

# **High Fusion Inc.**

**(Formally Nutritional High International Inc.)**

## **Interim Condensed Consolidated Financial**

### **Statements**

**For the nine months ended**

**April 30, 2022**

**(Expressed in Canadian Dollars, unless otherwise noted)**

## **NOTICE TO READER**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(2) issued by the Canadian Securities Administrators, if the auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating the financial statements have not been reviewed by the auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company for the interim periods ended April 30, 2022 have been prepared in accordance with IFRS and are the responsibility of the Company's management.

The Company's independent auditors, Harbourside CPA LLP, Chartered Professional Accountants have not performed a review of the unaudited Interim condensed consolidated financial statements for the interim period ended April 30, 2022 in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of the interim financial statements by an entity's auditor.

**High Fusion Inc.**  
**(Formally Nutritional High International Inc)**  
**Consolidated Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

	Notes	April 30, 2022	July 31, 2021
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 565,193	\$ 21,268
Amounts receivable	4	1,194,630	78,054
Prepaid expenses		37,003	207,377
Inventory	5	2,117,273	202,488
Biological assets	6	448,237	-
Investments	7	-	1,204,321
		<b>4,362,336</b>	<b>1,713,508</b>
<b>Non-current assets</b>			
Investment property	8	-	-
Capital assets	10	8,416,645	2,689,614
Intangible assets	9	-	2,227,756
Goodwill	9	7,203,465	648,519
		<b>\$ 19,982,446</b>	<b>\$ 7,279,397</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	11,18	\$ 4,300,481	\$ 4,695,212
Income and deferred tax payable		922,731	151,795
Promissory note payable	12	4,368,323	-
Derivative liabilities	14	27,441	1,245,645
Convertible debentures	14	4,167,468	-
Lease liabilities	13	1,092,736	698,541
Deferred gain on sale and leaseback	13	26,022	25,487
		<b>14,905,203</b>	<b>6,816,680</b>
<b>Non-current liabilities</b>			
Convertible debentures	14	1,261,947	6,625,337
Lease liabilities	13	634,031	-
		<b>16,801,181</b>	<b>13,442,017</b>
<b>Shareholders' deficiency</b>			
Share capital	15	55,542,664	50,666,804
Shares to be issued	15	9,971,535	85,001
Reserve for share based payments	16	6,150,168	5,531,058
Reserve for warrants	17	7,113,134	6,577,402
Reserve for foreign currency translation		513,165	(92,373)
Equity component of convertible debenture	14	851,449	773,462
Other Equity	19	662,902	-
Deficit		(77,981,035)	(69,689,224)
		<b>2,823,982</b>	<b>(6,147,870)</b>
Non-controlling interest	19	357,283	(14,750)
		<b>3,181,265</b>	<b>(6,162,620)</b>
		<b>\$ 19,982,446</b>	<b>\$ 7,279,397</b>

Nature of operations and going concern (Note 1)  
Commitments and contingencies (Note 22)  
Subsequent events (Note 27)

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**  
For the three and nine months ended April 30, 2022 and April 30, 2021  
(Expressed in Canadian Dollars)

	Notes	Three Months		Nine Months	
		April 30, 2022 (Note 26)	April 30, 2021 (Note 26)	April 30, 2022 (Note 26)	April 30, 2021 (Note 26)
<b>Sales</b>		\$ 1,294,792	\$ 50,753	\$ 4,668,401	\$ 50,753
<b>Cost of goods sold</b>	5	(274,777)	(81,034)	(2,842,987)	(81,034)
<b>Gross margin</b>		<b>1,020,014</b>	<b>(30,281)</b>	<b>1,825,414</b>	<b>(30,281)</b>
Interest		-	17,605	-	114,160
		<b>1,020,014</b>	<b>(12,676)</b>	<b>1,825,414</b>	<b>83,879</b>
<b>Operating expenses:</b>					
Salaries, benefits and consulting fees	18	796,868	808,263	2,673,961	1,354,561
Professional fees	18	221,869	146,092	471,977	463,929
General and administrative	23	700,281	423,967	1,879,514	780,320
Acquisition and project evaluation costs	18	(204,233)	17,360	218,935	24,909
Share based payments	16	5,000	860,000	619,110	954,414
Sales, marketing and promotion	18	0	25,922	78,638	27,897
Depreciation and amortization	9,10	406,191	44,897	1,068,291	272,877
Allowance for amounts receivable		37,899	(4,149)	37,899	-
<b>Total operating expenses</b>		<b>1,963,875</b>	<b>2,322,352</b>	<b>7,048,324</b>	<b>3,878,907</b>
<b>Other items:</b>					
Foreign exchange loss (gain)		29,435	277,492	(42,114)	1,827,441
Finance costs	12,13,14	562,377	486,955	1,014,693	1,790,248
Gain on sale and leaseback	13	(30,045)	-	(30,045)	-
Other loss (income)		412,420	3,752,062	(31,514)	14,073,785
Unrealized loss (gain) on FVTPL investments	7	194,971	(10)	19,323	-
Loss (gain) on sale of investments	7	(249,419)	(19,636)	(48,408)	(55,877)
Change in fair value of derivative liability	14	(191,325)	-	(1,218,204)	-
Loss on debt settlement		384,479	-	384,479	(434,303)
Impairment of goodwill		818,856	-	818,856	-
Impairment of intangible assets		2,168,935	-	2,168,935	-
<b>Total other items</b>		<b>4,100,684</b>	<b>4,496,863</b>	<b>3,036,002</b>	<b>17,201,294</b>
<b>Loss before income taxes</b>		<b>(5,044,544)</b>	<b>(6,831,891)</b>	<b>(8,258,912)</b>	<b>(20,996,322)</b>
<b>Income tax expense (recovery)</b>					
Current		15,000	51,333	45,000	51,772
Deferred		-	-	-	-
		<b>15,000</b>	<b>51,333</b>	<b>45,000</b>	<b>51,772</b>

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**  
For the three and nine months ended April 30, 2022 and April 30, 2021  
(Expressed in Canadian Dollars)

<b>Net loss before discontinued operations</b>		<b>(5,059,482)</b>	(6,883,224)	<b>(8,303,912)</b>	(21,048,094)
Income(Loss) from discontinued operations	26	<b>19,037</b>	85	<b>19,037</b>	9,771,214
		<b>(5,040,445)</b>	(6,883,139)	<b>(8,284,875)</b>	(11,276,880)
<b>Other comprehensive (gain)/loss</b>					
Exchange differences on translating foreign operations		<b>(657,256)</b>	-	<b>(605,538)</b>	-
<b>Net loss and comprehensive loss</b>		<b>\$ (4,383,189)</b>	\$ (6,883,139)	<b>\$ (7,679,337)</b>	\$ (11,276,880)
<b>Net loss attributable to:</b>					
<b>Non-controlling interest</b>	19	<b>\$ 357,283</b>	\$ -	<b>357,283</b>	\$ -
<b>Parent company</b>		<b>(5,397,728)</b>	(6,883,139)	<b>(8,642,158)</b>	(11,276,880)
		<b>\$ (5,040,445)</b>	\$ (6,883,139)	<b>\$ (8,284,875)</b>	\$ (11,276,880)
<b>Net loss and comprehensive loss attributable to:</b>					
<b>Non-controlling interest</b>	19	<b>\$ 357,283</b>	\$ -	<b>357,283</b>	\$ -
<b>Parent company</b>		<b>(4,740,472)</b>	(6,883,139)	<b>(8,036,620)</b>	(11,276,880)
		<b>\$ (4,383,189)</b>	\$ (6,883,139)	<b>\$ (7,679,337)</b>	\$ (11,276,880)
<b>Weighted average number of common shares outstanding</b>					
Basic		<b>110,984,832</b>	46,276,380	<b>72,063,297</b>	38,704,159
Diluted		<b>110,984,832</b>	46,276,380	<b>72,063,297</b>	38,704,159
<b>Net loss per share before discontinued operations</b>					
Basic		<b>\$ (0.039)</b>	\$ (0.149)	<b>\$ (0.115)</b>	\$ (0.544)
Diluted		<b>\$ (0.039)</b>	\$ (0.149)	<b>\$ (0.115)</b>	\$ (0.544)
<b>Net loss per share of discontinued operations</b>					
Basic		<b>\$ -</b>	\$ 0.000	<b>\$ 0.000</b>	\$ 0.252
Diluted		<b>\$ -</b>	\$ 0.000	<b>\$ 0.000</b>	\$ 0.252

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**  
**Nine months ended April 30, 2022 and April 30, 2021**  
(Expressed in Canadian Dollars)

	<b>April 30, 2022</b>	<b>April 30, 2021</b>
<b>Cash Provided by (used in)</b>		
<b>Operating activities:</b>		
Net loss	<b>(8,284,875)</b>	(11,276,880)
Items not affecting cash:		
Interest Income	-	(17,605)
Amortization of capital assets and intangible assets	<b>1,068,291</b>	272,877
Unrealized (gain) loss on FVTPL investments	<b>19,323</b>	-
Impairment of intangible assets and goodwill	<b>2,987,789</b>	
Share based payments	<b>619,110</b>	619,110
Foreign Exchange	<b>(42,114)</b>	1,827,441
Change in fair value of derivative liabilities	<b>(1,218,204)</b>	-
Accretion and finance costs	<b>1,166,163</b>	1,790,248
Gain/ (Loss) on extinguishment of debt	<b>384,479</b>	-
Net income from NCI	<b>(135,065)</b>	-
Loss on sale of investment	-	-
Gain of disposal of capital assets	<b>(30,045)</b>	
Gain on settlement of debt	-	960,073
Gain on disposal of Calyx		(9,738,486)
Gain on disposal of EHW	<b>(874,196)</b>	
Write -down of inventory	<b>1,416,142</b>	
Adjustment to Goodwill for Outco	<b>(2,880,205)</b>	
Net change in non-cash working capital:		
Amounts receivable	<b>(25,602)</b>	108,054
Prepaid	<b>170,587</b>	(80,409)
Inventory and biological assets	<b>1,783,480</b>	280,966
Deposits	-	(87,227)
Investments	<b>13,696</b>	-
Income taxes payable	<b>45,426</b>	(1,644,484)
Accounts payable and accrued liabilities	<b>2,361,863</b>	16,726,793
<b>Net cash used in operating activities</b>	<b>(1,453,957)</b>	<b>(259,529)</b>

**High Fusion Inc.**  
**(Formally Nutritional High International Inc.)**  
**Consolidated Statement of Cash Flow**  
**Nine months ended April 30, 2022 and April 30, 2021**  
**(Expressed in Canadian Dollars)**

**Investing activities:**

Proceeds from sale of investments	<b>1,171,390</b>	23,695
Cash acquired from Outco	<b>192,144</b>	-
Proceeds from capital assets	<b>78,393</b>	-
Purchase of capital assets	-	(37,770)
Cash acquired on acquisition of Palo Verde LLC		217,879
Cash acquired from Neural Therapeutics	-	15,987
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Net cash generated from (used in) investing activities	<b>1,441,927</b>	219,791

**Financing activities:**

Issuance of promissory notes	<b>574,770</b>	
Lease payments	<b>(613,216)</b>	(14,790)
Proceeds from private placement from Neural Therapeutics	<b>750,000</b>	-
<hr/>		
Net cash generated from financing activities	<b>711,554</b>	(14,790)

<b>Net increase in cash</b>	<b>699,523</b>	(54,528)
<b>Effects of exchange rate changes on cash</b>	<b>(155,598)</b>	(39,087)
<b>Cash at beginning of period</b>	<b>21,268</b>	243,860
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<b>Cash at end of period</b>	<b>565,193</b>	150,245

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

Supplementary cash flow information (Note 26)

**High Fusion Inc.**  
**(Formerly Nutritional High 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	Other equity	Accumulated deficit	Attributable to owners of parent	Non-controlling interest	Total shareholders' equity (deficiency)
<b>Balance as at July 31, 2020</b>	\$ 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	-	-	87,348	-	-	-	-	-	87,348	-	87,348
RSUs issued to board members	-	-	-	-	-	-	-	-	-	-	-
Shares issued for AP debt settlement	1,098,044	-	-	-	-	-	-	-	1,098,044	-	1,098,044
Shares issued for purchase of company	4,125,689	-	66,947	2,776,860	-	-	-	-	6,969,496	-	6,969,496
Conversion of debentures	6,908,958	-	-	-	-	-	-	-	6,908,958	-	6,908,958
Loss on settlement of AP debt	-	-	-	344,709	-	-	-	-	344,709	-	344,709
Acquisition of Palo Verde	40,000	-	-	73,303	-	-	-	-	113,303	-	113,303
Reclassification of AOCI on disposal of Calyx	-	-	-	-	(1,706,593)	-	-	1,706,593	-	-	-
Foreign exchange translation	-	-	-	-	3,214,569	-	-	-	3,214,569	-	3,214,569
Net loss for the period	-	-	-	-	-	-	-	(11,285,890)	(11,285,890)	-	(11,285,890)
<b>Balance as at April 30 2021</b>	\$ 50,593,804	\$ 85,001	\$ 4,745,558	\$ 6,577,402	\$ 1,916,153	\$ 773,462	\$ -	\$ (79,125,496)	\$ (14,434,116)	\$ (14,750)	\$ (14,448,866)
<b>Balance as at July 31, 2021</b>	\$ 50,666,804	\$ 85,001	\$ 5,531,058	\$ 6,577,402	\$ (92,373)	\$ 773,462	\$ -	\$ (69,689,224)	\$ (6,147,870)	\$ (14,750)	\$ (6,162,620)
Shares issued for purchase of company	-	10,009,128	-	531,441	-	-	-	-	10,540,569	-	10,540,569
Equity component of ASC Debenture	-	-	-	-	-	8,504	-	-	8,504	-	8,504
Equity component of Gainor Debenture	-	-	-	-	-	69,483	-	-	69,483	-	69,483
Equity component of Bridge Loans	-	-	-	4,291	-	-	-	-	4,291	-	4,291
Equity related to controlling interest in Neural Therapeutics	-	-	-	-	-	-	662,902	-	662,902	507,098	1,170,000
Shares issued for AP debt settlement	2,516,597	-	-	-	-	-	-	-	2,516,597	-	2,516,597
Shares issued for convertible debt interest	143,966	-	-	-	-	-	-	-	143,966	-	143,966
Share based payments	-	-	619,110	-	-	-	-	-	619,110	-	619,110
Conversion of debentures	2,092,983	-	-	-	-	-	-	-	2,092,983	-	2,092,983
Conversion of multiple voting shares	122,314	(122,314)	-	-	-	-	-	-	-	-	-
Foreign exchange translation	-	-	-	-	605,538	-	-	(6,936)	598,602	-	598,602
Net loss for the period	-	(280)	-	-	-	-	-	(8,284,875)	(8,285,155)	(135,065)	(8,420,220)
<b>Balance as at April 30, 2022</b>	\$ 55,542,664	\$ 9,971,535	\$ 6,150,168	\$ 7,113,134	\$ 513,165	\$ 851,449	\$ 662,902	\$ (77,981,035)	\$ 2,823,981	\$ 357,283	\$ 3,181,264

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



**High Fusion Inc.**  
**(Formerly Nutritional High International Inc.)**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**Nine months ended April 30, 2022**  
**(Expressed in Canadian Dollars)**

**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 Interim condensed consolidated financial statements for the nine months ended April 30, 2022 were approved by the Board of Directors on June 30, 2022.

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 April 30, 2022, the Company had working capital deficit of \$10,542,867 (July 31, 2021– \$5,103,172), spent \$1,453,957 (July 31, 2021 - \$21,579) of cash for operating activities, had not yet achieved profitable operations, had accumulated losses of \$77,981,035 (July 31 2021 - \$69,689,224), had shareholders' equity of \$3,181,265 (July 31, 2021 -Shareholders' deficit - \$6,162,620) 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, cash flows, restructure borrowings and continue to 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.

As a result of the valuation work performed on Neural Therapeutics and the Palo Verde acquisition, there was a reclassification of the purchase price consideration in these consolidated financial position for the twelve months ending July 31, 2021.

In addition, there was an adjustment to the prior period comparative numbers as a result of the sale of Calyx (see Note 25).

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 unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting under International Financial Reporting

**High Fusion Inc.**  
**(Formerly Nutritional High International Inc.)**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**Nine months ended April 30, 2022**  
**(Expressed in Canadian Dollars)**

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Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). These unaudited interim condensed consolidated financial statements follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements of the Company. These unaudited interim condensed consolidated financial statements do not contain all of the information required for full annual consolidated financial statements. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s year ended July 31, 2021, annual consolidated financial statements, which were prepared in accordance with IFRS as issued by the IASB.

**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 (see 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, 51% owned subsidiary, Eglinton Medicinal Advisory Ltd, 0% owned subsidiaries from the Outco acquisition, Downwind 27, Inc. El Cajon and San Diego Naturals, LLC which are controlled through management service agreements and majority control of the Board of Directors by the Company.

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.

The Company’s subsidiaries and investments in associate are listed as follows:

**High Fusion Inc.**  
**(Formerly Nutritional High International Inc.)**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**Nine months ended April 30, 2022**  
**(Expressed in Canadian Dollars)**

Subsidiary/Affiliate	Ownership Interest		Accounting method
	April 30, 2022	July 31, 2021	
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") <sup>(5)</sup>	0%	100%	Consolidation
NH Properties (Nevada) LLC ("NPNL")	100%	100%	Consolidation
Eastgate Property Holding LLC ("EPHC")	100%	100%	Consolidation
NH Processing (California) LLC ("NHPC") <sup>(5)</sup>	0%	100%	Consolidation
NH Bellingham Property Holdings LLC ("NHBH")	100%	100%	Consolidation
Pasa Verde, LLC ("Pasa Verde")	100%	100%	Consolidation
Nutritional High Group, LLC ("NHG") <sup>(5)</sup>	0%	100%	Consolidation
Eglinton Medicinal Advisory Ltd. ("EMAL")	51%	51%	Consolidation
NH Medicinal Holdings LLC ("NHMH") <sup>(5)</sup>	0%	100%	Consolidation
Neural Therapeutics Inc. ("NT") <sup>(2), (9)</sup>	49%	100%	Consolidation
Kruzo LLC ("Kruzo") <sup>(3)</sup>	100%	100%	Consolidation
Palo Verde LLC ("Palo Verde") <sup>(4)</sup>	100%	100%	Consolidation
Nutritional High LLC ("NH LLC") <sup>(6)</sup>	100%	100%	Consolidation
East Hill Wellness LLC ("EHW") <sup>(7), (8)</sup>	0%	0%	Consolidation
San Diego Natural Inc. ("SDN") <sup>(7)</sup>	0%	0%	Consolidation
Downwind 27 LLC (DW27) <sup>(7)</sup>	0%	0%	Consolidation
NH Distribution California LLC ("NHDC") <sup>(1)</sup>	0%	0%	Consolidation
Calyx Brands Inc. ("Calyx") <sup>(1)</sup>	0%	0%	Consolidation

(1) The Company sold its 100% interest in Calyx and NH Distribution LLC to a third party (Note 25).

(2) The Company purchased Neural Therapeutics Inc. ("NT") (formerly Psychedelic Sciences Corp) on August 6<sup>th</sup>, 2020 (Note 3).

(3) Kruzo LLC ("Kruzo") is a wholly-owned subsidiary of NT.

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

(5) NH Medicinal Holdings LLC, NH (Pennsylvania) LLC, NH Processing (California) and Nutritional High Group LLC have been dissolved.

(6) The Company purchased the Outco business (Note 3) on August 31, 2021, which included control of EHW, SDN and DW27 through management service agreements.

(7) As part of the acquisition of the business of Outco, NH LLC, a holding company, has been established to acquire the assets of Outco including the assumption of management services agreements with EHW, SDN and DW27 under which fees are paid to NH LLC.

(8) On March 22, 2022, the Company has terminated the management service agreement with EHW and is reported as a discontinued operation.

(9) On February 3, 2022 the Company has reduced its ownership of NT as a result of completing on a private placement for NT shares as settlement of payables with new and existing NT shares. NT is still controlled by the Company as a result of NT shares owned by the CEO and CFO of the Company, which results in greater than 50% control and therefore, remains consolidated.

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## **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, Neural Therapeutics Inc. 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 the 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.

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### **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.

### **Biological assets**

Expenditures incurred on biological assets are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell in accordance with IAS 41 – Agriculture. The unrealized gain or loss arising on initial recognition of such biological assets at fair value less costs to sell and the change in fair value less costs to sell of biological assets are included in the consolidated statement of profits and losses for the period in which it arises. While the Company's biological assets are within the scope of IAS 41, the direct and indirect costs of production are determined using an approach similar to the recognition criteria within the scope of IAS 2 – Inventories. These production costs incurred during the growing process are capitalized and included in the fair value of biological assets. These direct and indirect costs include but are not limited to material, labor, supplies, depreciation expense on production equipment, utilities, and facilities costs associated with cultivation. Capitalized costs are subsequently recorded within the line item "cost of goods sold" in the consolidated statement of profits and losses in the period that the related product is sold.

### **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

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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	5 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.

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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 at the year ended July 31, 2021 and review as at April 30, 2022, did result in the recognition of an impairment loss (see Note 9).

### **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 (ROU) 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.

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### **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.



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### **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.

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*US Taxation (280E)*

The Company operates in the legal cannabis industry but is subject to Section 280E of the Internal Revenue Code (“IRC”). Section 280E prohibits businesses engaged in the trafficking of controlled substances (within the meaning of Schedule I and II of the Controlled Substance Act) from deducting normal business expenses associated with the sale of cannabis, such as payroll and rent, from gross income (revenue less cost of goods sold). The application of Section 280E has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. Section 280E was originally intended to penalize criminal market operators, but because cannabis remains a Schedule I controlled substance for U.S. Federal purposes, the Internal Revenue Service (“IRS”) has subsequently applied Section 280E to state legal cannabis businesses. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable and a higher effective tax rate than most industries. The state of California, which the Company operates, allows for the deduction of all ordinary and necessary operating expenses.

The IRS has invoked Section 280E in tax audits against various state-legal cannabis businesses in the U.S. Although the IRS has issued a clarification allowing the deduction of certain expenses, the scope of this allowance is interpreted very narrowly, resulting in the non-deductibility of certain operating and general administrative costs. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to the cannabis industry. Further, there are several pieces of legislation being considered by the U.S. Congress that could change the interpretation of Section 280E by removing its applicability to the legalized cannabis industry.

The Company records tax for all years subject to examination based upon management’s evaluation of the facts, circumstances, and information available at the reporting date. There is inherent uncertainty in quantifying income tax positions, especially considering the complex tax laws and regulations federal purposes. The Company has recorded tax for those tax positions where it is more likely than not that a tax will result upon ultimate settlement with a tax authority that has all relevant information. For those income tax positions where it is not more likely than not that a tax will result, no tax has been recognized in the consolidated financial statements.

Please see Note 22 for further details regarding the Company’s assessment of its contingent liability for taxation with respect to the acquisition of the business of Outco.

**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

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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.

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### **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.

*Biological assets and inventory*

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required

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to determine an estimated fail rate and compare the inventory cost to estimated net realizable value (see Note 6 – Biological Assets).

#### 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

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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 Neural Therapeutics 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, 2021.

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*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 April 30, 2022, 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.**

In the fiscal year of 2021, during the first three months ended October 31, 2020, the Company closed the sale of Calyx Brands together with NH Distribution California (Calyx Sale).

With the completion of the Calyx Sale, the Company experienced losses associated with loans extended to the business. Offsetting these losses were gains from the elimination of debt representing \$10,852,857 (see Note 25). The net gain on the Calyx Sale of \$9,771,214 was categorized as discontinued operation in the financial statements for the year ended July 31, 2021.

Pursuant to the Calyx Sale, the Company agreed with the purchaser 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 the buyer 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).

**Neural Therapeutics Inc. (formally Psychedelic Sciences Corp.)**

On August 14, 2020, the Company acquired all the outstanding common shares of Neural Therapeutics 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 Neural Therapeutics were issued an aggregate of 6,876,148 common shares of the Company. Pursuant to the Transaction, outstanding warrants and stock options of Neural Therapeutics 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.

The acquisition of the Neural Therapeutics 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.

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<b>Total purchase price consideration</b>	<b>\$</b>
Issued shares	4,125,689
Options Granted	66,947
Warrants Granted	2,776,860
	<b>6,969,496</b>
<b>Identified tangible assets and liabilities assumed</b>	
Cash	1,178,611
Accounts Receivable	217,879
Accounts Payable	(55,000)
<b>Identified intangible assets</b>	
Intangible assets	5,628,006
	<b>6,969,496</b>

**Sale of NT**

On February 2, 2022, the Company completed an equity financing into its subsidiary Neural Therapeutics for gross proceeds of \$750,000 by way of a non-brokered private placement (the "**Offering**") of units ("**Units**"). Pursuant to the Offering, Neural Therapeutics issued 10,000,000 Units at a price of \$0.075 per Unit. Each Unit is comprised of one common share (a "**Neural Share**") of Neural Therapeutics and one-half of one common share purchase warrant (each whole warrant, a "**Warrant**"), with each Warrant exercisable for one Neural Share at an exercise price of \$0.10 per Neural Share for a period ending on the earlier of: (i) 36 months following the closing of the Offering; and (ii) 24 months following the time Neural Therapeutics completes a going public transaction.

Pursuant to the Offering, Neural Therapeutics compensated certain finders under the Offering by the issuance of 575,800 broker warrants, with each broker warrant being exercisable for one Neural Share at a price of \$0.075 per Neural Share and paid aggregate finders' fees equal to \$43,710 to such finders. (see note 18)

Concurrently with completion of the Offering, High Fusion has completed an in-kind debt settlement ("**Debt Settlement**"), pursuant to which High Fusion has transferred 5,600,000 Neural Shares to settle approximately \$420,000 of High Fusion liabilities. Pursuant to the Debt Settlement, approximately 2,666,667 Neural Shares were issued to certain non-arm's length parties ("**Insiders**") to settle debt obligations of High Fusion to such Insiders. (see note 18)

**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 debt due to High Pita Corporation ("High Pita").

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 200,000 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 ("High Pita Debenture") see Note 14.

Pursuant to IFRS 3 the Company undertook an evaluation of the purchase to determine the fair purchase price for the acquisition and the transaction was accounted for as a business combination in accordance with IFRS 3 – *Business Combinations*.

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



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

As of March 12, 2022, the Company has assessed the value of the intangible assets identified, as part of the acquisition of the Paolo Verde business and determined there is no value. Therefore, the Company has written off approximately \$2,861,493 (\$2,265,094 USD) (see Note 9).

**Outco Labs Inc.**

On August 31, 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 purchase price and the fair value of the net assets acquired from Outco Labs Inc. are estimates, which were made by management at the time of the preparation of these interim condensed consolidated financial statements based on available information. Amendments may be made to these amounts as well as the identification of intangible assets. Values based on estimates are subject to changes during the period ending 12 months after the acquisition date. 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.

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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.<sup>(ii)</sup>
  - c. Settlement of Outco debt through the issuance of a US\$220,000 convertible debenture<sup>(i)</sup> of the Company.
    - 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. Includes \$280,000 promissory note due to Elan Capital and \$50,000 due to Quilkey (see Note 12)

In addition to the above assumed debt, the Company also has assumed control over the operating entities SDN, D27 and EHW and therefore has consolidated the working capital of these entities. In addition, there are income and excise tax liabilities due by the operating entities which have been consolidated in the Company's financial statements.

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 Note 15).

FMI Capital Advisory Inc., a financial advisory firm of which Adam Szweras (a director of the Company) is a Chairman, 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.

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

<b>Total purchase price consideration</b>	<b>\$</b>
Special Warrants issued	10,009,128
Parent Warrants issued	531,443
Debt assumed	3,941,798
	<b>14,482,369</b>
<b>Identified tangible assets and liabilities assumed</b>	
Cash	192,414
Accounts Receivable	1,043,590
Inventory	1,543,139
Biological assets	1,034,890
Fixed Assets	6,670,574
Accounts payable and accrued liabilities	(1,205,933)
Income tax payable	(709,640)
Finance leases	(1,483,829)
<b>Identified intangible assets assumed</b>	
Goodwill	7,397,164
	<b>14,482,369</b>

The Company has terminated the management service agreement with EHW (see Note 25), which resulted in management's estimate of a write-down of goodwill of approximately \$164,954 (\$130,574 USD)(see Note 9). The Company has also identified a write-down of oil inventory that was acquired in the Outco acquisition with a

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corresponding adjustment to Goodwill of \$2,863,562 (\$2,279,906 USD). This was related to a change in the assumptions for the cost per gram of oil produced. (see Note 9).

**4. Amounts receivable**

The breakdown of the amounts receivable balance is as follows:

	April 30, 2022	July 31, 2021
	\$	\$
Trade accounts receivable <sup>(i), (iii)</sup>	1,140,830	6,063
Harmonized Sales Tax (HST) recoverable <sup>(ii)</sup>	53,801	56,443
Other accounts receivable	-	15,548
<b>Total</b>	<b>1,194,630</b>	<b>78,054</b>

(i) During the nine months ended April 30, 2022, the Company recorded a provision for trade accounts receivable of \$110,422 (2021 - \$Nil). The provision is mainly related to stale receivables in Downwind 27 Wholesale operations and Palo Verde operations.

(ii) HST has been filed for the period and prior period returns have been accepted and refunded in the nine months ended April 30, 2022.

(iii) Includes a receivable from East Hill Wellness for \$1,074,151 (US \$850,274)

**5. Inventory**

The breakdown of inventory is as follows:

	April 30, 2022	July 31, 2021
	\$	\$
Raw materials	-	62,306
Work-in-process	1,050,449	-
Packaging	39,758	53,379
Finished goods	1,027,066	86,804
<b>Total</b>	<b>2,117,273</b>	<b>202,488</b>

Inventory recognized as cost of goods sold during the nine months ended April 30, 2022 was \$2,842,987 (2021 - \$75,723).

**6. Biological assets**

Biological assets are comprised of:

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	<b>Capitalized Cost</b>	<b>Fair Value Adjustment</b>	<b>Balance</b>
	\$	\$	\$
<b>Balance at August 31, 2021</b>	<b>399,195</b>	<b>621,194</b>	<b>1,020,389</b>
Fair value adjustment on growth of biological assets	-	(190,333)	(223,951)
Production cost capitalized	1,284,544	1,276,653	2,561,197
Transferred to inventory upon harvest	(1,472,606)	(1,470,411)	(2,943,017)
<b>Balance at April 30, 2022</b>	<b>211,133</b>	<b>237,103</b>	<b>448,237</b>

As at April 30, 2022, the carrying value of biological assets consisted entirely of live cannabis plants.

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price per gram less any additional costs to be incurred to transform the yield into a sellable product. Percentage of cost completion is applied to biological assets growing as of the measurement date.

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy, were used by management as part of this model:

- Selling price – calculated as the annual historical selling price for flower yield in all finished goods sold by the Company, which is expected to approximate future selling prices;
- Percentage of completion – represents the percentage of total expected costs incurred from growing biological assets as of the measurement date;
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant. The Company's estimates the harvest yields for the plants at various stages of growth. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods;
- Wastage – represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested; and
- Post-harvest costs – calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest, consisting of the cost of direct and indirect materials and labor related to lab extraction and packaging.

**Indoor Biological Assets**

The following table quantifies each significant unobservable input, and also provides the impact of a 10% increase/decrease in each input would have on the fair value of biological assets.

			<b>April 30, 2022</b>	<b>August 31, 2021</b>	<b>Effect of 10% Change</b>	<b>Effect of 10% Change</b>
	<b>April 30, 2022</b>	<b>August 31, 2021</b>				
Selling Price (per gram)	\$ 4.11	\$ 3.99	\$ 70,000	\$ 67,000		
Stage of Growth	35%	44%	2,000	3,000		
Yield by plant (gram)	64	78	43,000	67,000		
Wastage	4%	10%	3,000	7,000		
Post Harvest Cost	\$ 0.88	\$ 0.13	\$ 15,000	\$ 2,000		

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Indoor biological assets are in 3 cultivation rooms which have staggered grow cycles. The average of stage of growth as at April 30, 2022 was 35% complete.

As an indoor plant matures the likelihood of wastage usually declines. However, wastage estimates were slightly below August 31, 2021 and is in the normal expected range of waste. The Company's estimates the harvest yields for the plants at various stages of growth. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods. As of April 30, 2022, it is expected that the Company's indoor biological assets will yield approximately 64 grams per plant.

**Outdoor Biological Assets**

The following table quantifies each significant unobservable input, and also provides the impact of a 10% increase

	April 30, 2022	August 31, 2021	April 30, 2022 Effect of 10% Change	August 31, 2021 Effect of 10% Change
Selling Price	\$ 1.57	\$ 1.88	67,000	62,000
Stage of Growth	0%	53%	-	33,000
Yield by plant (gram)	274	386	67,000	62,000
Wastage	50%	10%	33,000	6,000
Post Harvest Cost	0.03	0.04	1,000	1,000

Outdoor biological assets are located in Mendicino California and are cultivated on a single crop per season. The average of stage of growth as at August 31, 2021 (the date the Company acquired control of the assets) was 71% complete compared with 100% complete as at October 31, 2021 and 0% complete as at April 30, 2022 as all the outdoor plants have been harvested and transferred to inventory.

An outdoor plant is more susceptible to wastage depending on a variety of factors including weather conditions. During the nine months ended April 30, 2021, the Company experience significant crop damage due to excessive rains in California during October 2021. As a result, wastage estimates were higher than expected.

The Company's estimates the harvest yields for the plants at various stages of growth. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods. As of April 30, 2022, and August 31, 2021, the Company's outdoor biological assets yielded was approximately 274 grams per plant and 386 grams per plant respectively.

Effective on March 22, 2022, the Company has cancelled its management contract with East Hill Wellness associated with the Mendicino property and, as such, will not be recording the outdoor biological assets going forward.

**7. Investments**

The Company's investments are comprised of the following:

	April 30, 2022	July 31, 2021
<b>Pharmadrug Inc.</b>		
Nil shares (2021 - 436,606 shares)	-	26,196
200,000 warrants (2021 - 200,000 warrants)	-	-
<b>Australis inc.</b>		
Nil shares (2021 - Nil shares)	-	1,178,125
<b>Balance</b>	-	1,204,321

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**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.

On October 20, 2021, the Company received the remaining 436,606 Pharmadrug shares from escrow which were sold on October 26, 2021, for net proceeds of \$19,322.56, recognizing a loss on disposal of \$6,874 during the nine months ended April 30, 2022.

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

**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. 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.

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 nine months ended April 30, 2022, the Company sold 6,487,441 shares of AUSA for net proceeds of \$1,228,126 for a net gain on disposal of \$48,408. As of April 30, 2022, the Company held Nil AUSA shares.

**8. Investment property**

Cost	Land	Building	Leasehold Improvements	Total
	\$	\$	\$	\$
<b>Balance at July 31, 2020</b>	<b>167,550</b>	<b>1,018,704</b>	<b>496,420</b>	<b>1,682,674</b>
Effect of movement in exchange rates	(11,351)	(69,008)	(33,628)	(113,987)
Reclass to Fixed Assets	(156,199)	(949,696)	(462,792)	(1,568,687)
<b>Balance at July 31, 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at April 30, 2022</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Accumulated Depreciation	Land	Building	Leasehold Improvements	Total
	\$	\$	\$	\$
<b>Balance at July 31, 2020</b>	<b>-</b>	<b>209,620</b>	<b>161,518</b>	<b>371,138</b>
Depreciation	-	23,041	36,193	59,234
Effect of movement in exchange rates	-	(14,913)	(12,055)	(26,968)
Reclass to Fixed Assets	-	(217,748)	(185,656)	(403,404)
<b>Balance at July 31, 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at April 30, 2022</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Net Book Value	Land	Building	Leasehold Improvements	Investment property
	\$	\$	\$	\$
<b>Balance at July 31, 2020</b>	<b>167,550</b>	<b>809,084</b>	<b>334,902</b>	<b>1,311,536</b>
<b>Balance at July 31, 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at April 30, 2022</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

**9. Intangible assets and goodwill**

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
	\$	\$	\$	\$	\$	\$	\$
<b>Balance, July 31, 2020</b>	-	-	-	-	-	-	-
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
<b>Balance, July 31, 2021</b>	<b>868,260</b>	<b>651,510</b>	-	<b>766,770</b>	<b>2,286,540</b>	<b>648,519</b>	<b>2,935,059</b>
Additions	-	-	-	-	-	7,397,164	7,397,164
Impairment	(875,467)	(656,916)	-	(773,140)	(2,305,523)	(818,854)	(3,124,377)
Effect of movement in exchange rate	7,207	5,406	-	6,370	18,983	(23,364)	(4,381)
<b>Balance, April 30, 2022</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>7,203,465</b>	<b>7,203,465</b>

Accumulated Amortization	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total intangible assets	Goodwill	Total of Intangible assets and Goodwill
	\$	\$	\$	\$	\$	\$	\$
<b>Balance, July 31, 2020</b>	-	-	-	0	-	-	-
Additions	-	-	-	46,920	46,920	-	46,920
Impairment	-	-	-	-	0	-	0
Effect of movement in exchange rate	-	-	-	11,864	11,864	-	11,864
<b>Balance, July 31, 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58,784</b>	<b>58,784</b>	<b>-</b>	<b>58,784</b>
Additions	-	-	-	77,179	77,179	-	77,179
Impairment	-	-	-	(136,588)	(136,588)	-	(136,588)
Effect of movement in exchange rate	-	-	-	625	625	-	625
<b>Balance, April 30, 2022</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>

Net Book Value	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total intangible assets	Goodwill	Total of intangible assets and Goodwill
	\$	\$	\$	\$	\$	\$	\$
<b>Balance, July 31, 2020</b>	-	-	-	-	-	-	-
<b>Balance, July 31, 2021</b>	<b>868,260</b>	<b>651,510</b>	<b>0</b>	<b>707,986</b>	<b>2,227,756</b>	<b>648,519</b>	<b>2,876,275</b>
<b>Balance, April 30, 2022</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,203,465</b>	<b>7,203,465</b>

Note: The addition of \$5,496,803 of goodwill associated with the acquisition of the business of Outco (Note 3) will be partially allocated to licenses, management agreements in accordance with a valuation to be completed in 2022.

**Neural Therapeutics**

As at the year ended July 31, 2021, management assessed the value of the assets and determined that there was an impairment, and consequently the assets were written down to \$nil.

**Palo Verde**

During the nine months ended April 30, 2022, management assessed the value of the intangible assets at \$nil, and consequently has written off goodwill due to unsuccessful ramp of commercial activities and lack of working capital to

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support the business. At the time of the acquisition on March 12, 2021, goodwill was assessed at \$648,519 (see Note 3).

**East Hill Wellness**

On March 22, 2022, the Company has cancelled its management contract with East Hill Wellness due to depressed flower prices, significant waste during the most recent growing season and an unsuccessful attempts at increasing the capacity for growing plants (see Note 25). As a result, management deemed the goodwill as \$Nil and has written off \$164,905 into the income statement.

**10. Capital assets**

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, the investment property has been moved to Capital assets.

As at April 30, 2022, ROU assets totaling \$1,324,991 (July 31 2021 - \$262,979) were comprised of leased equipment with the additions arising from the Outco asset acquisition.

Cost	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Vehicles	Furniture and Equipment	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance, July 31, 2020</b>	<b>218,041</b>	<b>341,039</b>	<b>681,561</b>	<b>515,301</b>	<b>1,011,302</b>	<b>238,440</b>	-	<b>3,005,684</b>
Additions	-	-	-	62,480	-	-	-	62,480
Reclassification of Investment property	156,199	949,696	462,793	-	-	-	-	1,568,688
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)
<b>Balance, July 31, 2021</b>	<b>360,420</b>	<b>1,270,980</b>	<b>1,102,149</b>	<b>485,375</b>	<b>940,517</b>	-	-	<b>4,159,441</b>
Additions	3,464,151	-	768,537	980,170	1,438,178	-	-	6,651,036
Reclassification of capital assets	-	-	-	(73,430)	73,430	-	-	0
Disposals	-	-	-	(126,660)	(380,247)	0	-	(506,907)
Effect of movement in exchange rates	42,027	26,680	49,927	59,070	65,619	0	-	243,321
<b>Balance, April 30, 2022</b>	<b>3,866,598</b>	<b>1,297,660</b>	<b>1,920,613</b>	<b>1,324,525</b>	<b>2,137,497</b>	-	-	<b>10,546,891</b>

Accumulated Depreciation	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Vehicles	Furniture and Equipment	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance, July 31, 2020</b>	-	<b>24,153</b>	<b>110,284</b>	<b>148,710</b>	<b>453,708</b>	-	-	<b>736,855</b>
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)
<b>Balance, July 31, 2021</b>	-	<b>259,849</b>	<b>350,232</b>	<b>182,207</b>	<b>677,538</b>	-	-	<b>1,469,826</b>
Additions	-	30,143	271,701	220,652	428,706	-	-	951,202
Reclassification of Investment property	-	-	-	-	-	-	-	-
Disposals	-	-	-	75,997	(331,873)	-	-	(407,870)
Effect of movement in exchange rates	-	5,844	42,820	30,190	38,234	-	-	117,088
<b>Balance, April 30, 2022</b>	-	<b>295,836</b>	<b>664,753</b>	<b>357,052</b>	<b>812,605</b>	-	-	<b>2,130,246</b>

Net Book Value	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Vehicles	Office Furniture	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance, July 31, 2020</b>	<b>218,041</b>	<b>316,886</b>	<b>571,277</b>	<b>366,591</b>	<b>557,594</b>	<b>238,440</b>	<b>0</b>	<b>2,268,829</b>
<b>Balance, July 31, 2021</b>	<b>360,420</b>	<b>1,011,131</b>	<b>751,917</b>	<b>303,168</b>	<b>262,979</b>	<b>0</b>	<b>-</b>	<b>2,689,614</b>
<b>Balance, April 30, 2022</b>	<b>3,866,598</b>	<b>1,001,823</b>	<b>1,255,860</b>	<b>967,473</b>	<b>1,324,891</b>	<b>-</b>	<b>-</b>	<b>8,416,645</b>



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**11. Accounts payable and accrued liabilities**

The breakdown of the accounts payable is as follows:

	April 30, 2022	July 31, 2021
	\$	\$
Trade payables and accrued liabilities <sup>(i)</sup>	3,148,606	4,684,388
Excise tax payable <sup>(ii)</sup>	857,104	10,824
Payroll tax payable	294,771	-
<b>Total</b>	<b>4,300,481</b>	<b>4,695,212</b>

- (i) The trade payables and accrued liabilities mainly relate to related party balances (see Note 18).  
(ii) The excise tax payable relates to Q2 2021, Q3 2021, Q4 2021 and Q1 2022 for the nine months ended April 30, 2022 and relate to the Outco business which was acquired on August 31, 2021.

**12. Promissory note payable**

**Pueblo, Colorado**

During the year ended July 31, 2020, the Company refinanced a financing arrangement of its Pueblo, Colorado property. US\$100,000 along with interest of US\$14,400 and penalties of US\$14,433 was repaid and 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 the 2020 secured convertible debentures (see Note 14).

**Neural Therapeutics**

On July 20, 2020, the Company received a \$200,000 loan from Neural Therapeutics. The loan was advanced in anticipation of the acquisition of Neural Therapeutics 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 Neural Therapeutics, the loan was repaid in full.

**Elan Capital**

On August 31, 2021, as part of the acquisition of assets from Outco (Note 3), the Company agreed to assume a US \$280,000 note payable from Elan Capital plus legal fees. The payable is securitized with all personal property located at 287 Vernon Way, El Cajon, California and 817 Wing Street, El Cajon, California including furniture, fixtures, equipment, inventory, accounts receivable and dispensaries licenses owned by Outco and now acquired by the Company.

The note payable is due no later than March 1, 2022, and once satisfied, Elan Capital will release all security interests related to all property described in the aforementioned paragraph.

The Company has agreed to monthly payments of US \$2,800 representing interest payments on the note obligation.

The Company is currently in discussions with Elan to extend the term of its note payable.

**Quilkey Loan**

On August 31, 2021, as part of the acquisition of assets from Outco (Note 3), the Company agreed to assume a US \$50,000 note payable from Paul Quilkey plus accumulated penalties to the date of acquisition. The note payable was due on March 31, 2020.

**East Hill Financial mortgage**

On August 31, 2021, as part of the acquisition of assets from Outco (Note 3), the Company agreed to assume a US \$2,650,000 mortgage for 2500 East Hill Road, Willits, California.

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The property includes a medical cultivation facility and is 60-acres of land. The Company has licenses to operate, cultivate and harvest marijuana plants on four acres of land.

The mortgage is considered non-interest bearing and is due January 1, 2022. The Company is in negotiations with East Hill Financial with respect to the mortgage.

The Company has terminated its management services agreement for East Hill Wellness and is in discussions with East Hill Financial to return the land and terminate its liability under the assumption of the associated mortgage.

**Loan Facility**

On March 14, 2022, the Company closed a one-year, secured, loan facility in the principal amount of US\$400,000 ("Loan Facility").

The Loan Facility was comprised of three tranches, with the first two tranches representing a principal amount of US\$172,500. Interest on the first two tranches of the Loan Facility, during the initial four-month period of US\$22,500, is deducted from the proceeds at closing. In the event that the first two tranches are not repaid within four months, an additional interest charge of US\$17,250 will be due at maturity in one year. The third tranche of the Loan Facility represents a principal amount of US\$300,000 which will accrue interest of US\$45,000 for the initial four-month period with additional interest payments of US\$35,000 if the loan repaid after four-months to the date of maturity in one-year. Notwithstanding the above terms, the Loan Facility is due and payable upon an asset sale by the Company.

As part of the Loan Facility, the lenders were granted 2,250,000 subordinate voting share purchase warrants (each a "Warrant"). Each Warrant entitles the holder to purchase one subordinate voting share of the Company at a price of \$.075 per share and for a period of two years.

The loan has been recorded at a present value of \$530,102 (US\$446,640) with residual equity component(warrants) of \$3,922 (US\$3,359) that is allocated over the life of the loan.

	April 30, 2022	July 31, 2021
	\$	\$
Opening balance	-	200,000
Repayment of principal	-	(200,000)
Issued Bridge loan	<b>613,871</b>	-
Acquisition of promissory note	<b>3,754,452</b>	-
<b>Ending balance</b>	<b>4,368,323</b>	-

**13. Lease liabilities**

**Equipment lease**

On July 26, 2018, pursuant to the acquisition of Pasa Verde, 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).

The Company is in litigation with the leasing company regarding the outstanding balance due under this lease. (see Note 22)

**Sale 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 ("ASC") and Veterans Capital Fund II LP ("Veterans,") for up to

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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. 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 \$25,192 (US\$20,343) (2021 - \$25,487 (US\$20,343)).

The Company entered into a settlement agreement with ASC on July 15, 2021 which resulted the outstanding balance of US\$103,036 being settled as follows; two US\$25,000 payments made on July 31, 2021 and August 31, 2021 (paid); and the issuance of a \$50,464 3-year convertible debenture which is convertible into common shares at any time at the option of ASC at a conversion price equal to \$.35 per share, the debenture shall bear interest at 12% per annum payable upon maturity.

After the settlement with ASC, as at January 31, 2022, outstanding obligation to Veterans is \$609,738 (2021- \$646,845) representing lease payments due. During the year ended July 31, 2021, the Company has paid \$Nil (\$68,400) in interest expense associated with delinquent lease payments. The Company is in discussions with Veterans to settle the amounts outstanding.

As at April 30, 2022, there was leased equipment disposed of \$78,293 (US \$61,975) which was deducted against the amount outstanding.

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. All such warrants have expired.

#### **Facility Lease**

With 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).

#### **Downwind 27 Facility Lease**

On August 31, 2021, as part of the acquisition of Outco, the Company acquired control of the facility lease of 8157 Wing Avenue, El Cajon, located in the County of San Diego, California. The building is approximately 15,000 square feet and operates a marijuana dispensary, 3 cultivation rooms, an extraction lab and packaging. The term of the existing lease started on January 1, 2018, and will end on December 31, 2021. The lease has been extended for another two years to December 31, 2023.

The base rent under the lease is US\$34,000 per month.

#### **SDN Facility Lease**

On August 31, 2021, as part of the acquisition of Outco the Company also acquired control of the facility lease of 8530 Nelson Way Escondido, California. The building is approximately 2,500 square feet. The lease will end on April 30, 2024.

The lease is for base rent of approximately US\$8,000 per month.

The breakdown of lease liabilities is as follows:

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	\$
<b>Balance, July 31, 2020</b>	<b>1,950,706</b>
Lease liability written off	(31,918)
Gain on settlement of lease	(499,095)
Lease asset sold	(562,134)
Cash Paid	(31,323)
Effect of movement on exchange rates	(127,695)
<b>Balance, July 31, 2021</b>	<b>698,541</b>
Additions	1,492,452
Accretion	160,059
Cash Paid	(509,823)
Lease asset sold	(78,293)
Settlement of leases wwith convertible debenture	(50,465)
Gain on settlement of lease	(15,141)
Effect of movement on exchange rates	29,436
<b>Balance, April 30, 2022</b>	<b>1,726,767</b>
<b>Current portion</b>	<b>1,092,736</b>
<b>Long-Term Portion</b>	<b>634,031</b>

Future minimum lease payments payables are as follows:

	April 30, 2022	July 31, 2021
	\$	\$
Less than 1 year	1,186,018	698,541
1 - 5 years	797,469	-
More than 5 years	0	-
Total future minimum lease payments	1,983,487	698,541
Less: amount representing interest	(256,721)	-
Present value of minimum lease payments	1,726,767	698,541
Less: current portion	(1,092,736)	(698,541)
<b>Non-current portion</b>	<b>634,031</b>	<b>-</b>

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

	\$
Balance, July 31, 2020	96,352
Amortization	(63,318)
Effect of movement in exchange rate	(7,547)
Balance, July 31, 2021	25,487
Effect of movement in exchange rate	535
<b>Balance, April 30, 2022</b>	<b>26,022</b>

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#### 14. Convertible debentures

##### March 2018 convertible debentures (Converted 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-month 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.

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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 18). 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

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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 was equal to \$4,730,124.

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) subordinated voting shares. At January 31, 2022, the outstanding balance was 4,630,124. 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.

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.

For the year ended July 31, 2021, the Company recorded accretion expense on the convertible debentures of \$564,565 (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.

On February 3, 2022, one of the holders of the August 2018 Secured Convertible Debentures agreed to a prepayment of \$150,000 in the form of shares of Neural Therapeutics.

On March 22, 2022, one of the holders of the August 2018 Secured Convertible Debentures converted their holdings representing a principal balance of \$25,016 including interest. Pursuant to this conversion, High Fusion issued 416,950 subordinated voting shares.

On March 22, 2022, one of the holders of the August 2018 Secured Convertible Debentures converted their holdings representing a principal balance of \$50,034 including interest. Pursuant to this conversion, High Fusion issued 833,900 subordinated voting shares.

For the nine months ended April 30, 2022, the Company recorded accretion expense on the convertible debentures of \$313,704 (2021 - \$556,767) which were included within finance costs. As at April 30, 2022, \$nil (2021- \$121,972) of the interest expense was recorded in accounts payable and accrued liabilities (see Note 11).

During the nine months ended April 30, 2022, the convertible debenture holders have converted a combined total of \$262,646 (2021 - \$340,000) principal amount of convertible debentures resulting in the issuance of 1,250,849 (2021 - 317,974) subordinated voting shares and 2,000,000 Neural Therapeutics shares (2021 - Nil).

At April 30, 2022, the outstanding balance was 4,167,468. On conversions, the Company reduced the present value of the liability by \$262,6456 (2021 - \$125,069) and derecognized \$1,659 (2021 - \$17,898) of the corresponding derivative liability

**August 2019 convertible debentures (Converted in February 2022)**

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

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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 semi-annual interest payments of \$81,983 (363,081 shares) and for the June 2021 semi-annual interest payments of \$81,092 (223,082 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.

The Company issued common shares for the December 2021 semi-annual interest payments of \$81,983 (1,036,105 shares).

On February 16, 2022, the Company converted all of the August 2019 Secured Convertible Debenture issue representing principal balance of \$1,807,000 plus interest of \$20,914. The debentures were converted at a revised conversion price of \$.06 per share. The total subordinated voting shares issued on the conversion was 30,465,690.

#### **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.

The convertible debentures are secured by a senior lien on the Company's property located in Pueblo, Colorado ("Pueblo Property").

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.



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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 semi-annual interest payments of \$89,306 (426,960 shares). The Company issued common shares for the June 2021 semi-annual 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.

The Company issued common shares for the December 2021 semi-annual interest payments of \$61,986 (859,830 shares).

For the nine months ended April 30, 2022, the Company recorded accretion expense on the convertible debentures of \$202,893 (2021 - \$40,161) which was included within finance costs of which \$43,140 (2021 - \$21,700) was outstanding in accounts payable and accrued liabilities (see Note 11).

#### **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 an unsecured 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 interest at 12% compounded annually, which are convertible into common shares at a conversion price of \$1 per share.

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 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.

For the nine months ended April 30, 2022, the Company recorded accretion expense on the convertible debentures of \$23,219 (2021 - \$3,178) which was included within finance costs of which \$33,205 (2021 - \$Nil) was outstanding in accounts payable and accrued liabilities (see Note 11).

On June 13, 2022 as part of the Second Loan Facility, the holder of the High Pita Debenture agreed to settle \$63,300 of the High Pita Convertible Debenture with US\$50,000 promissory note. After this settlement the remaining balance of the High Pita debenture is \$186,700.

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**Gainor Debentures (August 2021)**

On August 31, 2021, the Company closed the purchase agreement of Outco acquisition in exchange for the Company's shares warrants and assumed debt. The Company assumed a loan from Graig Gainor in the amount of \$268,400.

The Company converted the Gainor debt into an unsecured convertible debenture ("**Gainor Debentures**") valued at \$268,400. The Gainor Debenture is unsecured with a maturity date of the earlier of August 31, 2023 or an asset sale of the Company. The Gainor Debenture bears semi-annual interest at 10% per annum, and is convertible into common shares at a conversion price of \$0.36 per share.

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 debenture has been recorded at a present value of \$198,918 with residual equity component of \$69,482 that is allocated over the life of the debenture.

For the nine months ended April 30, 2022, the Company recorded accretion expense on the convertible debentures of \$55,180 (2021 - \$Nil) which was included within finance costs of which \$14,672 (2021 - \$Nil) was outstanding in accounts payable and accrued liabilities (see Note 11).

Subsequent to January 31, 2022, the Company paid interest to December 31, 2021 of US\$8,971

On February 1, 2022 the holder of the Gainor Debenture converted \$190,000 of the debenture into 2,923,077 subordinated voting shares. Once the debenture is due, the Company will owe \$78,400. The ending balance as of April 30, 2022, of the convertible debenture is \$49,426.

**ASC Debenture (September 2021)**

On September 7, 2021, the Company settled the lease arrangement with ASC Lease Income LLC by issuing \$50,464 convertible debenture (see Note 14).

The Debenture is unsecured with a maturity date of September 7, 2024, bearing 12% interest per annum which accrues to maturity and compounded annually, and are convertible into common shares at a conversion price of \$0.36 per share.

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 debenture has been recorded at a present value of \$41,960 with residual equity component of \$8,504 that is allocated over the life of the debenture.

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  $(\$50,464 / \$0.35)$  144,183 common shares at maturity.

For the nine months ended April 30, 2022, the Company recorded accretion expense on the convertible debentures of \$3,799(2021 - \$Nil) which was included within finance costs of which \$3,799 (2021 - \$Nil) was outstanding in accounts payable and accrued liabilities (see Note 11).

The following is a summary of the convertible debenture liability:

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	April 30, 2022	July 31, 2021
	\$	\$
<b>Balance, beginning of year</b>	<b>6,625,337</b>	10,700,626
Issuance of convertible debentures	318,864	250,000
Conversion of principal debenture	(2,096,953)	(5,673,000)
Unamortized present value discount and transaction costs	(77,986)	(671,504)
Discount amortized	660,153	1,851,378
<b>Balance, end of year</b>	<b>5,429,415</b>	6,625,337
Less: Current portion	4,167,468	-
<b>Non-current portion</b>	<b>1,261,947</b>	6,625,337

The following is a summary of the embedded derivative liabilities related to the convertible debentures:

	April 30, 2022	July 31, 2021
	\$	\$
<b>Balance, July 31, 2021</b>	<b>1,245,645</b>	285,573
Estimated fair value changes of derivative liabilities during the year	(1,218,204)	960,072
<b>Balance, April 30, 2022</b>	<b>27,441</b>	<b>1,245,645</b>

The Company used the Black-Scholes valuation model to estimate the fair value of the derivative liabilities upon the initial measurement and as at April 30, 2022 and the year ended July 31, 2021 using the following assumptions:

	April 30, 2022	July 31, 2021
Risk-free interest rate	2.60%	0.45% -0.50%
Expected dividend yield	0%	0%
Expected stock price volatility	103%	117-154%
Expected life of debentures	< 1 year	1.2-3 years
Forfeiture rate	0%	0%

## 15. Share capital

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

On September 29, 2021, the Company obtained approval from its shareholders to establish a class of multiple voting shares and to change the Common Shares of the Corporation to subordinate voting shares((SVS). The new class of Multiple Voting Shares (MVS) were created for the purpose of completing the acquisition of the assets of Outco while preserving the Company's status as a Foreign Private Issuer under US securities law. Each MVS 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.

On November 16, 2021, the new class of multiple voting shares and subordinate voting shares came into effect. (Such subordinate voting shares are referred to herein as "Shares"). As of the effective date of November 16, 2021, 1,026,918,198 common shares became 51,345,882 with 28 fractional shares eliminated.

### **Multiple Voting Shares**

The new class of Multiple Voting Shares (MVS) were created for the purpose of completing the acquisition of the assets of Outco while preserving the Company's status as a Foreign Private Issuer under the Securities and Exchange Act. Each MVS 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.

- (i) On August 31, 2021, as consideration for the acquisition of the assets of Outco, the Company issued 3,623,243 MVS.
- (ii) On November 24, 2021, the earnout portion of acquisition of the assets of Outco was achieved and the Company subsequently issued 2,684,318 MVS in satisfaction of the earnout.

A portion of the MVS issued in (i) above are held in escrow as follows: 735,730 to be released on September 1, 2022, and 735,730 to be released on March 1, 2023; and 424,125 to be released to a brokerage account for disposition to be

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used for satisfaction of tax liability. The Company may cancel all of a portion of the March 1, 2023, escrowed shares in accordance with the purchase agreement with Outco.

	Number of Shares	\$
Shares to be released as of the close of the transaction	735,730	1,265,455
Shares to be released as of February 28, 2022	735,730	1,265,455
Shares to be released as of August 31, 2022	735,730	1,265,455
Shares to be released as of February 28, 2023	735,730	1,265,455
Shares to be released to a Creditor	424,125	729,495
Shares to be released to a Creditor	113,867	195,851
Shares to be released to a Creditor	101,667	174,867
Shares to be released to a Creditor	40,667	69,947
Shares for Eanout	2,684,318	3,777,150
	<b>6,307,561</b>	<b>10,009,128</b>
High Fusion SVS issued in Q3 2022	(77,080)	(122,314)
Fractional shares that were not distributed	(177)	(281)
	<b>6,230,304</b>	<b>9,886,533</b>

As at April 30, 2022 the Company had 6,230,304 MVS outstanding.

**Subordinated Voting Shares (“Shares”)**

	Number of Shares	Amount
<b>Balance, July 31, 2020</b>	<b>20,862,305</b>	<b>38,421,113</b>
Shares issued for settlement of accounts payable debt <sup>(xii)</sup>	2,212,679	1,098,044
Shares issued on acquisition of Neural Therapeutics <sup>(xi)</sup>	6,876,148	4,125,689
Shares issued of interest paid on convertible debentures <sup>(xiv)</sup>	2,087,250	587,237
Shares issued from conversion of convertible debentures <sup>(xiii)</sup>	4,875,000	646,721
Shares issued on forced conversion of convertible debentures <sup>(xiii)</sup>	14,182,500	5,673,000
Shares issued on exercise of RSUs	150,000	75,000
Shares issued for acquisition of Palo Verde <sup>(x)</sup>	100,000	40,000
<b>Balance, July 31, 2021</b>	<b>51,345,882</b>	<b>50,666,804</b>
Shares issued for transaction costs for acquisition of Outco <sup>(i)</sup>	1,822,627	-
Share issued for settlement of accounts payable debt <sup>(ii)</sup>	544,242	119,471
Shares issued of interest paid on convertible debentures <sup>(iii)</sup>	1,895,935	143,966
Shares issued on full settlement of 2019 convertible debentures <sup>(iv)</sup>	30,465,690	1,827,941
Shares issued on settlement of accounts payable debt <sup>(v)</sup>	32,710,087	1,962,605
Shares issued on exercise of Multiple voting shares from the Outco acquisition <sup>(vi)</sup>	770,800	122,314
Shares issued on partial settlement of Gainor convertible debenture <sup>(vii)</sup>	2,923,077	190,000
Shares issued on partial settlement of 2018 convertible debenture <sup>(viii)</sup>	1,250,850	75,042
Shares issued on settlement of accounts payable debt <sup>(ix)</sup>	8,301,637	434,521
<b>Balance, April 30, 2022</b>	<b>132,030,827</b>	<b>55,542,664</b>

**For the nine months ended April 30, 2022**

- (i) On August 31, 2021, as consideration for a fee associated with the acquisition of the assets of Outco, the Company issued 1,822,627 shares (see Note 18).
- (ii) On November 21, 2021, the Company entered into settlement agreements with third-party consultants representing \$119,471 to convert such amounts owed into 522,242 units at an average conversion price of \$0.22 per unit.
- (iii) Interest on convertible debentures (see Note 14).
- (iv) On February 22, 2022, 30,465,690 SVS were issued for full settlement of the 2019 convertible debentures (see Note 14)
- (v) On February 22, 2022, 32,710,087 SVS were issued to settle accounts payable debt
- (vi) Multiple voting shares exercised into SVS (see Note 15).
- (vii) On February 1, 2022, the Company issued 2,923,077 SVS in partial settlement of \$190,000 in Gainor convertible debentures (see Note 14).
- (viii) On March 2, 2022, the Company issued 1,250,850 SVS in partial settlement of the 2018 convertible debenture (see Note 14)

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(x) On April 20, 2022, the Company issued 8,301,637 SVS to settle accounts payable deb of \$434,525.

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- (x) Palo Verde acquisition and the assignment of the 3<sup>rd</sup> party debt from High Pita 100,000 common shares in the capital of NHII were issued (see Note 3).
- (xi) Neural Therapeutics acquisition (see Note 3).
- (xii) On August 5, 2020 the Company settled accounts payable debt with the issuance of common shares which were subsequently converted to subordinated voting 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 subordinated voting share and one warrant, with each warrant entitling the holder to acquire one subordinated voting share of the Company at any time on or before December 31, 2020, at a price of \$1.00 per subordinated voting share. These units were issued on August 5, 2020, and all the attached warrants expired unexercised.
- (xiii) Convertible debenture conversion and forced conversion (see Note 14).
- (xiv) Interest on convertible debentures (see Note 14).

**16. Reserve for share-based payments**

	<b>Amount</b>
<b>Balance, July 31, 2020</b>	<b>\$4,591,263</b>
RSUs granted	1,014,795
RSUs exercised	(75,000)
<b>Balance, July 31, 2021</b>	<b>\$5,531,058</b>
RSUs granted	644,110
RSUs cancelled	(25,000)
<b>Balance, April 30, 2022</b>	<b>\$6,150,168</b>

**Options**

The Company has an incentive stock option plan (the "Option Plan") whereby non-transferable options to purchase subordinated voting 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 subordinated voting shares less the number of subordinated voting shares reserved for issuance of RSUs.

The following is a summary of outstanding stock options for the nine months ended April 30, 2022, and year ended July 31, 2021:

	<b>Number of Options</b>
<b>Balance, July 31, 2020</b>	<b>729,000</b>
Options forfeited	(161,500)
Options expired	(72,500)
<b>Balance, July 31, 2021</b>	<b>495,000</b>
Options forfeited	- 35,000.00
Options expired	(220,000)
<b>Balance, April 30, 2022</b>	<b>240,000</b>

In connection to the options granted to employees, directors and consultants during the nine months ended April 30, 2022 and the year ended July 31, 2021, 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 subordinated voting shares of the Company as a reference on grant date.

There were no options granted in the nine months ended April 30, 2022, and the year ended July 31, 2021.

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

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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 April 30, 2022, the following stock options were outstanding:

Expiry Date	Exercise Price	Outstanding	Exercisable
May 8, 2023	\$7.20	100,000	120,000
August 12, 2024	\$4.00	140,000	140,000
		<b>240,000</b>	<b>260,000</b>

As at April 30, 2022, the weighted average exercise price of options exercisable was \$5.47 (July 31, 2021 - \$4.20), the weighted average exercise price of options outstanding was \$5.33 (July 31, 2021 - \$4.20) and the weighted average remaining contractual life of stock options was 1.65 years (July 31, 2021 - 1.29 years). For the nine months ended April 31, 2022, the weighted average exercise price of stock options exercised was \$Nil (2021 - \$Nil).

#### **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 subordinated voting shares 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.

The following is a summary of the RSUs outstanding for the nine months ended April 30, 2022, and the year ended July 31, 2021:

	Number of RSUs	Grant date fair value
<b>Balance, July 31, 2020</b>	<b>609,332</b>	<b>\$ 1.60</b>
RSUs granted	2,150,000	\$ 0.04
RSUs exercised	(150,000)	\$ 0.03
<b>Balance, July 31, 2021</b>	<b>2,609,332</b>	<b>\$ 0.68</b>
RSUs granted	9,273,000	\$ 0.07
RSUs cancelled	(62,500)	\$ 0.04
<b>Balance, January 31, 2022</b>	<b>11,819,832</b>	<b>\$ 0.20</b>

#### **17. Reserve for warrants**

The following table reflects the continuity of warrants:

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	Number of Warrants	Amount
<b>Balance, July 31, 2020</b>	<b>3,501,400</b>	<b>\$3,382,530</b>
Warrants issued to Neural Therapeutics 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	73,303
Warrants expired	(2,266,844)	-
<b>Balance, July 31, 2021</b>	<b>10,673,475</b>	<b>\$6,577,402</b>
Warrants issued to Outco Shareholders	3,253,333	531,441
Warrants issued for Bridge loan financings	2,250,000	4,291
Warrants expired	(330,706)	-
<b>Balance, April 30, 2022</b>	<b>15,846,102</b>	<b>\$7,113,134</b>

The estimated fair value of warrants issued during the nine months ended April 30, 2022, and the year ended July 31, 2021 was determined using the Black-Scholes option pricing model with the following assumptions:

	April 30, 2022	July 31, 2021
Risk-free interest rate	2.62%	0.43%
Expected dividend yield	0%	0%
Expected stock price volatility	169%	230%
Expected life of warrants	0.8 years	1.29 years

As at April 30, 2022, the following warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants Outstanding and Exercisable
May 29, 2022	\$6.00	64,468
May 29, 2022	\$4.00	5,085
May 29, 2022	\$6.00	7,489
July 24, 2022	\$4.00	155
August 22, 2022	\$4.80	23,263
March 31, 2023	\$1.00	41,768
May 8, 2023	\$1.00	13,600
June 3 2022	\$1.00	250,000
July 16 2022	\$1.00	32,583
July 16 2022	\$0.60	2,607
July 17 2022	\$1.00	53,724
July 17 2022	\$0.60	4,298
July 22 2022	\$1.00	7,500
July 23 2022	\$0.60	600
March 14, 2024	\$1.00	10,000
August 31, 2023	\$0.60	101,667
August 31, 2023	\$1.00	61,000
March 14, 2024	\$0.08	2,250,000
		<b>2,929,805</b>

As at April 30, 2022, the weighted average exercise price of the warrants was \$0.43 (2021 - \$0.10) and the weighted average remaining contractual life of the warrants was 0.62 years (2021 - 1.04 years).

During the nine months ended April 30, 2022, the weighted average exercise price of the warrants exercised was \$nil (2021 - \$nil).

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**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 nine months ended April 30, 2022 and April 30, 2021:

- a. Incurred professional fees of \$21,000 (2021 - \$35,000) from Branson Corporate Services ("BCS"). BCS is a company in which Adam Szweras and his wife have a 39% ownership interest. As at April 30, 2022, \$Nil (April 30, 2021 - \$81,068) was due to BCS. February 16, 2022, the Company settled the full amount of the outstanding balance, \$94,673, with Branson and has discontinued its contract with this vendor.
- b. Incurred fees of \$204,440 (2021 - \$122,500) from FMI Capital Advisory Inc. ("FMICA"). FMICA is a subsidiary of Foundation Financial Holdings Corp. ("FFHC"), an entity of which Adam Szweras is a director and chairman. As at April 30, 2022, \$55,826 (April 30, 2021 - \$311,929) was due to FMICA. On February 16, 2022, the Company settled \$288,869 of the outstanding balance through the issuance of 4,814,483 Subordinated Voting Shares of the Company. (see note 18(s).)

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

On December 17, 2021 the Company entered into a Financial Advisory Agreement with FMICA related to services provided to the Company's wholly-owned subsidiary Neural Therapeutics Inc. A work fee of \$10,000 per month is payable by Neural Therapeutics Inc. under the agreement commencing on September 1, 2021. ("Work Fee"). In addition, under the agreement, FMICA shall earn equity in Neural Therapeutics upon completion of a financing plus an additional equity interest upon completion of the listing of Neural Therapeutics on an exchange. ("Equity Fee")

On December 17, 2021 the Company entered into a Financing Engagement with Foundation Markets Inc. (A company an entity of which Adam Szweras is a director and chairman) related to services provided to the Company's wholly-owned subsidiary Neural Therapeutics. This agreement provides for a finder's fees associated with the financing undertaken Neural Therapeutics.

The Work Fee and Equity Fee due to FMICA as well as the finder's fee due to Foundation Markets were satisfied with the issuance of shares and warrants in Neural Therapeutics and with proceeds from the Neural Therapeutics financing. Upon closing of the NT Financing on February 3, 2022, Foundation Markets Inc received: \$43,710 from the proceeds of the financing and 575,800 Broker Warrants in Neural Therapeutics (each Broker Warrant is exercisable into one Neural Therapeutics common shares for a period of 2 years at \$.075) Upon closing of the NT Financing, FMICA received: \$56,500 for payment of outstanding Work Fees and 1,833,333 common shares in Neural Therapeutics representing the first portion of the Equity Fee plus \$17,875 from the proceeds of the NT Financing representing HST on the Equity Fee. (see note 18(s) )

- c. Incurred marketing expenses of \$Nil (2021 - \$14,550) and share-based payments of \$Nil (2020 - \$Nil) from Plexus Cybermedia Ltd. ("Plexus"), a company in which a director, Brian Presement, has a 33% ownership interest and is director. As at April 30, 2022, \$Nil (April 30, 2021 - \$Nil) was due to Plexus.
- d. Incurred expenses of \$1,333 (2021 - \$2,152) from Unite Communications Ltd. ("Unite"), a company in which a director, Brian Presement, has a 100% ownership interest. As at April 30, 2022, \$5,735 (April 30, 2021 - \$3,230) was due to Unite.
- e. Incurred professional fees of \$47,861 (2021 - \$40,505) from Fogler, Rubinoff, LLP ("Fogler"), a law firm in which a director, Adam Szweras, is Counsel. As at April 30, 2022, \$9,757 (April 30, 2021 - Due to Fogler \$36,883) was due from Fogler.
- f. Included in professional fees of \$3,825 (2021 - \$67) fees charged from Johnson, Rovella, Retterer, Rosenthal & Gilles LLP ("JRG"), a law firm in which a director, Aaron Johnson, is a partner. As at April 30, 2022, \$3,892 (April



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30, 2021 - \$67) was due to JRG.

- g. Incurred management compensation to key management and directors of \$565,500 (2021 - \$689,996). Please see Note (q) for the RSUs issued to the key management and directors. As at April 30, 2022, \$314,858 (April 30, 2021 - \$876,384) was owed to officers of the Company related to compensation. On February 16, 2022, the Company settled \$1,071,065 of the outstanding compensation payable with the issuance of 17,851,083 subordinated voting shares of the Company. (see note 18(s))
- h. Included in accounts payable and accrued liabilities due to Adam Szweras and his holding company, as at April 30, 2022, were loans of \$Nil (2021 - \$182,129), a loan payable of \$12,000 plus interest due of \$1,443 at 12%, and a payable of \$8,126 (April 30, 2021 - \$0). On February 16, 2022, the Company settled \$188,300 of the outstanding loans payable and converted other payables of \$275,565 due to Adam Szweras and his holding company with the issuance of 7,731,083 subordinated voting shares of the Company. (see note 18(s) s). Adam Szweras also participated in the Second Loan Facility which included conversion of payables due from the Company (see note 18(t)).
- i. 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.
- j. On September 30, 2020, John Durfy, CEO and Robert Wilson, CFO, through their respective holding companies, together with non-related parties entered into an agreement with a creditor to the Company to purchase US\$48,374.26 in debt from the creditor. Such agreement transfers all obligations due by the Company from the creditor to the related parties listed above. On February 16, 2022, the Company settled the full amount of this outstanding balance with John Durfy and Robert Wilson. (see note 18(s))
- k. Included in August 2019 convertible debentures are \$250,000 and \$100,000 of convertible debentures issued to Adam Szweras and Brian Presement, respectively. On February 16, 2022, the Company converted the full amount of the August 2019 convertible debentures. (see note 18(s))
- l. On August 17, 2020, the Company closed the acquisition of Neural Therapeutics. A director of the Company, Tom Kruesopon, was a partial owner of Neural Therapeutics. 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.

On February 3, 2022, the Company completed the NT Financing (see Note 18 (b). and Note 3). Concurrently with completion of the equity financing into Neural Therapeutics, High Fusion has completed an in-kind debt settlement ("**Debt Settlement**"), pursuant to which High Fusion has transferred 5,600,000 Neural Shares to settle approximately \$420,000 of High Fusion liabilities. Pursuant to the Debt Settlement, approximately 2,666,667 Neural Shares were issued to certain non-arm's length parties ("**Insiders**") to settle debt obligations of High Fusion to such Insiders. Insider debt settlement includes: FMICA received 800,000 Neural Therapeutics shares to settle \$60,000 in work fees; John Durfy, CEO received 1,733,333 Neural Therapeutics shares to settle \$130,000 in accrued salary associated with Neural Therapeutics; and Robert Wilson, CFO received 933,333 Neural Therapeutics shares to settle \$70,000 in accrued salary associated with Neural Therapeutics. Pursuant to *Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**"), the Debt Settlement with Insiders constituted a "related party transaction" as certain transferees were considered to be related parties to High Fusion. The Company relied on exemptions from the formal valuation and minority approval requirements of MI 61-101 (pursuant to subsections 5.5(a) and 5.7(a)) as the fair market value of the securities transferred to, and the consideration received from, the Insiders did not exceed 25% of the Company's market capitalization. The Debt Settlement has been approved by all the independent directors of the Company. The Company did not file a material change report 21 days before the completion of the Debt Settlement as the participation of the Insiders had not been confirmed at that time.

- m. Incurred expenses of \$15,000 USD (2021 - \$Nil) for the advisory services of Billy Morrison. As at April 30, 2022, \$6,000 USD (April 30, 2021 - \$0) was due to Billy Morrison.
- n. Included in 2020 convertible debentures were:
  - i. \$670,678 received from Adam Szweras;

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- 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
- o. 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. 7,353,965 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.
- p. 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 units
  - ii. Brian Presement, 112,500 units
  - iii. Jason Dyck, 75,000 units
  - iv. Billy Morrison, 75,000 units
  - v. Tom Kruesopon, 62,500 units
  - vi. Adam Szweras, 500,000 units
  - vii. John Durfy, 750,000 units
  - viii. Rob Wilson, 500,000 units
- q. On January 27, 2022, 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 9,273,000 RSU options as follows subject to approval of the CSE
- i. John Durfy, 2,900,000 units
  - ii. Robert Wilson, 2,200,000 units
  - iii. Adam Szweras, 1,743,000 units
  - iv. Brian Presement, 643,000 units
  - v. Aaron Johnson, 429,000 units
  - vi. Billy Morrison, 429,000 units
  - vii. Jason Dyck, 429,000 units
  - viii. Edward Abella, 500,000 units
- r. Included in accounts payable as at January 31 2022, is \$42,900 payable in equal parts to John Durfy, Adam Szweras and Robert Wilson in repayment of D&O Insurance expenses paid on behalf of the company. During the quarter ended April 30, 2022, the Company settled the full amount outstanding loans payable with the issuance of 4,592,750 subordinated voting shares of the Company. (see note 18 (h) and 18(s)).
- s. On February 16, 2022, 22,433,569 subordinate voting shares were issued to certain non-arm's length parties ("**Insiders**"<sup>1</sup>) to settle \$1,346,014 of obligations of High Fusion to such Insiders Pursuant to the Debenture Conversion. Further 5,900,936 subordinate voting shares will be issued to certain Insiders to settle \$354,056 of High Fusion debenture principal and interest to such Insiders. Pursuant to *Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions ("MI 61-101")*, the Debt Settlement with Insiders

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<sup>1</sup> The relevant securities act definition of Insiders does not include related parties, FMICA and Branson and, as such, these amounts converted to subordinated voting shares are excluded from this definition.

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constituted a "related party transaction" as certain transferees were considered to be related parties to High Fusion. The Company relied on exemptions from the formal valuation and minority approval requirements of MI 61-101 (pursuant to subsections 5.5(a) and 5.7(a)) as the fair market value of the securities transferred to, and the consideration received from, the Insiders did not exceed 25% of the Company's market capitalization. The Debt Settlement has been approved by all of the independent directors of the Company. The Company did not file a material change report 21 days before the completion of the Debt Settlement as the participation of the Insiders had not been confirmed at that time.

- t. Pursuant to the Second Loan Facility, US\$50,000 represents a related party transaction to a non-arm's length party ("**Insider**"). Such Insider have been issued a promissory note for US\$50,000 representing a cash contribution of US\$26,115.78 and US\$23,884.22 representing settlement of debt obligations of High Fusion to such Insider. In addition, 250,000 Warrants have agreed to be issued to such insider once the Company's blackout period has ended. Pursuant to *Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions ("MI 61-101")*, the above transactions with Insiders constituted a "related party transaction" as certain transferees were considered to be related parties to High Fusion. The Company relied on exemptions from the formal valuation and minority approval requirements of MI 61-101 (pursuant to subsections 5.5(a) and 5.7(a)) as the fair market value of the securities transferred to, and the consideration received from, the Insiders did not exceed 25% of the Company's market capitalization. The Debt Settlement has been approved by all of the independent directors of the Company. The Company did not file a material change report 21 days before the completion of the Debt Settlement as the participation of the Insiders had not been confirmed at that time.

#### **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 nine months ended April 30, 2022, the Company recorded \$nil (2021 - \$Nil) of the net loss and comprehensive loss related to Eglinton Medicinal Advisory Ltd.

The Company's 49% interest in Neural Theapeutics Inc. is consolidated into the Company's consolidated financial statements. The 51% interest attributable to a minority shareholder is presented as "non-controlling interest" within shareholders' deficiency on the consolidated statements of financial position.

For the nine months ended April 30, 2022, the Company recorded \$\$135,065 (2021 - \$Nil) of net loss and comprehensive loss related to Neural Therapeutics Inc. In addition, \$662,902 and a cumulative non-controlling interest of \$507,098 reflects the change in ownership in Neural Therapeutics Inc. from 100% to 49% interest in the entity.

#### **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 six months ended April 30, 2022. 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 April 30, 2022 totaled \$3,181,265 (2021 – Shareholders deficit - \$6,162,620).

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

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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.

	Financial Instrument Classification	Carrying Amounts	
		April 30, 2022	July 31, 2021
<b>Financial Assets</b>			
Cash	Amortized Cost	<b>565,193</b>	21,268
Accounts Receivable	Amortized Cost	<b>1,194,630</b>	78,054
Investments	FVTPL	-	1,204,321
<b>Financial Liabilities</b>			
Accounts Payable & accrued liabilities	Amortized Cost	<b>4,300,481</b>	4,695,212
Promissory Note payable	Amortized Cost	<b>4,368,323</b>	-
Lease Liabilities	Amortized Cost	<b>1,726,767</b>	698,541
Derivative Liabilities	FVTPL	<b>27,441</b>	1,245,645
Convertible Debenture	Amortized Cost	<b>5,429,415</b>	6,625,337
<b>Total</b>		<b>(14,092,604)</b>	(11,961,092)

Other than convertible debentures (see Note 14) and lease liabilities (see Note 13), the carrying values of all the financial assets and liabilities measured at amortized cost approximate their values as at April 30, 2022 and July 31, 2021.

**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 April 30, 2022 and the year ended July 31, 2021.

The derivative liabilities (Note 14) have been classified as Level 3 in the fair value hierarchy as at April 30, 2022 and the year ended July 31, 2021. The unrealized gains (losses) for the nine months ended April 30, 2022 were a gain of \$1,218,204 (April 30, 2021- \$Nil).

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,

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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 April 30, 2022, the Company had working capital deficit of \$10,542,867 (July 31, 2021- \$5,103,172 Deficit), current assets of \$4,362,336 (July 31, 2021 - \$1,713,508) and current liabilities of \$14,905,203 (July 31, 2021 - \$6,816,680).

**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 \$911,000 (July 31, 2021 - \$793,000) 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**

For the year ended July 31, 2021, a line of product produced for one supplier, being DAB Products, represented approximately 35% of total sales.

**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 <sup>(1)</sup>	1,633,053	910,497	-	-	2,543,550
<b>Total</b>	1,633,053	910,497	-	-	2,543,550

(1) Lease obligations (see Note 13) relate to the equipment lease for \$361,009USD (inclusive of Legal Fees), \$438,279USD with Veterans and the Downwind 27 Facility lease and SDN Facility lease. The lease obligations related to Veterans 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

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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 its guarantee for the balance due under the Chatsworth lease.

#### **Outco Acquisition**

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 subsequent event note 27). Of 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 see part 4. b. of the Outco acquisition note 3). As part of the acquisition of the assets of Outco, on August 31, 2021, the Company entered into a number of conditional settlement and general release for debt which the Company assumed. 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.

As of April 30, 2022, the principal balance due to Elan Capital to \$185,823.10. The Company is in discussions to settle the obligation to Elan Capital.

The Company has delivered, and Elan Capital has accepted product in partial payment of its obligation which represented \$260,000 on January 31, 2022. The Company is in discussions with Elan Capital to extend the term of this obligation.

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*Unrecognized tax expense associated with 280E*

The Company operates in the legal cannabis industry but is subject to Section 280E of the Internal Revenue Code ("IRC"). Section 280E prohibits businesses engaged in the trafficking of controlled substances (within the meaning of Schedule I and II of the Controlled Substance Act) from deducting normal business expenses associated with the sale of cannabis, such as payroll and rent, from gross income (revenue less cost of goods sold). The application of Section 280E has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. Section 280E was originally intended to penalize criminal market operators, but because cannabis remains a Schedule I controlled substance for U.S. Federal purposes, the Internal Revenue Service ("IRS") has subsequently applied Section 280E to state legal cannabis businesses. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable and a higher effective tax rate than most industries. The state of California, which the Company operates, allows for the deduction of all ordinary and necessary operating expenses.

The IRS has invoked Section 280E in tax audits against various state-legal cannabis businesses in the U.S.. Although the IRS has issued a clarification allowing the deduction of certain expenses, the scope of this allowance is interpreted very narrowly, resulting in the non-deductibility of certain operating and general administrative costs. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to the cannabis industry. Further, there are several pieces of legislation being considered by the U.S. Congress that could change the interpretation of Section 280E by removing its applicability to the legalized cannabis industry.

The Company records tax for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting date. There is inherent uncertainty in quantifying income tax positions, especially considering the complex tax laws and regulations federal purposes. The Company has recorded tax for those tax positions where it is more likely than not that a tax will result upon ultimate settlement with a tax authority that has all relevant information. For those income tax where it is not more likely than not that a tax will result, no tax has been recognized in the consolidated financial statements.

With the acquisition of the assets of Outco, the Company has consolidated the assets and liabilities of the D27 and SDN which have an estimated unrecognized tax liability of US\$1,069,041. This estimated unrecognized tax liability was incurred prior to the Company acquiring control of these entities and, based on management assessment, is more likely than not that no tax liability will result upon ultimate settlement with a tax authority that has all relevant information.

With the acquisition of the assets of OutCo, the Company has consolidated the assets and liabilities of the D27 which, at April 30, 2022 have unpaid excise tax of US\$857,104 inclusive of interest which has been recorded in the financial statements for the period ended April 30, 2022. In addition to the above, the California Department of Tax and Fee Administration has indicated that penalties in the amount of US\$521,925 are also due. Management believes that there is a high likelihood that these penalties will qualify for abatement upon full satisfaction of the base amounts due plus interest. On this basis the penalties have not been included in liabilities and are considered contingent

## **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\$435,849 representing past due rent, late fees; in interest minus proceeds from the sale of equipment. 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.

The primary defendant under this action has agreed to settle with Leasing Innovations for a letter amount of the claim. As a result of a guarantee by the company, the Company may be partially or wholly responsible for the settlement amount. Discussions are ongoing in this regard.

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**23. General and administrative**

	Nine months ended April 30, 2022	Nine months ended April 30, 2021
	\$	\$
Bank charges	101,976	50,035
Marketing	104,191	-
Insurance	195,486	197,141
Listing and investor relations fees	92,025	86,209
Office and general	204,542	26,342
Professional Fees	270,339	31,947
Permit and licenses	251,719	37,197
Rent and property taxes	365,194	307,459
Repair and maintenance	79,292	17,287
Research and development	-	-
Security	142,377	2,370
Office supplies	26,334	11,049
Transportation	-	0
Travel	46,038	13,284
<b>Total</b>	<b>1,879,514</b>	<b>780,320</b>

**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 (see Note 25).

Therefore, the table below does not include the results from Calyx business for the nine months ended April 30, 2022 and the year ended July 31, 2021.

	Palo Verde (Colorado)	Pasa Verde (California)	Outco (California)	Oregon	Colorado	Nevada	Washington	Total
<b>For the nine months ended April 30, 2022</b>								
Total sales	\$ 538,592	\$ -	\$ 4,129,809	\$ -	\$ -	\$ -	\$ -	\$ 4,668,401
Cost of goods sold	(213,974)	-	(2,629,013)	-	-	-	-	(2,842,987)
Gross profit (loss)	\$ 324,618	\$ -	1,500,796	\$ -	\$ -	\$ -	\$ -	\$ 1,825,414
<b>For the nine months ended April 30, 2021</b>								
Total sales	50,753	-	-	-	-	-	-	\$ 50,753
Cost of goods sold	(81,034)	-	-	-	-	-	-	(81,034)
Gross profit (loss)	\$ (30,281)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (30,281)

	Palo Verde (Colorado)	Pasa Verde (California)	Outco (California)	Oregon	Colorado	Nevada	Washington	Total
<b>As at April 30, 2022</b>								
Capital assets	\$ -	\$ -	\$ 6,040,587	\$ 960,113	\$ 1,365,849	\$ 50,096	\$ -	\$ 8,416,645
Investment property	-	-	\$ -	-	\$ -	-	-	\$ -
Intangible assets	-	-	\$ -	-	-	-	-	-
Goodwill	-	-	\$ 7,203,465	-	-	-	-	7,203,465
<b>As at July 31, 2021</b>								
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



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**25. 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 13)

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 three months and nine months ended April 30, 2022, and year ended July 31, 2021. 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 the six months ended April 30, 2022, and year ended July 31, 2021:

	<b>Six months ended January 31 2022</b>	Year Ended July 31 2021
		<b>\$</b>
<b>Revenue</b>	-	1,316,039
<b>Cost and expenses</b>		
Cost of Sales	-	1,106,379
Salaries, benefits and consulting fees	-	570,147
General and administrative	-	358,940
Depreciation and amortization	-	59,797
Gain on disposal of net assets of Calyx	-	(10,582,587)
Other (income) expenses	-	20,971
	-	(8,466,354)
Earnings (losses) before taxes	-	9,782,392
Current income taxes	-	11,178
<b>Total</b>	-	9,771,214

The breakdown of cashflows from discontinued operations is as follows:

	<b>Six months ended January 31, 2022</b>	Year ended July 31, 2021
	<b>\$</b>	<b>\$</b>
Net cash used in operating activities	-	21,885
Net cash used in investing activities	-	-
Net cash used in financing activities	-	-
Effect of FX on cash	-	(3,691)
Change in cash during the year	-	18,194

The breakdown of the net assets disposed of, is as follows:

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

Effective on March 22, 2022, the Company has cancelled its management contract with East Hill Wellness and is in discussions to return the Mendicino property to East Hill Financial in exchange for the termination of the assumption of the US\$2,650,000 note associated with this property.

The following table summarizes the operating results of East Hill Wellness which have been aggregated and presented as discontinued operations for the nine months ended April 30, 2022, and year ended July 31, 2021:

	<b>Nine months ended</b>	<b>Year ended</b>
	<b>April 30, 2022</b>	<b>July 31, 2021</b>
	\$	\$
Revenue	213,381	-
Cost and expenses		
Cost of Sales	846,093	-
Salaries, benefits and consulting fees	110,802	-
General and administrative	16,140	-
Gain on disposition of EHW business	(874,196)	-
Depreciation and amortization	19,707	-
Other (income) expenses	75,798	-
	<b>194,344</b>	-
Earnings (losses) before taxes	19,037	-
Current income taxes\		-
<b>Total</b>	<b>19,037</b>	-

The breakdown of cashflows from discontinued operations is as follows:

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	Nine months ended April 30, 2022	Year ended July 31, 2021
	\$	\$
Net cash used in operating activities	(87,963)	-
Net cash used in investing activities	108,213	-
Net cash used in financing activities	-	-
Effect of FX on cash	(20,619)	-
Change in cash during the year	(369)	-

The breakdown of the net assets disposed of, is as follows:

**Consideration for the disposal of East Hill Wellness Inc.:** -

**Net assets disposed:**

Cash	605
Accounts receivable, prepaids, deposits	176,721
Property, plant & equipment	57,166
<b>Total assets disposed</b>	<b>234,492</b>
<b>Total liabilities disposed:</b>	
Accounts payable and accrued liabilities	(1,108,687)
<b>Total liabilities disposed</b>	<b>(1,108,687)</b>
<b>Net liabilities disposed</b>	<b>(874,196)</b>
<b>Gain on EHW in net earnings from discontinued operations</b>	<b>(874,196)</b>

**26. Supplementary cash flow information**

Additional supplementary cash flow information for the nine months ended April 30, 2022 and April 30, 2021 are as follows:

	April 30, 2022	April 30, 2021
Shares issued for debt settlement	4,753,546	1,098,044
Shares issued for purchase of Neural Therapeutics		4,125,689
Warrants issued for purchase of Neural Therapeutics		2,776,860
Options issued for purchase of Neural Therapeutics		66,947
Shares issued for conversion of convertible debenture		6,634,317
Special warrants issued for purchase of Outco	10,009,128	
Parent warrants issued for purchase of Outco	531,443	
Convertible debenture issued for ASC Lease liability	50,465	
Shares issued to FMICA for transaction cost related to Outco	364,525	
Convertible Debenture issued for purchase of Outco	268,400	

**27. Subsequent events**

**August 2018 Debenture Amendments**

On May 24, 2022, one of the holders of the August 2018 Secured Convertible Debentures converted a portion of their holdings representing \$100,000. Pursuant to this conversion, High Fusion issued 1,666,667 subordinated voting

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shares. (This conversion was subsequently amended on June 21, 2022 to reflect an adjustment to the conversion price resulting in the issuance of an addition 333,333 subordinated voting shares)

On June 10, 2022, one of the holders of the August 2018 Secured Convertible Debentures converted a portion of their holdings representing \$100,000. Pursuant to this conversion, High Fusion issued 1,666,667 subordinated voting shares. (This conversion was subsequently amended on June 21, 2022 to reflect an adjustment to the conversion price resulting in the issuance of an addition 333,333 subordinated voting shares)

After the above conversions the balance due under the August 2018 secured debenture is \$4,205,073 which includes all interest due to maturity on August 4, 2022.

In June 2022, the holders of the August 2018 Secured Convertible Debentures agreed to amend the terms of the debentures to consent to enter into the Second Loan Facility to a maximum amount of US\$400,000 (see Second Loan Agreement below).

**High Pita Debenture Amendment**

On June 13, 2022 as part of the Second Loan Facility, the holder of the High Pita Debenture agreed to settle \$63,300 of the High Pita Convertible Debenture with US\$50,000 promissory note. After this settlement the remaining balance of the High Pita debenture is \$186,700.

**Second Loan Facility**

On June 13, 2022 the Company closed a one-year, secured, loan facility in the principal amount of US\$400,000 ("Second Loan Facility"). The Second Loan Facility is comprised of three tranches, representing a total principal amount of US\$400,000 which has a term of one year and will accrue interest at 26% per annum. Of the principal amount, US\$326,115.78 has been advanced to the Company and the remaining US\$73,884.22 represents settlement of other obligations. Such other obligations include US\$50,000 portion of a debenture and US\$23,884.22 in payables. Notwithstanding the above terms, the Second Loan Facility is due and payable upon an asset sale by the Company. (see Related Party Transactions)

As part of the Second Loan Facility, the lenders will be granted 2,000,000 subordinate voting share purchase warrants (each a "Warrant"). Each Warrant will entitle the holder to purchase one subordinate voting share of the Company at a price of \$.05 and for a period of two years.

**San Diego Natural dispensary**

On May 31, 2022 the Company signed an agreement to sell its San Diego Natural dispensary in Escondido, California ("SDN") for net proceeds of US\$1.6 million. On June 30, 2022 the agreement was terminated. The Company intends to continue to work towards a sale of San Diego Natural.