561**	**515,301**	**1,011,302**	**238,440**	**-**	**3,005,684**
Additions	-	-	-	62,480	-	-	-	62,480
Reclassification of Investment property	156,199	949,696	462,792	-	-	-	-	1,568,687
Disposals	-	-	-	(61,455)	-	(228,881)	-	(290,336)
Effect of movement in exchange rates	(13,820)	(19,755)	(42,205)	(30,951)	(70,785)	(9,559)	-	(187,075)
Balance at July 31, 2021	**360,420**	**1,270,980**	**1,102,148**	**485,375**	**940,517**	**-**	**-**	**4,159,440**

Accumulated Depreciation	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Vehicles	Furniture and Equipment	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, July 31, 2019	**-**	**10,985**	**347,310**	**532,994**	**-**	**45,242**	**6,681**	**943,212**
Reclassification of equipment under sales an	-	-	-	(339,032)	339,032	**-**	**-**	-
Additions	-	13,009	473,709	155,090	1,198,433	90,665	6,678	1,937,584
Impairment	-	-	(718,608)	(203,997)	(752,978)	(136,987)	(13,526)	(1,826,096)
Modification of lease	-	-	-	-	(335,084)	-	-	(335,084)
Effect of movement in exchange rates	-	159	7,873	3,655	4,305	1,080	167	17,239
Balance, July 31, 2020	**-**	**24,153**	**110,284**	**148,710**	**453,708**	**-**	**-**	**736,855**
Additions	-	11,835	50,277	51,440	258,347	-	-	371,899
Reclassification of Investment property	-	217,748	185,656	-	-	-	-	403,404
Disposals	-	-	-	(7,414)	-	-	-	(7,414)
Effect of movement in exchange rates	-	6,113	4,015	(10,529)	(34,517)	-	-	(34,918)
Balance at July 31, 2021	**-**	**259,849**	**350,232**	**182,207**	**677,538**	**-**	**-**	**1,469,826**

Net Book Value	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Vehicles	Office Furniture	Total
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, July 31, 2020	**218,041**	**316,886**	**571,277**	**366,591**	**557,594**	**238,440**	**-**	**2,268,829**
Balance at July 31, 2021	**360,420**	**1,011,131**	**751,916**	**303,168**	**262,979**	**-**	**-**	**2,689,614**

With the acquisition of Palo Verde, which is a wholly owned subsidiary, the Company does not charge rental revenue to a third party for the Pueblo property and as a result, has moved the investment property to Capital assets.

As at July 31, 2021, ROU assets totaling $262,979 (July 31, 2020 - $557,594) were comprised of leased equipment.

(Expressed in Canadian Dollars)

11. Accounts payable and accrued liabilities

The breakdown of the accounts payable is as follows:

	July 31, 2021	July 31, 2020
	$	$
Other payable and accrued liabilities	**4,629,388**	6,074,903
Excise tax payable	**10,824**	3,162,359
Trade accounts payable	**55,000**	3,828,355
Payroll tax payable	**-**	355,811
Total	**4,695,212**	13,421,428

12. Promissory note payable

Pueblo, Colorado

On April 18, 2018, the Company amended the refinancing arrangement of its Pueblo, Colorado property in the amount of US$800,000 entered initially in April 2016, and amended in April 2017, to extend for an additional twelve months to April 18, 2019. As consideration for the extension, the Company paid the lender a renewal fee of $20,182 (US$16,000), issued 37,500 warrants at an exercise price of $14 per share, expiring on October 18, 2019, valued at $167,942 and extended the expiry of the previously issued 166,667 warrants and 50,000 warrants to October 18, 2019.

On April 18, 2019, the Company amended the terms of the loan to extend US$400,000 of the loan, for an additional 6 months to October 18, 2019 for an extension fee of $16,108 (US$12,000), bearing interest at 16% per annum payable monthly and to extend the remaining US$400,000 of the loan, for 30 days along with a fee of US$40,000. During the year ended July 31, 2020, the Company recorded accretion expense of $Nil (2019 - $118,851) which was included within finance costs.

During the year ended July 31, 2020, the Company repaid the principal balance of US$100,000 in principal along with interest of US$14,400 and penalties of US$14,433. The remaining principal balance of US$300,000 was sold by the lender to Adam Szweras, director of the Company ("Adam Szweras"), and was applied towards his subscription of convertible debentures.

Psychedelic Sciences Corp.

On July 20, 2020, the Company received a $200,000 loan from Psychedelic Sciences Corp (“PSC”). The loan was advanced in anticipation of the acquisition of PSC which took place on August 17, 2020. The loan bore interest at 8% per annum and was unsecured and due on demand. Upon the purchase of PSC, the loan was repaid in full.

	July 31, 2021	July 31, 2020
	$	**$**
Opening balance	**200,000**	525,920
Repayment of principal	**(200,000)**	(131,480)
Exchanged for convertible debenture (Adam Szweras)	**-**	(394,920)
Issuance of new promissory note	**-**	200,000
Finance costs	**-**	38,367
Interest paid	**-**	(19,599)
Penalties paid	**-**	(18,768)
Effect of movement in exchange rates	**-**	480
Ending balance	**-**	200,000

13. Lease liabilities

Equipment lease

On July 26, 2018, pursuant to the acquisition of Pasa Verde (Note 3), the Company entered into a lease agreement for extraction equipment for US$26,573 per month until June 29, 2021. In January 2021, the extraction equipment associated with this lease agreement was returned to the leasing company.

As at July 31, 2021, outstanding lease payments including interest and legal expenses amounting to $452,308 (US$361,009) were recorded in accounts payable and accrued liabilities. (See Note 22 regarding litigation regarding this lease).

Sales and leaseback arrangement

On August 1, 2018, the Company entered into an equipment sale leaseback line of credit agreement (the "sale and leaseback agreement") with ASC Lease Income LLC and Veterans ("ASC" and "Veterans", respectively) for up to US$2,000,000 for a three-year term with fixed monthly lease rental payments. The Company may extend the lease term for a minimum of twelve months. At the end of the lease term, the Company has the option to purchase all equipment for the then fair market value which shall not exceed 20% of the cost.

At the inception of the respective leases under the sale and leaseback arrangement, the Company sold equipment with a total carrying value of US$1,395,482 and drew down a total of US$1,550,104 from the equipment line of credit, resulting in a deferred gain on sale and leaseback of US$154,622. The deferred gain is amortized over the term of the respective leases. As at July 31, 2021, the deferred gain on sale leaseback amount to $25,487 (US$20,343) (July 31, 2020 - $96,352 (US$71,883)).

As at July 31, 2020, the Company has drawn down a total of $2,077,759 (US$1,550,104) from the equipment sale leaseback line of credit. Since the inception of the sales leaseback agreement, the Company issued a total of 27,680 common share purchase warrants to the lender. Each warrant entitles the lender to purchase one common share at a price of $14 per share for a period of 24 months from the date of issuance.

The Company entered into a settlement agreement with ASC on July 15, 2021 which resulted the outstanding balance of US$103,036 being settled at as follows, two US$25,000 payments to be made by July 31, 2021 (paid) and August 31, 2021 (paid subsequent to year end). The Company will also issue a US$40,000 3-year convertible debenture which is convertible into common shares at any time at the option of ASC at a conversion price equal to the greater of 135% of the average closing price of the common shares on the Canadian Stock Exchange for the 10 trading days preceding September 1, 2021, the debenture shall bear interest at 12% per annum payable upon maturity. (See Subsequent event note 29 for additional details).

The Company is working to settle the Veterans amounts outstanding.

As at July 31, 2021, outstanding lease payments due on this arrangement amounted to $646,845 (US$516,278) were recorded in accounts payable and accrued liabilities (July 31, 2020 - $245,237 (US $182,958)).

During the year ended July 31, 2021, the Company has paid $68,400 (US $53,742) in interest expense associated with delinquent lease payments (2020 - $50,345 (US $36,100).

Facility Lease

Sacramento, California

On May 8, 2017, the Company entered into an agreement to lease the facility in Sacramento, California for US$17,600 per month for the period from June 1, 2017 to May 31, 2020. Pursuant to the agreement, the monthly lease payment was to increase by 3% each year.

On February 22, 2018, the Company exercised its option to extend the lease for additional five years to May 31, 2025, whereby the monthly lease payment would increase by 3% each year.

On May 13, 2020, the Company entered into an amended agreement with the lessor, whereby the Company would lease the premise on a month-to-month basis effective June 1, 2020. Pursuant to the amended agreement, the Company would pay US$5,000 (paid) and US$13,672 by September 1, 2020, and the security deposit of US$176,000 would be applied against the May 2020 lease obligation. As a result of the amended agreement, the Company derecognized the remaining lease liability of $1,350,876 (US$1,003,474) and ROU asset of $1,247,058 (US$926,354), resulting in a gain on modification of lease of $103,818 (US$77,120).

As at July 31, 2020, outstanding lease payments amounting to $18,326 (US$13,672) were recorded in accounts payable and accrued liabilities.

Roland Way, Oakland, California

On September 15, 2017, the Company entered into an agreement to lease the facility in Roland Way, Oakland, California for US$4,760 per month for the period from October 9, 2017 to October 31, 2020. Lease payments were to increase 3% each year during the term of the lease.

On June 18, 2020, the Company has terminated the lease agreement and entered into a Debt Conversion Agreement to settle all outstanding lease payments through payment of US$5,000 (paid subsequent to year end) and issuance of 70,290 units (issued durong the year ended July 31, 2021). Each unit is comprised of one common share and one warrant, with each warrant exercisable to purchase one common share at $1 per common share until December 31, 2020. As a result of the termination of lease agreement, the Company derecognized the remaining lease liability of $20,126 (US$14,950) and ROU asset of $19,268 (US$14,313), resulting in a gain of modification of lease of $858 (US$637).

As at July 31, 2020, outstanding lease payments amounting to $40,613 (US$30,299) were recorded in accounts payable and accrued liabilities.

Pendleton Way, Oakland, California

On September 7, 2018, the Company entered into an agreement to lease the facility located in Pendleton Way, Oakland, California for the period from September 15, 2018 to September 14, 2021. Pursuant to the agreement, monthly lease payment amount to US$11,874 and will increase to $12,468 effective September 15, 2021. The Company has an option to renew the lease agreement for additional two years for an increase in lease payments of 5% each year. As at July 31, 2021, the Company has not exercised this option.

Chatsworth, California

On July 12, 2019, the Company entered into an agreement to lease the facility located in Chatsworth, California (“Chatsworth facility”) for the period from July 1, 2019 to June 30, 2022. Pursuant to the agreement, monthly lease payments were US$11,650 commencing July 1, 2019, US$13,250 commencing October 1, 2019 and 3% increase in lease payments commencing in each of July 1, 2020 and July 1, 2021.

On July 12, 2019, the Company entered into an agreement with Hannah Ashby (“Ashby”) to sublease a portion of the Chatsworth facility for US$1,571 per month until June 30, 2022. During the year ended July 31, 2020, the sublease receivable from Ashby was estimated to be uncollectible, and the net investment in sublease of $46,755 (US$34,731) was written off to profit and loss.

As at July 31, 2020, outstanding lease payments amounting to $71,041 (US$53,000) were recorded in accounts payable and accrued liabilities (July 31, 2019 - $Nil (US$Nil)). The adoption of IFRS 16 on August 1, 2019 has resulted in the recognition of lease liabilities, ROU assets and net investment in sublease associated with the facility leases above. The lease liabilities were measured at the present value of the lease payments, discounted using the Company’s weighted average incremental borrowing rate of approximately 8%.

On the sale of Calyx during the year ended July 31, 2021, lease liability amounting to $562,134 was eliminated in respect of the outstanding liability for Sacramento (California), Roland Way (Oakland, California), Pendleton Way (Oakland, California) and Chatsworth (California).

(Expressed in Canadian Dollars)

The breakdown of lease liabilities is as follows:

	$
Balance July, 2019	**2,269,298**
Adoption of IFRS 16	**2,484,074**
Lease Payments	**(1,351,736)**
Lease payments in accounts payable	**(660,168)**
Accretion	**478,695**
Gain on modificaiton of lease	**(1,371,002)**
Effect of movemnet in exchange rates	**101,545**
Balance July 31, 2020	**1,950,706**
Accounts payable write off	**(31,918)**
Gain on settlement of lease	**(499,095)**
Leased asset sold	**(562,134)**
Cash Paid	**(31,323)**
Effect of movement in exchange rates	**(127,696)**
Balance July 31, 2021	**698,540**
Currrent Portion	**698,540**

Future minimum lease payments payable are as follows

	July 31, 2021	July 31, 2020
	$	$
Less than 1 year	**698,540**	1,657,724
1-5 years	**-**	486,068
More than 5 years	**-**	-
Total future minimum lease payments	**698,540**	2,143,792
Less: amount representing interest	**-**	(193,086)
Present value of minimum lease payments	**698,540**	1,950,706
Less: current portion	**(698,540)**	(1,482,352)
Non-Current portion	**-**	**468,354**

(Expressed in Canadian Dollars)

The breakdown of net investment in sublease is as follows:

	$
Balance as at July 31, 2019	-
Adoption of IFRS 16	**65,907**
Sublease income in accounts receivable	**(25,376)**
Interest income	**4,649**
Impairment	**(46,755)**
Effect of movement in exchange rate	**1,575**
Balance July 31, 2020 and 2021	-

The breakdown of deferred gain on sale and leaseback is as follows:

	$
Balance as at July 31, 2019	**162,278**
Amortization	**(69,384)**
Effect of movement in exchange rate	**3,458**
Balance July 31, 2020	**96,352**
Amortization	**(63,318)**
Effect of movement in exchange rate	**(7,547)**
Balance July 31, 2021	**25,487**

14. Convertible debentures

March 2018 convertible debentures (forced Conversion October 2020)

On March 15, 2018, the Company issued 8,000 Convertible Debenture Units ("**March 2018 Debentures**") for gross proceeds of $8,000,000. The March 2018 Debentures matured on March 15, 2021, were unsecured, bore semiannual interest at 10% and were convertible into common shares at a conversion price of $12 per share.

Each $1,000 principal amount of the March 2018 Debentures issued included 83 common share purchase warrants of the Company. Each warrant is exercisable to acquire one common share of the Company for a period of 36 months following closing at an exercise price of $14 per share.

Beginning July 16, 2018, the Company may force the conversion of all the principal amount of the then outstanding debentures at the conversion price on not less than 30 days' notice should the daily volume weighted average trading price of the common shares be greater than $24 for any 20 consecutive trading days.

The Company paid cash fees of $947,956 and issued an additional 190 Units. In addition, the Agents received 53,333 warrant units ("Agents' Units"). Each Agents' Unit is exercisable into one Agents' Unit at a price of $12 per Agents' Unit. Each Agents' Unit consists of one common share and one warrant. Each warrant is exercisable for a period of 2 years following Closing at an exercise price of $14 per share.

The convertible debentures are considered compound financial instruments. On initial recognition, the residual value method was used to allocate the fair value of the debt and equity components. The fair value of the liability was calculated as $6,406,521 using a discount rate of 20%. The residual proceeds of $1,783,479 were allocated between warrants and conversion option on a pro-rata basis relative to their fair values. Total transaction costs of $1,866,327 have been allocated proportionately to the equity and liability components.

Certain terms of the convertible debentures were amended on December 30, 2019 as follows:

1. A reduction in the conversion price from $12 to $3 until maturity of the debentures; and
2. The Company is authorized to pay the interest due on the debentures in cash at the existing rate of 10% per annum, or through the issuance of its common shares at a rate of 14% per annum, at the sole discretion of the Company. Such issuance of common shares will be set at a price which is equal to the weighted average closing price for the common shares during the twenty (20) trading day period ending on the last complete trading day, five (5) days prior to the date upon which interest is due on the debentures.

As a result of the amendment, the Company recognized a gain on modification of convertible debentures during the year ended July 31, 2020 in the amount of $307,529.

On October 8, 2020, the Company further amended the terms of the March 2018 convertible debentures to include the following:

I. The conversion price to decrease from $3 to $0.40
II. The Company may force conversion of the convertible debentures subject to providing 15 days notice: and
III. 50% of the common shares issued upon forced conversion will be placed in a 6-monht hold.

During the period ended October 31, 2020 and prior to October 28, 2020 (the date which the March 2018 convertible debentures were forced to convert), holders of the March 2018 convertible debentures converted a combined total of $1,910,000 in principle, resulting in the issuance of 4,775,000 common shares. In connection with the conversion, the Company issued 217,876 shares for $87,912 of interest. These shares are subject to a 4-month hold.

On October 28, 2020, the Company exercised its force conversion right with respect to the conversion of the remaining $5,673,000 convertible debentures into 14,182,500 common shares, of which 7,091,250 common shares were issued immediately and the remaining 7,091,250 common shares were subject to a hold. In connection with the conversions, 652,833 common shares for $261,113 of interest were issued, the shares issued for interest are subject to a 4-month hold.

On February 19, 2021 the Company announced that the Company has elected to release the remaining shares associated with the conversion of the March 2018 Debentures described in the Company's management information circular dated September 17, 2020. As a result, all of the remaining 7,091,250 shares were issued on February 25, 2021 without trading restriction.

August 2018 convertible debentures

On August 3, 2018, the Company issued 4,200 convertible debenture units ("**August 2018 Debentures**") for aggregate proceeds of $4,200,000. The August 2018 Debentures mature on August 3, 2021, are secured, bear semiannual interest at 10% and are convertible into common shares at a conversion price of $12 per share. The convertible debentures are secured by the assets of the Company and its subsidiaries, subject to subordination in certain situations.

Each $1,000 principal amount of the August 2018 Debentures issued included 71 common share purchase warrants of the Company. Each warrant is exercisable to acquire one common share of the Company for a period of 36 months following Closing at an exercise price of $16 per share.

The interest is payable in cash or by issuing common shares against the amount due at the sole option of the Company. If the Company elects to issue the common shares as interest payment, the price per common share shall equal the 20-day volume-weighted average price (VWAP), and the effective interest rate shall be increased to 12% from 10%.

The convertible debentures are secured by the assets of the Company and its subsidiaries, subject to subordination in certain situations. The Company paid finder's a cash commission of $336,000, of which $42,000 was paid to FMI Capital Advisory Inc., a related party (Note 21). Additionally, the Company issued 24,000 finder's options, valued at $162,696, to acquire finder units exercisable at a price of $14 per Finder Unit for a term of 24 months following the closing date. Each Finder Unit will be comprised of one common share and one Finder Warrant, with each Finder Unit Warrant entitling the holder to acquire one additional common share at $16 per common share.

If the Company undertakes an equity financing or financing convertible or exchangeable into equity at a price per common share of less than $9 per common share while the convertible debentures are outstanding, the conversion price of the convertible debentures will be reduced to the new financing price and the warrant exercise price will be reduced to a price that is 20% premium to the new financing price, subject to compliance with applicable securities laws and stock exchange rules.

Further, if the common shares trade at a VWAP under $5 for a period of 50 consecutive trading days while the convertible debentures are outstanding, the conversion price shall be reduced to $6. In accordance with IFRS, the conversion feature of the convertible debenture and warrants meet the definition of a derivative liability as certain events will result in adjustment to the conversion price.

Consequently, on issuance, the convertible debentures were split amongst the financial liability, the conversion feature, and warrants. The financial liability portion was determined by subtracting issuance costs and the fair value of the conversion feature and warrants from the principal of the debentures. The fair value of the equity conversion feature and warrants were calculated using the Black-Scholes pricing model and are re-measured each reporting period with changes between periods recognized in the consolidated statements of loss and comprehensive loss. Expected volatility used is based on the Company's share price volatility over the relevant period to expiry. The financial liability portion is measured at amortized cost and accreted such that the carrying amount of the convertible debentures will equal the face value of the convertible debenture at maturity.

On November 18, 2020 the Company amended the terms of the August 2018 convertible debentures to include the following:

I. The term of the convertible debentures will be extended by one year to August 3, 2022
II. All interest owing up to the original maturity date will be added to the principal amount of the convertible debentures further interest will be accrued thereafter; and
III. Any conversion to common shares will not be permitted to the extent that such conversion would result in a holder of the convertible debentures becoming a shareholder holding more than 9.99% of the issued and outstanding common shares in the capital of the Company

On initial recognition, the fair value of the derivative liability components was valued first at $2,600,979 and the residual of $1,599,021 was allocated to the non-derivative host debenture. Total transaction costs of $691,420 have been allocated proportionately to the derivative liability and debenture components. Transaction costs allocated to the derivative liability of $428,183 was immediately expensed in the statement of loss and comprehensive loss. Changes in the fair value of the derivative liability are recognized at fair value through profit and loss. For the year ended July 31, 2020, the Company recognized an unrealized loss on the change in fair value of the derivative liabilities of $1,566,417 (2019 - $1,177,531).

During the year ended July 31, 2021, the convertible debenture holders have converted a combined total of $340,000 (2020 - $240,000) principal amount of convertible debentures resulting in the issuance of 317,974 (2020 – 217,974) common shares. On conversions, the Company reduced the present value of the liability by $125,069 (2020 - $120,264) and derecognized $17,898 (2020 – $57,920) of the corresponding derivative liability.

For the year ended July 31, 2021, the Company recorded accretion expense on the convertible debentures of $nil (2020 - $1,516,054) and interest expense of $nil (2020 - $473,768) which were included within finance costs. As at July 31, 2021, $nil (2020 - $49,369) of the interest expense was recorded in accounts payable and accrued liabilities.

As of the above noted amendment dated November 18, 2020, interest owing up to the original maturity date has been added to the principal amount of the August 2018 Convertible Debentures and therefore no interest will be paid on these debentures. The resulting principal amount due under the August 2018 Convertible debentures equal $4,730,124. There were 3,782 convertible debenture units that were outstanding as of November 18, 2020.

August 2019 convertible debentures

On August 23, 2019, the Company issued a non-brokered private placement comprised of 1,807 secured convertible debenture units ("**August 2019 Debentures**") for an aggregate principal amount of $1,807,000.

The August 2019 Debentures mature on August 23, 2022, are secured by a security agreement, and are convertible into common shares at a conversion price of $4 per share. The interest is payable in cash or by issuing common shares against the amount due at the sole option of the Company. If the Company elects to issue the common shares as interest payment, the price per common share shall equal the 20-day volume-weighted average price (VWAP), and the effective interest rate shall be increased to 12% from 9%.

Each $1,000 principal amount of the August 2019 Debentures issued included 250 common share purchase warrants of the Company. Each warrant is exercisable to acquire one common share of the Company for a period of 36 months following Closing at an exercise price of $4.80 per share.

In connection with the issuance of the August 2019 Debentures, the Company paid a finder a cash fee of $80,700 and issued 20,175 finder compensation options (each, a "Finder Option"). Each Finder Option entitles the holder to purchase one finder unit (each, a "Finder Unit") consisting of one common share and one warrant of the Company with exercise of $4 per Finder Unit for a period of 24 months from the date of issuance. Each warrant is exercisable into a common share of the Company at a price of $4.80 for 36 months from the date of issuance. The fair value of $83,534 was assigned to the finder warrants using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield of 0%, volatility of 123.07%, risk-free rate of 1.32% and maturity of 3 years.

For accounting purposes, the convertible debentures are considered compound financial instruments and the proceeds are required to be separated into their liability and equity components. The Company first valued the debt component of the debentures by calculating the present value of the principal, discounted at a rate of 20%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. On recognition, the fair value of the liability was calculated as $1,357,626.

Of the residual proceeds of $449,374, $204,055 was allocated to the equity component and the remainder to the warrant component on a pro-rata basis relative to their fair values. Total transaction costs of $199,672 have been allocated proportionately to the equity and liability components.

The Company issued common shares for the December 2020 interest payments of $81,983 (363,081 shares) and for the June 2020 interest payments of $81,092 (122,127 shares). (Note 15).

For the year ended July 31, 2021, the Company recorded accretion expense on the convertible debentures of $260,501, which was included within finance costs of which $121,972 was outstanding in accounts payable and accrued liabilities as at July 31, 2021.

2020 secured convertible debentures

On March 23, 2020, the Company closed the first tranche of secured convertible debenture units ("**2020 Debentures"**) by issuing a total of 853 secured convertible debenture units for gross proceeds of $852,678.

On May 29, 2020, the Company closed the second tranche of the convertible debenture by issuing a total of 272 secured 2020 Debentures for gross proceeds of $272,000.

Each convertible debenture consists of a $1,000 principal amount. At the Company's election, interest on the convertible debentures can be paid in either cash or common shares of the Company at a rate of 12% payable semi-annually. At the option of the lenders, the convertible debentures are convertible into common shares at a price of $1 per common share at any time prior to maturity.

Each $1,000 principal amount of the 2020 Debentures issued included 1,000 common share purchase warrants of the Company. Each warrant is exercisable into a common share of the Company at a price of $1 per common share for 36 months from the date of issuance. These warrants were accounted for as transaction costs, with its value allocated proportionately to the equity and liability components.

For accounting purposes, the convertible debentures are considered compound financial instruments and the proceeds are required to be separated into their liability and equity components. On initial recognition, the Company valued the debt component of the debentures by calculating the present value of the principal, discounted at a rate of 20%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. The residual value was allocated to the equity component.

The fair value of each liability component was calculated as $456,373 for the first tranche and $150,159 for the second tranche. The residual values allocated to the equity components were $184,798 and $49,172 for the first and second tranches, respectively.

A total of 852,678 and 272,000 warrants were issued for each of the first and second tranches, respectively (Note 17). Fair values of $211,507 and $72,669 were assigned to each issuance using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield of 0%, volatility of 132.02%-141.76%, risk-free rate of 0.48%-0.26% and maturity of 3 years.

The Company issued common shares for the December 2020 interest payments of $89,306 (426,960 shares). The Company issued common shares for the June 2021 interest payments of $147,573 (426,511 shares)

For the year ended July 31, 2021, the Company recorded accretion expense on the convertible debentures of $40,161 (2020 - $46,418), which was included within finance costs and interest expense of $21,700 (2020 - $42,092) was outstanding in accounts payable and accrued liabilities (Note 11).

The convertible debentures are secured by a senior lien on the Company's property located in Pueblo, Colorado ("Pueblo Property"). The Company has the option increase the mortgage amount and grant pari-passu position to the Note, provided that the loan to value ratio on the Pueblo Property does not exceed a certain threshold. The Company also has the option to assume additional debts ("Subordinate Debts") secured by the assets that underlie the Secured Note, as long as such obligations are subordinate to the Secured Note.

High Pita Debenture (March 2021)

On March 11, 2021, the Company closed the purchase agreement of Palo Verde LLC in exchange of outstanding debts. The Company assumed a loan from High-Pita in the amount of US$200,000 that was payable by Palo Verde.

On March 22, 2021 the Company converted the High Pita debt into a convertible debenture ("**2021 High Pita Debentures"**) valued at $250,000. The Debenture was issued for a three-year period with a maturity date of March 21, 2024, bearing semi-annual interest at 12% annual, which will be convertible into common shares at a conversion price of $1 per share.

For the year ended July 31, 2021, the Company recorded accretion expense of the convertible debentures of $10,772 (2020 - $nil), which was included within finance costs and interest expense of $nil (2020 - $nil) was outstanding in accounts payable and accrued liabilities (refer to Note 11).

The debenture has been recorded at a present value of $247,882 with residual equity component of $2,118 that is allocated over the life of the debenture.

(Expressed in Canadian Dollars)

This convertible debenture is not secured by the assets of the Company or its subsidiaries. The convertible debenture contains conversion privileges that are equal to ($250,000 / $1) 250,000 common shares at maturity.

The following is a summary of the convertible debenture liability:

	July 31, 2021	July 31, 2020
	$	$
Balance, beginning of year	**10,700,626**	7,547,996
Issuance of convertible debentures	**250,000**	2,931,678
Conversion of principal debenture	**(5,673,000)**	(550,000)
Unamortized present value discount and transaction costs	**(671,504)**	(1,117,537)
Discount amortized	**1,851,378**	2,196,018
Gain (Loss) on modification of debt	**167,837**	(307,529)
Balance, end of year	**6,625,337**	10,700,626
Less: Current portion	**-**	6,279,820
Non-current portion	**6,625,337**	4,420,806

The Company used the Black-Scholes valuation model to estimate the fair value of the derivative liabilities upon the initial measurement and as at July 31, 2021 and 2020 using the following assumptions:

	July 31, 2021	**July 31, 2020**
Risk-free interest rate	**0.45%-0.50%**	1.55%-1.85%
Expected dividend yield	**0%**	0%
Expected stock price volatility	**117-154%**	117-154%
Expected life of debentures	**1.2-3 years**	0.5-1.5 years
Forfeiture rate	**0%**	0%

(Expressed in Canadian Dollars)

15. Share capital

The Company is authorized to issue an unlimited number of common shares without par value.

	Number of Shares	Amount
Balance, July 31, 2019	**17,759,932**	**$34,022,041**
Issued on cashless exercise of warrants (iv)	100,000	1,282,711
Shares issued pursuant to Moses Garden acquisition (i)	216,586	659,050
Shares for debt settlements (ii)(iii)	93,212	247,065
Issued for services (x)	20,089	23,447
Shares issued as interest payment on convertible debentures (vi)(vii)	2,257,302	1,685,689
Shares issued on conversion of debentures (viii)(ix)	315,048	441,110
Issued on exercise of RSUs (xi)	100,000	60,000
Balance, July 31, 2020	**20,862,169**	**38,421,113**
Shares issued for settlement of accounts payable debt (iii)	2,212,679	1,098,044
Shares issued on acquistion of PSC (ii)	6,876,148	4,125,689
Shares issued of interet paid on convertible debentures (v)	2,087,250	587,237
Shares issued from conversion of convertible debentures (v)	4,875,000	646,721
Shares issued on forced conversion of convertible debentures (iv)	14,182,500	5,673,000
Shares issued on exercise of RSUs	150,000	75,000
Shares issued for acquistion of Palo Verde (i)	100,000	40,000
Balance, July 31, 2021	**51,345,746**	**$50,666,804**

Year ended July 31, 2021

(i) Palo Verde acquisition and the assignment of the 3rd party debt from High Pita 100,000 common shares in the capital of NHII were issued (See Note 3).

(ii) Psychedelic Science Corp. ("PSC") acquisition (See Note 3).

(iii) On August 5, 2020 the Company settled accounts payable debt with the issuance of common shares.On August 5, 2020, the Company entered into settlement agreements with trade creditors and related parties representing $1,106,340 to convert such amounts owed into 2,212,679 units at a deemed price of $0.50 per unit. Each unit is comprised of one common share and one warrant, with each warrant entitling the holder to acquire one common share of the Company at any time on or before December 31, 2020 at a price of $1.00 per common share. These units were issued on August 5, 2020 and all the attached warrants expired unexercised.

(iv) Convertible debenture coversion and forced conversion (See Note 14).

(v) Interest on convertible debentures (See Note 14).

Year ended July 31, 2020

(i) On September 11, 2019, the Company issued 216,585 common shares to Moses Garden LLC, valued at $659,050 representing the final consideration of assets acquisition completed on January 3, 2019. The common shares were valued using the Company's share price on the date of issuance.

(ii) On September 16, 2019, the Company issued 46,067 common shares to settle outstanding debt owing to vendors in the amount of $184,275. A gain of $64,496 was recognized on the settlement of this debt. The 46,067 common shares were valued at $119,779 based on the share price on the date of issuance.

(iii) On October 16, 2019, the Company issued 47,142 common shares to a third party pursuant to a settlement agreement entered on September 4, 2019. A gain of $4,726 was recognized on the settlement of $132,012 (US$100,000). The 47,142 common shares were valued at $127,286 based on the share price on the date of issuance.

(iv) On September 19, 2019 the Company issued 100,000 shares through the cashless exercise of warrants. As a result of the cashless exercise of warrants, the fair value of the warrants of $1,282,712 was reclassified from reserves to share capital.

(v) On October 16, 2019, the Company issued 52,500 common shares valued at $116,028 to Golden Triangle Health Company Ltd. ("Golden Triangle") as consideration of entering into a five-year binding framework agreement to manufacture and distribute branded products in North America with Golden Triangle. These shares were subsequently cancelled prior to yearend and returned to treasury.

(vi) The Company issued a total of 1,000,168 commons shares valued at $853,568 to the holders of the March 2018, August 2018, and August 2019 convertible debentures in December 2019, representing the December 2019 interest payment.

(vii) The Company issued a total of 1,257,133 commons shares valued at $832,121 to the holders of the March 2018, August 2018, and August 2019 convertible debentures in July 2019, representing the June 2020 interest payment.

(viii) During the year ended July 31, 2020, the March 2018 convertible debentures of $310,000 (Note 14) were converted to 97,083 common shares.

(ix) During the year ended July 31, 2020, August 2018 convertible debentures of $240,000 (Note 14) were converted to 217,974. common shares.

(x) On April 21, 2020 the Company issued 20,088 common shares valued at $22,340 to KW Partners as consideration for services provided.

(xi) On July 20, 2020 the Company issued 100,000 common shares valued at $60,000 on the exercise of RSU agreement with Robert Wilson, CFO (Note 16).

(Expressed in Canadian Dollars)

16. Reserve for share based payments

	Amount
Balance, July 31, 2019	**$3,358,075**
Options granted	990,283
Options forfeited	(167,465)
RSUs granted	470,370
RSUs exercised	(60,000)
Balance, July 31, 2020	**$4,591,263**
Options granted	1,014,795
RSUs exercised	(75,000)
Balance, July 31, 2021	**$5,531,058**

Options

The Company has an incentive stock option plan (the "Option Plan") whereby non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees, and consultants of the Company. The Option Plan provides the issuance of up to 10% of the total issued and outstanding common shares less the number of common shares reserved for issuance of RSUs.

The following is a summary of outstanding stock options for the year ended July 31, 2021 and 2020:

	Number of Options
Balance, July 31, 2019	**919,376**
Options granted (i)(ii)	510,000
Options forfeited	(630,376)
Options expired	(70,000)
Balance, July 31, 2020	**729,000**
Options granted (i)(ii)	-
Options forfeited	(161,500)
Options expired	(72,500)
Balance, July 31, 2021	**495,000**

Year ended July 31, 2020

i. On August 12, 2019, 485,000 options valued at $853,734 were granted to directors, officers, employees, and consultants of the Company. The options are exercisable into common shares of the Company at a price of $4 per common share for a period of 5 years from the date of issuance. The options vest one-third every six months from the date of issuance.

ii. On October 12, 2019, 25,000 options valued at $35,166 were granted to an employee of the Company. The options are exercisable into common shares of the Company at a price of $4 per common share for a period of 5 years, vesting every four months over 18 months until fully vested.

In connection to the options granted to employees, directors and consultants during the year ended July 31, 2020, the fair value of services received cannot be estimated reliably, thus the fair value of the options has been measured using the Black-Scholes option pricing model which used the fair value of common shares of the Company as a reference on grant date.

(Expressed in Canadian Dollars)

The estimated fair value of options granted during the years ended July 31, 2020 and 2019 were determined using the Black-Scholes option pricing model with the following assumptions:

	July 31, 2021	July 31, 2020
Risk-free interest rate	**0.45%-0.50%**	1.20%-1.53%
Expected dividend yield	**0%**	0%
Expected stock price volatility	**126%-136%**	126%-128%
Expected life of options	**5 years**	5 years
Forefeiture rate	**0%**	0%

Option pricing models require the input of highly subjective assumptions and changes in the input assumptions can materially affect the fair value estimated. Expected volatility is based on the historical volatility of the Company where sufficient historical data exists or that of other companies that the Company considers comparable. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the zero-coupon government of Canada bonds with a remaining term equal to the expected life of the options.

As at July 31, 2021, the following stock options were outstanding:

Expiry Date	Exercise Price	Number of Outstanding	Number of Exercisable
October 17, 2021	$2.70	55,000	65,000
April 17, 2022	$3.00	120,000	120,000
April 17, 2022	$3.00	45,000	80,000
May 8, 2023	$7.20	100,000	120,000
August 12, 2024	$4.00	175,000	78,333
		495,000	**463,333**

As at July 31, 2021, the weighted average exercise price of options exercisable was $4.22 (July 31, 2020 - $4.40), the weighted average exercise price of options outstanding was $4.17 (July 31, 2020 - $4.40) and the weighted average remaining contractual life of stock options was 1.29 years (July 31, 2020 - 2.56 years). For the year ended July 31, 2021 the weighted average exercise price of stock options exercised was $Nil (2019 - $Nil).

Subsequent to year end, the stock options granted on October 17, 2021 expired unexercised.

Restricted Share Units

On July 11, 2018, the Board resolved the Restricted Share Unit Plan (the "RSU Plan"), whereby RSUs may be granted to directors, officers, employees, or consultants at the discretion of the Board of Directors. An RSU is a unit representing the right to one common share of the Company upon vesting and redeemable in common share or cash equal to the vesting date value, at the option of the Company. The maximum number of RSUs granted must not exceed 5% of the total issued and outstanding common shares.

The fair value of the RSUs awarded shall be calculated at the closing market price on the CSE of the common shares on the date of the grant. The fair value is expensed over the vesting period, as established from time to time by the Board of Directors.

(Expressed in Canadian Dollars)

The following is a summary of the RSUs outstanding for the year ended July 31, 2021 and 2020:

	Number of RSUs	Grant date fair value
Balance, July 31, 2019	-	**$ -**
RSUs granted	848,487	$ 1.600
RSUs exercised	(100,000)	$ 0.600
RSUs cancelled	(139,155)	$ 3.200
Balance, July 31, 2020	**609,332**	**$ 1.600**
RSUs granted	2,150,000	$ 0.400
RSUs exercised	(150,000)	$ 0.400
RSUs cancelled	-	$ -
Balance, July 31, 2021	**2,609,332**	**$ 0.680**

17. Reserve for warrants

The following table reflects the continuity of warrants:

	Number of Warrants	Amount
Balance, July 31, 2019	**2,894,933**	**$4,101,867**
Warrants issued pursuant to convertible debenture (Note 14)	1,596,604	563,374
Warrants exercised	(166,667)	(1,282,711)
Warrants expired	(823,470)	-
Balance, July 31, 2020	**3,501,400**	**$3,382,530**
Warrants issued to PSC Shareholders	6,876,148	2,776,860
Broker warrants	150,092	-
AP conversion warrants	2,212,679	344,709
Warrants issued to High Pita Debt holders	200,000	73,302
Warrants expired	(2,266,844)	-
Warrants exercised	-	-
Balance, July 31, 2021	**10,673,475**	**$6,577,401**

The estimated fair value of warrants issued during the year ended July 31, 2021 and year ended July 31, 2020 was determined using the Black-Scholes option pricing model with the following assumptions:

	July 31, 2021	July 31, 2020
Risk-free interest rate	**0.43%**	0.68%
Expected dividend yield	**0%**	0%
Expected stock price volatility	**230%**	131%
Expected life of warrants	**1.29 years**	3 years

(Expressed in Canadian Dollars)

As at July 31, 2021, the following warrants were outstanding:

Expiry Date	**Exercise Price**	**Number of Warrants Outstanding and Exercisable**
August 3, 2021	$6.40	306,763
January 24, 2022	$14.00	6,617
May 29, 2022	$6.00	1,289,350
May 29, 2022	$4.00	101,693
May 29, 2022	$6.00	149,783
July 24, 2022	$4.00	3,100
August 22, 2022	$4.80	465,250
March 31, 2023	$1.00	852,678
May 8, 2023	$1.00	272,000
June 3 2022	$1.00	5,000,000
July 16 2022	$1.00	651,667
July 16 2022	$0.60	52,133
July 17 2022	$1.00	1,074,482
July 17 2022	$0.60	85,959
July 22 2022	$1.00	150,000
July 23 2022	$0.60	12,000
March 14, 2024	$1.00	200,000
		10,673,475

As at July 31, 2021, the weighted average exercise price of the warrants was $2.02 (July 31, 2020 - $4.40) and the weighted average remaining contractual life of the warrants was 1.04 years (July 31, 2020 – 2.04 years). During the year ended July 31, 2021 the weighted average exercise price of the warrants exercised was $0.616 (July 31, 2020 - $1.20).

18. Related parties and key management

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing, and controlling the activities of an entity, directly or indirectly.

The following is a summary of the related party transactions, including the key management compensation for the years ended July 31, 2021 and July 31, 2020:

a. Incurred professional fees of $45,500 (2020 - $104,164) from Branson Corporate Services ("BCS"). BCS is a company in which Adam Szweras and his wife have a 39% ownership interest. As at July 31, 2021, $78,933 (July 31, 2020 - $140,306) was due to BCS.

b. Incurred fees of $145,560 (2020 - $125,090) from FMI Capital Advisory Inc. ("FMICA"). FMICA is a subsidiary of Foundation Financial Holdings Corp. ("FFHC"), an entity in which Adam Szweras is a director. As at July 31, 2021, $338,330 (July 31, 2020 - $288,869) was due to FMICA.

   In March 2020, FMICA subscribed to the 2020 secured convertible debentures amounting to $89,000 (Note 14).

   FMICA, received an advisory fee in connection with the acquisition of OutCo which was satisfied on September 10, 2021 through the issuance of 1,822,627 common shares in the capital of the Company (refer to Note 29).

c. Incurred marketing expenses of $14,550 (2020 - $172,424) and share-based payments of $Nil (2020 - $25,728) from Plexus Cybermedia Ltd. ("Plexus"), a company in which a director, Brian Presement, has a 33% ownership interest and is director. As at July 31, 2021, $Nil (July 31, 2020 - $176,983) was due to Plexus.

d. Incurred expenses of $3,051 (2020 - $6,992) from Unite Communications Ltd. ("Unite"), a company in which a director, Brian Presement, has a 100% ownership interest. As at July 31, 2021, $4,246 (July 31, 2020 - $7,902) was due to Unite.

e. Incurred professional fees of $90,385 (2020 - $220,650) from Fogler, Rubinoff, LLP ("Fogler"), a law firm in which a director, Adam Szweras, was a former partner. As at July 31, 2021, $43,761 (July 31, 2020 - $346,427) was due to Fogler.

f. Included in professional fees of $67 (2020 - $163,483) fees charged from Johnson, Rovella, Retterer, Rosenthal & Gilles LLP ("JRG"), a law firm in which a director, Aaron Johnson, is a partner. As at July 31, 2021, $67 (July 31, 2020 - $355,015) was due to JRG.

g. Incurred management compensation to key management and directors of $1,234,000 (2020 - $590,617). As at July 31, 2021, $1,311,888 (July 31, 2020 - $366,388) was owed to officers and directors of the Company. Included in shares to be issued was $Nil (July 31, 2020 - $110,000) to be issued to a director of the Company.

h. Included in accounts payable and accrued liabilities as at July 31, 2021 was a total of $182,128 (July 31, 2020 - $174,429) due to Adam Szweras As at July 31, 2021 Adam Szweras had a loan payable of $12,000 plus interest due of $363 at 12%, (July 31, 2020 – Nil).

i. Included in accounts payable and accrued liabilities as at July 31,2021 was a total of $Nil (July 31, 2020 - $3,971) due to Brian Presement.

j. Included in March 2018 convertible debentures are $16,000 and $20,000 of convertible debentures issued to Adam Szweras and Brian Presement, respectively. On October 30, 2020 the Company announced the completion of the conversion of the March 2018 debentures which resulted in Adam Szweras and Brian Presement receiving 40,000 and 50,000 shares respectively.

k. On September 30, 2020, John Durfy, CEO, Robert Wilson, CFO Taif Amhed, Senior Vice President, through their respective holding companies, together with a non-related party entered into an agreement with a creditor to the Company to purchase US$94,255 in debt from the creditor. Such agreement transfers all obligations due by the Company from the creditor to the related parties listed above.

l. Included in August 2019 convertible debentures are $250,000 and $100,000 of convertible debentures issued to Adam Szweras and Brian Presement, respectively.

m. On August 17, 2020 the Company closed the acquisition of Psychedelic Science Corp. A director of the Company, Tom Kruesopon, was a partial owner of Psychedelic Science Corp. As such, the acquisition was considered to be a "related party transaction", as defined by Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions.

n. During the prior year ended July 31, 2020 Restricted Share Units (RSU's) were issued. These have an expiry date of August 12, 2022
    I. Aaron Johnson received 47,960 units
    II. Brian Presement received 47,960 units
    III. Adam Szweras received 106,452 units
    IV. John Durfy received, 250,000 units and
    V. Robert Wilson received and exercised 100,000 units.

o. Included in 2020 convertible debentures were:
   i. $670,678 received from Adam Szweras;
   ii. $25,000 received from a company controlled by Adam Szweras;
   iii. $50,000 received from Brian Presement;
   iv. $79,000 received from John Durfy, CEO;
   v. $13,000 conversion of amount payable to John Durfy; and
   vi. $10,000 conversion of amount payable to Robert Wilson, CFO

p. On August 3, 2020 the Company entered into settlement agreements with trade creditors representing CAD $1,159,936 to convert such amounts owed into 2,212,679 Units at a deemed price of $0.50 per Unit. Each Unit being comprised of one common share and one common share purchase warrant (a "Warrant") with each Warrant entitling the holder to acquire one common share of the Company at any time on or before December 31, 2020 at a price of $1 per share. Included in these trade creditors were related parties as follows:

   I. 140,306 shares issued to BCS, a company in which Adam Szweras and his wife have a 39% ownership interest;
   II. 744,679 shares issued to Johnson, Rovella, Retterer, Rosenthal & Gilles LLP, a law firm in which a director, Aaron Johnson, is a partner;
   III. 7353,965 shares issued to Plexus Cybermedia Ltd., a company in which a director, Brian Presement, has a 33% ownership interest;
   IV. 14,206 shares issued to Unite Communications Ltd., a company in which a director, Brian Presement, has a 100%% ownership interest;
   V. 7,941 shares issued to Brian Presement, Director;
   VI. 200,000 shares issued to FMICA is a subsidiary of FFHC, an entity in which Adam Szweras is a director;
   VII. 382,830 shares issued to Fogler, Rubinoff, LLP, a law firm in which a director, Adam Szweras, is an advisor.

q. During the year ended July 31, 2021 the Board of Directors of the Company approved a share compensation payment for the Board of Directors and the Executive of the Company. The Board approved the issuance of 2,150,000 RSU options as follows subject to approval of the CSE

   i. Aaron Johnson, 75,000 options
   ii. Brian Presement, 112,500 options
   iii. Jason Dyck, 75,000 options
   iv. Billy Morrison, 75,000 options
   v. Tom Kruesopon, 62,500 options
   vi. Adam Szweras, 500,000 options
   vii. John Durfy, 750,000 options
   viii. Rob Wilson, 500,000 options

19. Non-controlling interest

The Company’s 51% interest in Eglinton Medicinal Advisory Ltd. is consolidated into the Company’s consolidated financial statements. The 49% interest attributable to a minority shareholder is presented as “non-controlling interest” within shareholders’ deficiency on the consolidated statements of financial position. For the year ended July 31, 2021, the Company recorded $Nil (2020 - $Nil) of the net loss and comprehensive loss related to Eglinton Medicinal Advisory Ltd.

20. Management of capital

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company, in order to support the development of its planned business activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended July 31, 2021. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be shareholders’ equity surplus/(deficiency), which is comprised of share capital, shares to be issued, reserve for warrants, reserve for share-based payments, reserve for foreign currency translation, equity component of convertible debentures, non-controlling interest, and deficit, which as at July 31, 2021 totaled $6,162,620 (July 31, 2020 - $21,899,403 deficit).

(Expressed in Canadian Dollars)

The Company's objective when managing capital is to obtain adequate levels of funding to support its business activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the development of its business. The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements, initial public offering, issuance of convertible debentures, debt, and sale leaseback transactions. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

21. Financial instruments

Set out below, is a comparison, by category, of the carrying amounts of the Company's Consolidated Statement of Financial Position.

Other than convertible debentures (note 14) and lease liabilities (note 13), the carrying values of all the financial assets and liabilities measured at amortized cost approximate their values as at July 31, 2021 and July 31, 2020.

	Financial Instrument Classifiation	**Carrying Amounts**	
		July 31, 2021	July 31, 2020
Financial Assets			
Cash	FVTPL	**21,268**	243,860
Accounts Receivable	Amortized Cost	**78,054**	2,292,789
Deposits	Amortized Cost	**-**	159,252
Investments	FVTPL	**1,204,321**	45,844
Financial Liabilities			
Accounts Payable & accrued liabilities	Amortized Cost	**4,695,212**	13,421,428
Promissory Note payable	Amortized Cost	**-**	200,000
Lease Liabilities	Amortized Cost	**698,541**	1,950,706
Derivative Liabilities	FVTPL	**1,245,645**	285,572
Convertible Debenture	Amortized Cost	**6,625,337**	10,700,626

Fair value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Investments (note 7) have been classified as Level 1 in the fair value hierarchy as at July 31, 2021 and July 31, 2020.

The derivative liabilities (note 14) have been classified as Level 3 in the fair value hierarchy as at July 31, 2021 and July 31, 2020. The unrealized gains (losses) for the year ended July 31, 2021 were $(960,073) (2020 - $1,566,417)

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to trade receivable. The Company has no other significant concentration of credit risk arising from operations. Cash are held with a reputable credit union which is closely monitored by management. Amounts receivable consists of trade amounts receivable, harmonized sales tax due from the Canadian government, promissory note receivable and other receivable from third parties.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The ability of the Company to continue as a going concern is dependent on its ability to obtain funding, manage cash flows, restructure borrowings, and recover funds loaned to borrowers that have currently been provided against or recover collateral that secured those loans. There is significant uncertainty as to whether the Company will be able to continue as a going concern and therefore, whether it will continue its normal business activities and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. These financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

In the short term, the continued operations of the Company may be dependent upon its ability to obtain additional financing. Without this additional financing, the Company may be unable to meet its obligations as they come due. There can be no certainty that the Company can obtain these funds, in which case any investment in the Company may be lost.

As at July 31, 2021, the Company had working capital deficit of $5,103,172 (July 31, 2020 - $20,563,341 Deficit), current assets of $1,713,508 (July 31, 2020 - $3,101,291) and current liabilities of $6,816,680 (July 31, 2020 - $23,664,632).

Foreign currency exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company enters into foreign currency purchase transactions and has assets and liabilities that are denominated in foreign currencies and thus is exposed to the financial risk fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

An increase (decrease) of 10% in the currency exchange rate of the Canadian dollar versus US dollar would have impacted the Company net loss by $793,000 (July 31, 2020 - $1,060,000) as a result of the Company’s exposure to currency exchange rate fluctuations.

Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt. The Company does not have any variable interest-bearing financial liabilities.

Concentration risk

During the year ended July 31, 2020, line of products produced by one supplier, being Plus Products Inc. (“Plus”), represented approximately 66% of total sales. During the year ended July 31, 2020, the Company ceased to undertake Plus-branded products pursuant to settlement agreement dated December 9, 2019 (Note 22). For the year ended July 31, 2021, a line of product produced for one supplier, being DAB Products, represented approximately 35% of total sales.

(Expressed in Canadian Dollars)

22. Commitments and other contingencies

	Up to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
Lease obligations (1)	1,122,127	-	-	-	1,122,127
Total	1,122,127	-	-	-	1,122,127

(1) Lease obligations (See Note 13) relate to the equipment lease for $361,009USD (inclusive of Legal Fees), the Sales Leaseback arrangements for $103,036 with ASC and $438,279USD with Veterans. The lease obligations are considered current in nature as a result of settlement agreements or pending agreements to settle with the Company's vendors.

Washington lease

In February 2019 the Company, together with the chairman Adam Szweras, entered into a guarantee of a lease agreement between MAKH Properties LLC (the "Lessor") and JBM Enterprises LLC (the "Lessee") which extends to the maturity of the lease in April 2022. As at July 31, 2020, the Lessee was in default under its lease agreement and on November 30, 2020 a legal action was filed against the Company and Adam Szweras in the superior court of Washington State by the Lessor. The action is for outstanding rent of US$122,217. The Company has settled this dispute (see below Litigation).

Settlement with Plus

On December 9, 2019, Calyx entered into a settlement agreement with Carberry, LLC, Plus Products Holdings Inc., and Plus Products Inc. (collectively referred herein as "Plus") to settle certain disputes relating to the service agreement entered between Calyx and Plus on February 1, 2018. Pursuant to the settlement agreement, Plus assumed responsibility for Plus-branded inventory held by Calyx and certain trade receivables and cash balance associated with sales of Plus-branded products. As part of this settlement agreement, Calyx ceased to undertake new sales of Plus-branded products and Plus had agreed to forbear repayment of amount owing to Plus for a period of 180 days. As at the date of the sale of Calyx on November 5, 2020, net outstanding balance due to Plus was transferred to the buyer of the business.

Chatsworth Lease

On May 23, 2019, the Company entered into a non-binding letter of intent ("LOI") with Good Vybes, LLC ("GV") and Hannah Ashby ("Ashby") to provide a Southern California base of operations for Calyx. Ashby holds a temporary distribution license issued by the Bureau of Cannabis Control to operate a cannabis distribution business at a property located in Chatsworth, California ("Chatsworth Licensed Premises") leased by GV. As consideration under the LOI, the Company guaranteed payment under the lease between GV, Ashby and the landlord Starbiz equity Partners. In addition, the Company has funded a portion the completion of the build-out of the Chatsworth Licensed Premises under the LOI. The LOI had also provided for the parties to enter into services and other ancillary agreements. The terms of the LOI were not fulfilled by GV and Ashby and the Definitive Agreements were not completed.

Pursuant to the Calyx Sale Agreement, the Company and DB12 have agreed to cooperate in negotiating and obtaining a settlement and release of all amounts due and owing under the lease agreement with respect to the facility in Chatsworth, California ("Lease Settlement"), wherein the Company is guarantor on the lease. In connection with the Lease Settlement, the Company shall reimburse DB12 for up to US$50,000 of the amounts paid by DB12 in respect of the Lease Settlement, of which US$25,000 may be settled by cash payment and the remaining US$25,000 may be settled by issuance of common shares. There is, however no assurance that the Lease Settlement will be reached and the Company may be liable under it's guarantee for the balance due under the Chattsworth lease.

(Expressed in Canadian Dollars)

Litigation

Pasa Verde Equipment Lease

On May 21, 2021 a legal action was filed against a subsidiary of the Company, Pasa Verde LLC as well as the former owners of Pasa Verde LLC in the Superior Court of California by Leasing Innovations Incorporated for US$336,008 representing US$435,849 in past due rent, US$22,692 in late fees; US$59,467 in interest minus US$200,000 from the sale of equipment.

On September 2, 2021 a cross complaint was filed against the Company claiming breach of it's indemnification of the former owner of Pasa Verde LLC.

Washington Lease

On November 30, 2020 a legal action was filed against the Company and Adam Szweras in the Superior Court of Washington state by MAKH Properties LLC. The action is for outstanding rent of US$122,217 in regard to a guarantee of a lease agreement between MAKH Properties LLC and Earthsphere LLC (subsequently assigned to JBM LLC). The Company was served under this action on December 3, 2020. The Company has settled this action.

23. General and administrative

	Year Ended July 31, 2021	Year Ended July 31 2020
	$	**$**
Bad Debt	**32,350**	(8,888)
Bank charges	**22,684**	16,253
Dues and subscriptions	**-**	1,003
Insurance	**346,215**	460,542
Listing and investor relations	**134,493**	212,235
Office and administrative	**59,265**	101,655
Professional fees	**31,926**	-
Permit and licenses	**-**	11,813
Rent and property taxes	**245,693**	73,974
Repairs and maintenance	**-**	12,248
Security	**1,139**	-
Supplies, maintenance and utilities	**33,573**	6,301
Transportation	**1,224**	707
Travel	**8,936**	200,812
Total	**917,498**	**1,088,655**

24. Segmented information

For the year ended July 31, 2021, the Company recognized sales of $1,428,465 (2020 - $11,043,836) of which approximately 96% (2020 – 99%) were derived from the Company's distribution operation, Calyx, in California. As a result of the sale of Calyx on November 6, 2020, the assets and liabilities of Calyx have been presented as discontinued operating results and cash flows have been presented as discontinued operations in the consolidated statements of loss and comprehensive loss and cash flows for the year ended July 31, 2021 and 2020 (refer to Note 25). Therefore, the table below does not include the results from Calyx business for the year ended July 31, 2021 and 2020.

(Expressed in Canadian Dollars)

	Palo Verde (Colorado)	Pasa Verde (California)	Oregon	Colorado	Nevada	Washington	Total
For the year ended July 31, 2021							
Total sales	$ 96,067	$ -	$ -	$ -	$ -	$ -	$ 96,067
Cost of goods sold	(75,723)	-	-	-	-	-	(75,723)
Gross profit (loss)	$ 20,344	$ -	$ -	$ -	$ -	$ -	$ 20,344
For the year ended July 31, 2020							
Total sales	$ -	$ -	$ 11,052	$ -	$ -	$ -	$ 11,052
Cost of goods sold	-	(2,556)	(11,260)	-	-	-	(13,816)
Gross profit (loss)	$ -	$ (2,556)	$ (208)	$ -	$ -	$ -	$ (2,764)

	Palo Verde (Colorado)	Pasa Verde (California)	Oregon	Colorado	Nevada	Washington	Total
As at July 31, 2021							
Capital assets	$ -	$ -	$ 1,130,401	$ 1,500,068	$ 59,145	$ -	$ 2,689,614
Investment property	-	-	-	$ -	-	-	$ -
Intangible assets	2,227,756	-	-	-	-	-	2,227,756
Goodwill	648,519	-	-	-	-	-	648,519
As at July 31, 2020							
Capital assets	$ -	$ -	$ 1,422,395	$ 526,531	$ 81,461	$ -	$ 2,030,387
Investment property	-	-	-	$ 1,311,536	-	-	$ 1,311,536
Intangible assets	-	-	-	-	-	-	$ -
Goodwill	-	-	-	-	-	-	$ -

25. Other income (loss)

The breakdown of other income (loss) is as follows:

Year ended July 31, 2020

(i) On September 22, 2020, the Company entered into a settlement agreement with California Department of Tax and Fee Administration with respect to excise taxes. Penalties and interest relating to excise taxes outstanding totaling $1,629,790 (US$1,210,659) were recorded as other loss during the year ended July 31, 2020.

(ii) Pursuant to the sale of Calyx, DB12, LLC has advanced a total of $403,537 (US$300,000) to support the working capital of Calyx. As the advances were not repayable to DB12, LLC, the Company recognized the advances as other income during the year ended July 31, 2020.

(iii) During the year ended July 31, 2020, the Company entered into a sublease agreement with a third party for the period from October 16, 2019 to March 20, 2020 with respect to sublease of equipment in Colorado. Income from sublease of equipment amounted to $94,655 (US$70,000) during the year ended July 31, 2020.

(iv) The Company recorded an income of $65,987 (US$49,017) with respect to the sublease of office premise in Sacramento, California. The sublease agreement was terminated in March 2020

26. Discontinued Operations

On August 7, 2020, the Company entered into a Stock Purchase and Sale Agreement with DB12, LLC (“DB12”) to sell 100% of the Company’s interest in NHDC and Calyx for no consideration (“Calyx Sale Agreement”). On November 5, 2020, the Stock Purchase and Sale Agreement was amended, and the sale closed on that date. Pursuant to the Calyx Sale Agreement, the Company and DB12 have agreed to cooperate in negotiating and obtaining a settlement and release of all amounts due and owing under the lease agreement with respect to the facility in Chatsworth, California (“Lease Settlement”), wherein the Company is guarantor on the lease. In connection with the Lease Settlement, the Company may be liable to reimburse DB12 for up to US$50,000 of the amounts paid by DB12 in respect of the Lease Settlement, of which US$25,000 may be settled by cash payment and the remaining US$25,000 may be settled by issuance of common shares. (See Note 22)

(Expressed in Canadian Dollars)

As a result of the Calyx Disposition, the operating results and cash flows of Calyx have been presented as discontinued operations in the consolidated statements of loss and comprehensive loss and cash flows for the years ended July 30, 2021 and 2020. As a consequence, certain comparative figures in the consolidated statements of earnings (loss) and cash flows have been reclassified to conform with current period presentation.

The following table summarizes the operating results of Calyx which have been aggregated and presented as discontinued operations for years ended July 31, 2021 and 2020:

	Year Ended July 31, 2021	Year Ended July 31, 2020
	$	$
Revenue	1,316,039	12,327,010
Cost and expenses		
Cost of Sales	1,106,379	9,537,113
Salaries, benefits and consulting fees	570,147	2,958,829
General and administrative	358,940	1,934,338
Depreciation and amortization	59,797	1,075,213
Gain on disposal of net asset sof Calyx	(10,582,587)	-
Other (income) expenses	20,971	7,148,213
	(8,466,354)	22,653,706
Earnings (losses) before taxes	9,782,392	(10,326,696)
Current income taxes	11,178	996,935
Total	9,771,214	(11,323,631)

(Expressed in Canadian Dollars)

	$
Consideration for sale of Calyx Inc.	-
Net assets disposed:	
Cash	**169,752**
Accounts receivable, prepaids, deposits	**341,901**
Inventory	**539,533**
Property, plant & equipment	**158,847**
Total assets disposed	**1,210,032**
Total liabilities disposed:	
Accounts payable and accrued liabiltiies	**(11,240,815)**
Other long-term liabilities	**(551,805)**
Total liabilities disposed	**(11,792,620)**
Net assets disposed	**(10,582,587)**

The breakdown of cashflows from discontinued operations for the years ended July 31, 2021 and 2020 is as follows:

	2021	2020
	$	$
Net cash used in operating activities	**21,885**	(4,673,472)
Net cash used in investing activities	**-**	2,950,239
Net cash used in financing activities	**-**	601,773
Effect of FX on cash	**(3,691)**	-
Change in cash during the year	**18,194**	**(1,121,460)**

27. Income Tax

A reconciliation of income taxes at statutory rate with the reported taxes is as follows:

		2021		2020
	$	(1,781,802)	$	(21,026,075)
Expected income tax (recovery)		(472,000)		(5,572,000)
Charge in statutory, foreign tax foreign exchange rates and other		2,593,000		1,070,000
Permanent differences		(4,501,000)		3,829,000
Share issue cost		-		-
Adjustment to prior years provision versus statutory tax returns an dexpery of non -capital losses		(140,000)		(1,171,000)
Change in unrecognized deductible temporty differences		2,599,000		2,906,000
	$	**79,000**	$	**1,062,000**
Current incme tax	$	79,000	$	1,557,000
Deferred tax expense (receovery)	$	-	$	(495,000)

(Expressed in Canadian Dollars)

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of the product for US tax purposes. Although proper deductions for cost of goods sold are generally allowed to determine gross income, the scope of such items has been the subject of debate, and deductions for significant costs may not be permitted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is not guarantee that these courts will issue and interpretation of Section 280E favorable to cannabis businesses. Thus, the operations of the Company's US subsidiaries may be subject United Sates federal tax, without the benefit of certain deductions or credits.

The significant components of the Company's deferred tax assets and liabilities are as follows:

		2021		2020
Deferred tax assets (liabilities)	$		$	
Debt with accretion		(2,000)		(955,000)
Non-capital losses		2,000		955,000
Net deferred tax liability	$	**-**	$	**-**

The significant components of the Company's deferred tax assets that have not been included in the consolidated statement of financial position are as follows:

		2021		2020
Deferred tax assets (liabilities)				
Property and equipment	$	520,000	$	1,326,000
Share issue costs		218,000		382,000
Marketable securities		-		3,000
Intangible assets		87,000		1,479,000
Allowable capital losses		3,055,000		47,000
Derivative liability		330,000		76,000
Non-capital losses available for future period		7,854,000		6,152,000
		12,064,000		9,465,000
Unrecognized deferred tax assets		(12,064,000)		(9,465,000)
Net deferred tax assets	$	**-**	$	**-**

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statements of the financial position are as follows:

		2021	Expiry Date Range		2020	Expiry Date Range
Temporary Differences						
Property and equipment	$	1,986,000	No expiry date	$	5,379,000	No expiry date
Share issue costs		824,000	2041 to 2045		1,442,000	2041 to 2044
Marketable securities		-	No expiry date		20,000	No expiry date
Intangible assets		328,000	No expiry date		6,955,000	No expiry date
Allowable capital losses		11,530,000	No expiry date		177,000	No expiry date
Derivative liability		1,246,000	No expiry date		286,000	No expiry date
Non-capital losses available for future periods		30,623,000	2036 onwards		24,032,000	2036 onwards
Canada		22,751,000	2036 to 2041		16,633,000	2036 to 2040
USA		7,872,000	2037 onwards		7,399,000	2037 onwards

(Expressed in Canadian Dollars)

28. Supplementary cash flow information

Additional supplementary cash flow information for the years ended July 31, 2021 and 2020 are as follows:

	2021	2020
Shares issued for Moses Garden acquistion	-	659,050
Cashless exercise of warrants	-	1,282,711
Convertible debenture subscriptions as settlement of debt	-	484,797
Shares issued for convertible debenture interest	-	1,685,689
Shares issued for AP settlements	1,098,044	-
Shares issued for purchase of Psychedelic Sciences Corp.	4,125,689	-
Warrants issued for purchase of Psychedelic Sciences Corp.	2,776,860	-
Options issued for purchase of Psychedelic Sciences Corp.	66,947	-
Shares isued for purchase of Palo Verde LLC	40,000	-
Warrants issued for purchase of Palo Verde LLC	73,302	-
Convertible debenture issued for purchase of Palo Verde LLC	250,761	-
Shares issued for conversion of convertible debentures	6,906,959	-

29. Subsequent events

OutCo Acquisition

On September 1, 2021 the Company acquired the business of OutCo through the purchase of substantially all the assets of OutCo including, control and management of all licenced entities, intellectual property, equipment, land, and buildings.

Management has deemed the acquisition of Outco to be a business combination in accordance with IFRS 3 – Business Combinations, as Outco possessed a workforce, assets, along with systems and processes in place to produce outputs. The Company is estimated to provide yearly revenues of approximately $8 - $10 million dollars.

The Company has not prepared a preliminary estimate of the fair value of assets acquired and liabilities assumed. The Company will continue to evaluate the underlying inputs and assumptions used. Balances are subject to change during the measurement period which will conclude at the earlier of the date the Company receives the information it was seeking about the facts and circumstances that existed as of the acquisition date, learns that more information is not obtainable or one year following the acquisition date.

Total consideration was as follows:

1. 3,623,243 special warrants. Each special warrant entitles the holder to acquire, for no additional consideration, one (1) multiple voting share (a "Multiple Voting Share") of the Company. Each Multiple Voting Share carries 10 votes and may, at the option of the holder, be exchanged, for no additional consideration, for ten (10) Shares in the capital of the Company.
2. 2,033,333 Class A Share purchase warrants ("Class A Warrants") each entitling the holder to acquire one Share at any time on or before the 24 month anniversary of the closing of the Acquisition at an exercise price of Cdn$0.60. The expiry date of the Class A Warrants will be accelerated if the volume weighted average price of the Shares for the 10 consecutive trading days ending on the date that is 90 days following the one-year anniversary of the closing date of the Acquisition (the "Class A VWAP Date") is equal to or greater than $0.96. In such case the accelerated expiry date will be the date that is 60 days following the Class A VWAP Date.

3. 1,220,000 Class B Share purchase warrants ("Class B Warrants") each entitling the holder to acquire one Share at any time on or before the 24-month anniversary of the closing of the Acquisition at an exercise price of Cdn$1.00. The expiry date of the Class B Warrants will be accelerated if the volume weighted average price of the Shares for the 10 consecutive trading days ending on the date that is 90 days following the 18-month anniversary of the closing date of the Acquisition (the "Class B VWAP Date") is equal to or greater than $1.60. In such case the accelerated expiry date will be the date that is 60 days following the Class B VWAP Date.
4. Assumption of debt of approximately US$3.25 million including:
    a. Assumption US$2.65 million mortgage over the land acquired in Mendocino California,
    b. Assumption of US$375,500 in obligations due to creditors of OutCo.[ii]
    c. Settlement of OutCo debt through the issuance of a US$220,000 convertible debenture[i] of the Company.
5. Up to US$3 million earnout based on both of OutCo's retail facilities obtaining recreational marijuana licenses within 18 months of closing with such amount to be satisfied through the issuance of Special Warrants, Multiple Voting Shares or Shares at a price on when such securities become issuable ("Earnout").

On November 24, 2021 recreational licenses for both retail facilities were achieved resulting in the satisfaction of the Earnout. The Earnout calculation resulted in the Company issuing 2,684,318 Multiple Voting Shares to OutCo. (see Subsequent Events)

i) The convertible debenture has a term of 2 years and has an interest rate of 10% per annum. The debenture is convertible into Common Shares at any time at the option of the holder at a conversion price equal to $0.36.
ii) With the acquisition from OutCo various Management Services Agreements with licenced entities, from OutCo, the Company also assumes other current liabilities of the licenced entities which are included in working capital.

FMI Capital Advisory Inc., a financial advisory firm of which Adam Szweras (a director of the Company) is a director, received an advisory fee in connection with the acquisition of OutCo business which was satisfied through the issuance of 1,822,627 common shares in the capital of the Company.

Leasing Litigation

On June 2, 2021 a legal action was filed against a subsidiary of the Company, Pasa Verde LLC as well as the former owners of Pasa Verde LLC in the Superior Court of California by Leasing Innovations Incorporated for US$361,009 due under lease agreement. On September 2, 2021 a cross complaint was filed against the Company claiming breach of its indemnification of the former owner of Pasa Verde LLC.

Outco Litigation

As part of the acquisition of the assets of OutCo the Company has agreed to indemnify Outco, its officers and directors against any litigation from one of its shareholders up to a limit of US$100,000.

As part of the acquisition of the assets of OutCo the Company has assumed various obligations of OutCo (see above). Included as part 4. b. of the OutCo Acquisition subsequent event note, included in the US$375,500 in obligations assumed by the Company is a US$300,000 secured promissory note due from OutCo to Elan Capital which was in litigation. As part of the acquisition of the assets of OutCo, the Company entered into a conditional settlement and general release dated August 31, 2021. Under the conditional settlement and general release the Company has assumed the obligations due to Elan Capital. The conditions of settlement and release of security are the full repayment of US$300,000 on or before March 1, 2022 and the ongoing payment of $2,800 per month. The conditional settlement and general release provide for the repayment of the obligation in the form of cannabis product.

ASC Lease Income LLP Settlements

On September 7, 2021 the Company issued a $50,464 convertible debenture as the final payment in accordance with the July 19, 2021 settlement agreement with ASC Lease Income LLP. The debenture has a term of 3 years, 12% interest and is convertible at any time at a price of $0.35 per common share.

Australis Investment

Subsequent to July 31, 2021 the Company has sold a total of 4,874,400 Australis. As of December 13 2021, the Company has 1,513,941 Australis shares. Refer to Note 7 for the terms of the agreement.

Stock options

On October 17, 2021, 55,000 stock options with an exercise price of $2.70 have expired unexercised.

Payable Settlement

On November 24, 2021 the Company issued 544,242 Subordinate Voting Shares in settlement of $119,471 in obligations to vendors.