MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE FIRST QUARTER ENDED APRIL 30, 2022

June 30, 2022

This management's discussion and analysis ("**MD&A**"), dated June 30, 2022, is management's assessment of the operations and the financial results of High Fusion Inc. ("High Fusion", or the "Company"). This MD&A should be read in conjunction with the Company's consolidated financial statements and related notes for the period ended April 30, 2022, prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All figures are in Canadian dollars unless stated otherwise.

This discussion contains forward-looking statements that are historical in nature and involves risks and uncertainties. Forward-looking statements are not a guarantee as to High Fusion's future results as there are inherent difficulties in predicting future results. This MD&A includes, but is not limited to, forward looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable at the time the statements were prepared. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements.

The Company currently does, and is expected to continue to, derive its revenues from the cannabis industry in certain states in the United States, which industry is illegal under federal law in the United States. The Company is currently directly involved (through its licensed wholly-owned subsidiaries) in the medical and/or adult-use cannabis industry in the States of Oregon and Colorado and California. See "*Issuers with U.S. Cannabis-Related Assets*".

Over half of the states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol ("THC"), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the *Controlled Substances Act* (the "U.S. CSA") in the United States and as such, is in violation of federal law in the United States. Despite the current state of the federal law and the U.S. CSA, certain states have legalized the recreational use of cannabis, including Oregon and California, where the Company has a direct involvement in the U.S. cannabis industry.

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law must be applied. Notwithstanding the paramountcy of federal law in the United States, enforcement of such laws may be limited by other means or circumstances, which are further described in this document. *See "Enforcement of United States Federal Laws and United States Enforcement Proceedings"*. Unless and until the United States Congress amends the U.S. CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current federal law, which may adversely affect the current and future operations of the Company in the United States. As such, there are a number of significant risks associated with the Company's existing and future operations in the United States, and such operations may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate in the United States or any other jurisdiction. See "*Risk Factors*".

For the reasons set forth above, the Company's existing interests and operations in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. There are a number of significant risks associated with the business of the Company. See "*Issuers with U.S. Cannabis-Related Assets*" and "*Risk Factors*".

Description of Business
High Fusion Inc. ("**High Fusion**", or the "**Company**") is a publicly traded company incorporated in Canada on July 19, 2004, under the *Canada Business Corporations Act*. The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario M5K 1H1. The Company's subordinated voting shares ("**Shares**") are listed on the Canadian Securities Exchange ("**CSE**") under the trading symbol "FUZN".

High Fusion is focused on developing and manufacturing branded products in the cannabis industry, with a specific focus on edibles and oil extracts for medical and adult recreational use. The Company works exclusively in jurisdictions where such activity is permitted and regulated by state law. The Company's corporate strategy is focused on identifying, acquiring and/or developing high-value products (including formulae and recipes), and brands for its cannabis infused product lines ("**Cannabis-Infused Products**") for sale by the Company where it has secured the required licensing, or for use by licensed operators ("**Licensed Operators**").

As at June 30, 2022, the members of Company's management and Board of Directors consisted of:

Name	Position
John Durfy	Director and Chief Executive Officer
Robert Wilson	Chief Financial Officer
Adam Szweras	Director and Chairman of the Board
Aaron Johnson	Director
Brian Presement	Director, Audit Committee, and Compensation Committee Chair
Billy Morrison	Director and Chief Technology Officer
Rachel Wright	Director, Chairman of the Audit Committee
Lincoln Fish	Director

Key Developments: Quarter ended April 30, 2022 to the date hereof

Key Developments
During the third quarter ending April 30, 2022 and to the date hereof, the Company has completed advancements in the business as follows:

- During the third quarter and nine month period ended April 30, 2022 the Company achieved sales of $1,294,792 and $4,668,401 respectively compared with $50,753 during the corresponding periods of 2021. This increase was due to the inclusion of the business of OutCo Labs Inc. ("OutCo") acquired in the first quarter of fiscal 2022.

- With the acquisition of the business of OutCo the Company undertook a review of the costing and valuation of inventory at the main operating subsidiary, Downwind 27 Inc. As a result of this review the Company's work in process at its El Cajon facility has been written down by $2,863,562 million bringing total value of inventory as at April 30, 2022 to $2.1 million from $4.8 million at the end of the previous quarter.

- The inventory write down included both a write-off of stale inventory as well as re-costing of the remaining work in progress. As a result of the inventory re-costing, the third quarter and nine month's cost of sales is understated because it reflects the adjustment to cost from previous quarters.

- With the acquisition of the business of OutCo the Company experienced significant growth in inventory, capital assets and goodwill. As a result, total assets grew to $20 million as at April 30, 2022, compared with $7.3 million as at July 31, 2021. Total liabilities grew to $16.8 million at April 30, 2022, from $13.4 million at July 31, 2021. This increase in liabilities was primarily due to the addition of a US$2.65 million mortgage note associated with the Mendocino land purchase. Offsetting the growth in liabilities was a $2.7 million reduction in convertible debentures arising from the conversion of the August 2019 debentures in the third quarter (see below).

- On February 2, 2022, Neural Therapeutics Inc., a subsidiary of the Company, completed a financing securing gross proceeds of $750,000 by way of a non-brokered private placement (the "**Offering**") of 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 of Neural Therapeutics and one-half of one common share purchase warrant with each warrant exercisable for one common share of Neural Therapeutics at an exercise price of $0.10 per common share of Neural Therapeutics 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. As a result of the above, Neural Therapeutics became a stand-alone business with High Fusion maintaining a controlling stake.

- On February 16, 2022, the Company converted all of the August 2019 Secured Convertible Debenture representing principal balance of $1,807,000 plus interest of $20,914. The debentures were converted into subordinate voting shares of the Company at a revised conversion price of $0.06 per share. The total number of subordinated voting shares issued on the conversion was 30,465,690.

- On February 16, 2022, the Company settled outstanding loans and payables representing $1,962,605 in exchange for subordinate voting shares of the Company at a price of $0.06 per share. Pursuant to the payables conversion, High Fusion issued 32,710,087 subordinate voting shares, of which, 22,433,569 subordinate voting shares were issued to certain non-arm's length parties to settle $1,346,014 of obligations (see Related Party Transactions Note).

- On March 4, 2022, the Company entered into a distribution agreement with Punch Edibles which sells to approximately 300 stores throughout California. The Company together with Punch will be working with a defined marketing budget to promote its award-winning OutCo-branded, vape products and is targeting to achieve adoption in approximately 200 dispensaries over the first a year of the agreement.

- On March 14, 2022, the Company closed a one-year, secured, loan facility in the principal amount of US$472,500 ("Loan Facility"). As part of the Loan Facility, the lenders were issued 2,250,000 subordinate voting share purchase warrants. Each warrant will entitle the holder to purchase one subordinate voting share of the Company at a price of $.075 and for a period of two years.

- On April 28, 2022 the Company settled outstanding payables representing $434,524.87 with the issuance of 8,301,637 subordinate voting shares of the Company.

- 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.

- On June 13, 2022 the Company closed a second one-year, secured, loan facility in the principal amount of US$400,000 ("Second Loan Facility"). As part of the Second Loan Facility, the lenders were issued 2,000,000 subordinate voting share purchase warrants. 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.

  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 in exchange for US$50,000 of the Second Loan Facility including 250,000 warrants. After this settlement the remaining balance of the High Pita debenture is $186,700.

- On June 20, 2022 the Company announced the addition of two new directors, Lincoln Fish (CEO Of OutCo Labs Inc.) and Rachel Wright CPA (managing partner of AB FinWright, LLP). Rachel will also head the audit committee. With these addition Jason Dyck, has resigned from the Company's board.

Corporate Strategy
High Fusion is focused on identifying, acquiring and/or developing high-value products and brands for its cannabis infused edibles and oil extracts product lines sold into the medical and adult recreational markets.

High Fusion's primary focus is in California, with the production and sale of branded product through its recent acquisition of the business of OutCo. As part of this focus, a number of the Company's non-core assets will be divested to provide funding for debt repayment and working capital.

Business Operations

California: Manufacturing and Retail
The Company has adopted a focused approach to the manufacture and sale of branded products in the California market, which is expected to include additional acquisitions of, or partnerships with existing well-run businesses in the State.

The California business acquired from OutCo represents a vertically integrated cannabis business through three licensed affiliates specializing in manufacturing and retailing of premium quality cannabis flower and extract products. These products include award-winning vape cartridges, tinctures, topicals, capsules and flower products which are sold under in-house brands through wholly owned retail stores and third-party dispensary clients throughout California. OutCo is an established operator in the California cannabis landscape, led by a team of innovative entrepreneurs and talented extraction and product manufacturing professionals.

With the acquisition, the Company has taken over the management of the three licensed affiliates and acquired a 15,000 sq. ft. vertically integrated cultivation, extraction, and product manufacturing facility situated in El Cajon, California. The commercial-scale manufacturing facility in El Cajon has sufficient space and infrastructure to house an expanded marijuana infused products manufacturing operation including the production of edibles and additional indoor cultivation. The licenced affiliates also operate two (2) of the five (5) licensed dispensaries in unincorporated San Diego County located in El Cajon and Escondido California.

On November 24, 2021 the Company announced receipt of recreational licenses for both the Escondido and El Cajon, California dispensaries.

Oregon

The Company's wholly owned subsidiary Nutritional High (Oregon) LLC ("**NHOL**") holds a processor license ("**OR Processor License**") issued by the Oregon Liquor Control Commission ("**OLCC**"), which permits NHOL to manufacture cannabis infused products for sale to OLCC licensed dispensaries.

NHOL operates a facility located in the City of La Pine, Oregon ("**LaPine Facility**") approximately 30 miles from Bend, Oregon. From this location the business is able to service the Portland and Eugene market as well as other centers throughout the State.

The land and buildings are owned by the Company which is made up of 0.42 acres of land which situates a 4,662 square foot manufacturing and office facility plus 540 square feet of mezzanine storage space.

Colorado

On May 19, 2020 the Company announced that it has signed a purchase agreement to acquire a 100% equity interest in Palo Verde, subject to MED and local municipal regulatory approvals. On January 28, 2021, the Company announced that the MED has provided its conditional approval for the Company to complete the acquisition of Palo Verde LLC. In early March 2021, final approvals from the county of Pueblo was received, the licence was transferred, and the acquisition of Palo Verde was closed on March 12, 2021.

Palo Verde is a Colorado based processor and manufacturer of cannabis vape and edible products which holds a recreational marijuana product (RMP) licence and a medical marijuana product (MMP) License. For the past four years Palo Verde has been utilizing the Company's know-how and branding, in the manufacture of the FLÏ™ branded cannabis products. Palo Verde distributes these products to licensed adult-use and medical retailers in Colorado. With the acquisition of Palo Verde, the Company has changed management and is improving the manufacturing process for a launch of new product lines under the FLÏ™ brand name.

The Company owns the property and equipment located in Pueblo, Colorado ("**Pueblo Property**") which is used in the Palo Verde business.

Psychedelics

Neural Therapeutics is an ethnobotanical drug-discovery and development company focused on developing products and conducting research on the psychoactive cacti plants, the first being the San Pedro cactus (*Echinopsis pachanoi* or *Trichocereus pachanoi*) containing *mescaline.*

Neural Therapeutics' objective is to find where the historical use in traditional medicine has proven to be effective and capitalize on the opportunities that can be applied in today's nutraceutical and pharmaceutical markets.

Given that mescaline is considered a controlled substance in most jurisdictions around the world, Neural Therapeutics intends to focus on a path-to-market that is compliant with all regulations today and pursue the business strategies that are not dependent upon regulatory change.

Both nutraceutical and pharmaceutical pathways are directed towards satisfying US-FDA requirements (or equivalent requirements in other jurisdictions) for development of drugs or new dietary supplement products. The Company believes that it is in the best interest of its shareholders to undertake a distribution of Neural Therapeutics shares to the Company's shareholders and seek a listing on a stock exchange as a stand-alone business ("**NT Spin-Off**") and management is taking steps to execute on such a strategy. The anticipated NT Spin-Off Transaction will be subject to a number of approvals, including and not limited to approval by High Fusion shareholders, court approval and approvals of securities regulators and the Canadian Securities Exchange.

Investments, Acquisitions and Divestitures

Neural Therapeutics Acquisition and Financing

On August 17, 2020, the Company acquired all the outstanding common shares of Neural Therapeutics in exchange for Shares of the Company on a one for one basis. Shareholders of Neural Therapeutics were issued an aggregate of 6,876,148 Shares. As a result of the Transaction, the Company became the sole shareholder of all the outstanding securities of Neural Therapeutics. In addition, an aggregate of 6,876,148 common share purchase warrants of Neural Therapeutics were assumed by the Company on a one-for one basis for Common Share purchase warrants of the Company. Each such warrant entitles the holder thereof to acquire one Share at any time on or before the second anniversary of its issuance (with expiry dates ranging from July 16, 2022 to July 23, 2022) at an exercise price of $1.00. In addition, 150,092 compensation options of Neural Therapeutics were assumed on a one-for-one basis for compensation options of the Company. Each compensation option entitles the holder to acquire one unit at an exercise price of $0.60 at any time on or before the second anniversary of its issuance (with such dates ranging from July 16, 2022 to July 23, 2022). Each unit is comprised of one Share and one warrant.

On February 2, 2022 the Company completed an equity financing into it's subsidiary Neural Therapeutics for gross proceeds of $750,000 by way of a non-brokered private placement (the "**NT Offering**") of units. Pursuant to the NT Offering, Neural Therapeutics issued 10,000,000 units at a price of $0.075 per unit. Each Unit is comprised of one common share of Neural Therapeutics and one-half of one common share purchase warrant with each warrant exercisable for one common share of Neural Therapeutics at an exercise price of $0.10 per common share of Neural Therapeutics 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.

Palo Verde Acquisition

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 third party 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 assumed all indebtedness due from Palo Verde to High Pita in the aggregate amount of US$1,884,355 together with accrued interest ("PV Debt").

Further, as part of the acquisition of Palo Verde, US$2,266,718 in outstanding rent and loans due to the Company was forgiven.

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

OutCo Labs Acquisition

On August 31, 2021 the Company acquired the business of OutCo through the purchase of substantially all the assets of the business including; control and management of all licenced entities, intellectual property, equipment and land.

Total consideration was as follows:

1. 3,623,243 special warrants. Each special warrant entitles the holder to acquire, for no additional consideration, one (1) multiple voting share (a "Multiple Voting Share") of the Company. Each Multiple Voting Share carries 10 votes and may, at the option of the holder, be exchanged, for no additional consideration, for ten (10) Shares in the capital of the Company.
2. 2,033,333 Class A Share purchase warrants ("Class A Warrants") each entitling the holder to acquire one Share at any time on or before the 24 month anniversary of the closing of the Acquisition at an exercise price of Cdn$0.60. The expiry date of the Class A Warrants will be accelerated if the volume weighted average price of the Shares for the 10 consecutive trading days ending on the date that is 90 days following the one-year anniversary of the closing date of the Acquisition (the "Class A VWAP Date") is equal to or greater than $0.96. In such case the accelerated expiry date will be the date that is 60 days following the Class A VWAP Date.
3. 1,220,000 Class B Share purchase warrants ("Class B Warrants") each entitling the holder to acquire one Share at any time on or before the 24-month anniversary of the closing of the Acquisition at an exercise price of Cdn$1.00. The expiry date of the Class B Warrants will be accelerated if the volume weighted average price of the Shares for the 10 consecutive trading days ending on the date that is 90 days following the 18-month anniversary of the closing date of the Acquisition (the "Class B VWAP Date") is equal to or greater than $1.60. In such case the accelerated expiry date will be the date that is 60 days following the Class B VWAP Date.
4. Assumption of debt of approximately US$3.25 million including:
    a. Assumption US$2.65 million mortgage over the land acquired in Mendocino California,
    b. Assumption of US$375,500 in obligations due to creditors of OutCo.(ii)
    c. Settlement of OutCo debt through the issuance of a $268,400 convertible debenture(i) 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 Shares at any time at the option of the holder at a conversion price equal to $0.36. On February 1, 2022 the holder of the Gainor Debenture converted $190,000 of the Gainor Convertible Debenture issue leaving a remaining balance of $78,400
        ii. Includes promissory notes due to third parties

    With the acquisition from OutCo various Management Services Agreements with licenced entities, from OutCo, the Company also assumes other current liabilities of the licenced entities which are included in working capital.

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.

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

FMI Capital Advisory Inc., a financial advisory firm of which Adam Szweras (a director of the Company and Chairman of the Board) is a director, received an advisory fee in connection with the acquisition of

OutCo business which was satisfied through the issuance of 1,822,627 subordinated voting shares in the capital of the Company. (see Related Party Transactions)

Pharmadrug Inc. (formerly Aura Health Inc.)
The Company made strategic investments into Aura Health Inc., (now Pharmadrug Inc.) ("**Aura**" or "**Pharmadrug**") which previously owned and operated medical cannabis clinics in various US states. During the year ended July 31, 2021, the Pharmadrug investment was deemed no longer strategic and all free trading shares were sold.

As of April 30, 2022, the Company's ownership interest in Pharmadrug was 0 shares.

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

Of the net holdings of 7,474,616 of AUSA Shares; 937,500 were sold via private sale and all of the remaining shares were exchange traded. 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 loss on disposal of $322,312. As of April 30, 2022, the Company held Nil AUSA shares.

Financing and Capital Markets Activities

Financing and capital market activities which have been completed from the first quarter ended October 31, 2020 to April 30, 2022 include the following:

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

On March 22, 2021 the Company converted the High Pita debt into a convertible debenture ("High Pita Debenture") valued at $250,000. The High Pita Debenture was issued for a three-year period with a maturity date of March 21, 2024, bearing accrued interest at 12% compounded annually, payable in arrears and are convertible into Shares at a conversion price of $1 per share.

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 outstanding principal with US$50,000 promissory note. After this settlement the remaining balance of the High Pita Debenture is $186,700.

ASC Lease Income Debenture
On September 7, 2021, the Company settled the lease arrangement with ASC Lease Income LLC by issuing $50,464 convertible debenture (refer to Note 13).

The Debenture was issued for a three-year period with a maturity date of September 7, 2024, bearing 12% interest compounded annually, payable in arrears and are convertible into Shares at a conversion price of $0.36 per share.

Gainor Debenture
With the purchase of the business of OutCo the Company assumed a loan from Craig Gainor in the amount of $268,400. On August 31, 2021, the Company converted the Gainor debt into a convertible debenture ("Gainor Debenture") valued at $268,400. The Debenture was issued for a two-year period with a maturity date of the earlier of August 31, 2023 or the sale of an asset of the Company. The Gainor Debenture bears semi-annual interest at 10% per annum, and is convertible into Shares at a conversion price of $0.36 per share.

On February 1, 2022, the holder of the Gainor Debenture converted $190,000 of the Gainor Convertible Debenture issue leaving a remaining balance of $78,400. The portion of the debentures were converted at a revised conversion price of $.065 approved by the CSE. The total subordinated voting shares issued on the conversion was 2,923,077.

August 2018 Debenture Amendments
On November 18, 2020, the holders of the August 2018 Secured Convertible Debentures ("August 2018 Debentures") agreed to amend the terms of the debentures as follows:

(i) The term of the Debentures has been extended by 1 year to August 3, 2022;
(ii) All of the interest owing until the end of the term being added to the principal amount of the Debentures with the Debentures thereafter not bearing any interest; and
(iii) Any conversion to Shares will not be permitted to the extent that such conversion would result in a holder of the Debentures becoming a shareholder holding more than 9.99% of the issued and outstanding Shares in the capital of the Corporation.

In February 2022, the holders of the August 2018 Debentures agreed to amend the terms of the debentures as follows: 1/ consent for the sale of a majority interest in Neural Therapeutics Inc; 2/ consent to enter into the First Loan Agreement to a maximum amount of US$500,000 (see Loan Agreement below); and 3/ provide for a partial repayment of a portion of the August 2018 Debentures from the proceeds from an asset sale by the Company.

On February 3, 2022, one of the holders of the August 2018 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 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 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.

On May 24, 2022, one of the holders of the August 2018 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)

On June 10, 2022, one of the holders of the August 2018 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 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 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 Loan Agreement below).

The Company has been in discussions with the majority holder of the August 2018 Debentures and is working towards a repayment plan which includes the sale of assets held by the Company.

Loan Facility

On March 14, 2022, the Company closed a one-year, secured, loan facility in the principal amount of US$472,500 ("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 change 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 of which entitle 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.

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 of which entitle the holder to purchase one subordinate voting share of the Company at a price of $.05 and for a period of two years.

Claims and Settlements

Plus Settlement Agreement

On December 9, 2019, the Company, through Calyx, entered into a settlement agreement ("**Plus 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 Plus Settlement Agreement, Calyx has ceased all new sales of Plus products, Plus has assumed responsibility for Plus-branded inventory held by Calyx and Plus been paid a portion of the cash balances held at Calyx associated with past collections of Plus related accounts receivable. In accordance with the Settlement Agreement, Calyx transferred the accounts receivable which had not been collected to Plus. Collection of accounts receivable by Calyx both before and after the transfer of accounts receivable have been partially reimbursed to Plus.

As at the date of the sale of Calyx on November 5, 2020, net outstanding balance due to Plus was eliminated from the Company's payables as Calyx was sold.

Green Therapeutics Debt Repayment
On September 30, 2018, and amended on May 21, 2019, the Company entered into a membership interest purchase agreement **("GTL MIPA")** to acquire 75% of Green Therapeutics, LLC **("GTL")**, a Nevada limited liability company. Subsequent to the execution of the GTL MIPA, the Company advanced a total of US$1,240,000 (July 31, 2020 - US$1,240,000) to GTL, which together with accrued interest was due on the earlier of March 31, 2021, the closing or termination of the MIPA or any mutually agreed upon term.

On January 5, 2021, the Company entered into a Settlement and Release Agreement for the termination of the GTL MIPA and repayment of the promissory note receivable from GTL as part of the sale of GTL (Note 5) payable in shares of Australis priced at $0.20 per share, as part of the sale of GTL to Australis.

On January 14, 2021, and on January 26, 2021, the Company entered into agreements to sell various promissory notes receivable from GTL with a total of US$190,000 for proceeds of $320,532. The purchaser of the promissory notes shall be entitled to all the rights under the Settlement and Release Agreement with respect to the promissory notes acquired. There is also a profit-sharing arrangement in place with the purchasers of the promissory notes whereby the Company may receive a portion of the profit from sale of Australis shares by these purchasers ("GTL Note Profit Sharing")

On March 23, 2021, the Company executed a direction in accordance with the GTL Settlement Agreement whereby the Company directed that GTL distribute Acquisition Exchangeable Securities **("AES")** which are exchangeable into common shares of Australis Capital, issued in settlement of the promissory notes. Such promissory notes are held by the Company and other purchasers of the promissory notes. After satisfying the distributions to the third parties to whom the Company sold promissory notes, the Company received a total of 9,267,341 shares broken down as follows: 7,774,617 AES which are immediately exchangeable into free trading common shares; 1,492,725 AES which may be exchangeable into common shares of Australis Capital after 6 months and 300,000 AES which the Company agreed would not be released for 6 months.

Of the net holdings of 7,474,617 of AUSA shares 937,500 were sold via private sale and the remaining shares were exchange traded. As of April 30, 2022, the Company held 0 AUSA shares.

Payable Settlements
On August 3, 2020, the Company entered into settlement agreements with trade creditors representing $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.

On November 25, 2021, the Company entered into settlement agreements with trade creditors representing $119,471 to convert such amounts owed to 544,242 Subordinate Voting Shares in settlement of in these obligations.

On February 16, 2022, the Company settled outstanding loans and payables representing $1,962,605 in exchange for the conversion into subordinate voting shares of the Company at a price of $.06 per share. Pursuant to the payables conversion, High Fusion issued 32,710,087 subordinate voting shares. Of these subordinate voting shares issued, 22,433,569 subordinate voting shares were issued to certain non-arm's length parties to settle $1,346,014 of obligations (see related Party Transactions).

On April 29, 2022, the Company settled outstanding loans and payables representing $434,524.87 in exchange for the conversion into subordinate voting shares of the Company at a price of between $.05 and $.094 per share as approved by the CSE. Pursuant to the payables conversion, High Fusion issued 8,301,637 subordinate voting shares.

August 2019 Debenture Conversion

On February 14, 2022 holders of all the Company's 9% Subordinated Secured Convertible Debentures have approved an amendment to the conversion price from $4.00 to $0.06 and in connection there with have agreed to convert such indebtedness into subordinate voting shares of the Company. Pursuant to the Debenture Conversion the Company issued 30,465,690 subordinate voting shares for settlement of the principal balance of $1,807,000 plus accrued interest to the date of conversion of $20,941.

Neural Therapeutics Debt settlement

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. (see Related Party Transactions). In addition, FMI Capital Advisory Inc., a financial advisory firm of which Adam Szweras (a director of the Company and Chairman of the Board) is a director, received advisory fees and fees associated the financing of NT which were satisfied through payment from the proceeds of the NT Financing and the issuance of NT shares. (see Related Party Transactions)

East Hill Financial note payable

The Company is in discussions to return the Mendocino property to East Hill Financial in exchange for the termination of the assumption of the US$2,650,000 note associated with this property.

Legal Action

Pasa Verde Equipment Lease

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

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

Assumed liability associated with OutCo litigation

As part of the acquisition of the assets of OutCo the Company has assumed various obligations of OutCo including a US$280,000 secured promissory note due from OutCo to Elan Capital which was in litigation. As part of the acquisition of the assets of OutCo, the Company entered into a conditional settlement and general release dated August 31, 2021. Under the conditional settlement and general release the Company has assumed the obligations due to Elan Capital. The conditions of settlement and release of security are the full repayment of US$300,000 on or before March 1, 2022 and the ongoing payment of $2,800 per month.

The conditional settlement and general release provide for the repayment of the obligation in the form of cannabis product. As of April 30, 2022, the principal balance due to Elan is $185,823.10. The Company is in discussions to settle the obligation to Elan Capital.

Selected Annual and Quarterly Information

Summarized selected financial information is as follows:

	Year ended July 31, 2021	Year ended July 31, 2020	Year ended July 31, 2019
Total sales	96,067	11,052	23,608,410
Cost of goods sold (“COGS”)	75,723	13,816	18,127,382
Gross Profit	20,344	(2,764)	5,481,028
Interest income	217,848	201,375	68,237
Rental income	-	26,924	50,709
Operating Expenses	5,181,375	7,380,556	25,948,899
Other Items	6,609,833	3,544,358	6,203,200
Net loss (pre-tax)	(11,553,016)	(10,699,379)	(26,552,125)
Net comprehensive loss	(643,575)	(21,922,661)	(27,358,172)
Net gain (loss) from discontinued operations	9,771,214	(11,323,631)	-
Loss per share (basic)	(0.041)	(1.34)	(1.78)
Loss per share (diluted)	(0.041)	(1.34)	(1.78)

	Three months ended April 30, 2022	Three months ended April 30, 2021	Nine months ended April 30, 2022	Nine months ended April 30, 2021
Total sales	1,294,792	50,753	4,668,401	50,753
Cost of goods sold (“COGS”)	(274,777)	(81,034)	(2,842,987)	(81,034)
Gross Profit	1,020,014	(30,281)	1,825,414	(30,281)
Interest income	-	17,605	-	114,160
Operating expenses	1,963,875	2,322,352	7,048,324	3,878,907
Other items	4,100,684	4,496,863	3,036,002	17,201,294
Net loss before tax	(5,044,544)	(6,831,891)	(8,258,912)	(20,996,322)
Net income (loss) from discontinued operations	19,037	85	19,037	9,771,214
Net comprehensive loss	(4,383,189)	(6,883,139)	(7,679,337)	(11,276,880)
Income/(Loss) per share (basic)	(0.04)	(0.15)	(0.12)	(0.54)
Income/(Loss) per share (diluted)	(0.04)	(0.15)	(0.12)	(0.54)

	April 30, 2022	July 31, 2021
Current Assets	4,362,336	1,713,508
Total Assets	19,982,446	7,279,397
Total Liabilities	16,801,181	13,442,017
Shareholder's Equity/(Deficit)	3,181,265	(6,162,620)

Selected financial information for the current and previous quarters as follows:

Quarter ended	Revenue ***	Net income (loss) ***	Net income (loss) and comprehensive income (loss) ***	Net income (loss) per share (basic) ***	Net income (loss) per share (diluted) ***
30-Apr-22	1,294,792	(5,044,544)	(4,383,189)	(0.039)	(0.039)
31-Jan-22	2,061,849	(1,681,590)	(1,948,424)	(0.037)	(0.037)
31-Oct-21	1,311,761	(1,547,778)	(1,347,724)	(0.063)	(0.063)
31-Jul-21	45,314	9,427,262	10,633,305	0.185	0.185
30-Apr-21	50,753	(6,883,139)	(6,883,139)	(0.149)	(0.149)
31-Jan-21	(4,881)	(2,516,587)	(2,516,587)	(0.050)	(0.050)
31-Oct-20	1,320,920	(1,877,154)	(1,877,154)	(0.064)	(0.064)
31-Jul-20	1,294,225	(11,841,803)	(9,964,952)	(0.030)	(0.030)
30-Apr-20	1,242,142	(2,332,913)	(3,879,678)	(0.060)	(0.060)
31-Jan-20	3,107,852	(4,681,283)	(4,797,218)	(0.010)	(0.010)

Note: The quarterly net income/(loss) per share calculations have been adjusted for the share consolidation of its common share on a twenty-to-one basis for the 2021 fiscal year and first three quarters of 2022 fiscal year only and the 2019 fiscal years have not been adjusted.
For the third quarter and nine months ended April 30, 2022, EHW has been reflected retroactively as a discontinued operation and been removed in the selected financial information.
In addition, revenue and net income have not been adjusted retroactively in the prior quarter numbers to reflect the Calyx businesses discontinued operations.

DISCUSSION OF QUARTERLY RESULTS

Sales Revenue and Gross Profit

Due to the sale of the California distribution business of Calyx Brand on November 6, 2020, the Company has categorized all revenues and expenses associated with Calyx as discontinued operations for the comparative quarter ending April 30, 2021. As such, the Company has recorded insignificant revenues and cost of goods sold for the comparative quarter ended April 30, 2021.

The Company's revenue in the quarter ended April 30, 2022, were primarily derived from Nutritional High LLC (**"NHLLC"**) which, from August 31, 2021, includes the business of OutCo. Revenues and cost of goods sold for the quarter ended April 30, 2022, also includes Palo Verde which was acquired on March 12, 2021. Due to a change in management and equipment maintenance the results from Palo Verde have been lower than anticipated. The Oregon business has not had any material commercial activity since September 19, 2019. The Company's previous California business, Pasa Verde was discontinued and has not had any commercial activity since February 1, 2019.

For the three months and nine months periods ended April 30, 2022, the Company recognized sales of $1,294,792 and $4,668,401 respectively which primarily represents results from the business of OutCo which was acquired in the first quarter of fiscal 2022.

With the acquisition of the business of OutCo and as part of the purchase accounting of the business, the Company undertook a review of the costing and valuation of inventory at the main operating subsidiary, Downwind 27 Inc. As a result of this review, some of the oil inventory was written off and the costing was adjusted downwards to reflect a more accurate cost of the oil. Consequently, cost of sales in the third quarter ended April 30, 2022 was reduced by $2,880,285. This includes an adjustment for prior periods cost of sales which was reflected in an adjustment to goodwill during the quarter. This was partially offset by a write down of oil inventory of $1,416,412 bringing total inventory as at April 30, 2022 to $2,117,273 million. As a result, the cost of sales during the three months ended April 30, 2022 is understated.

Cost of sales during the three months ended April 30, 2022 was $274,777 compared with $81,034 during same three-month period of the prior year. Also due to the understated cost of sales, gross margin was overstated for the quarter ended April 30, 2022 at $1,020,014 compared with $30,281 loss in the third quarter of 2021.

Cost of sales during the nine months ended April 30, 2022 was $2,842,987 compared with $81,034 during same nine month period of the prior year. The cost of sales during the nine months ended April 30, 2022 is mainly related to the Outco business. As a result of the above, gross margin was $1,825,414 for the nine months ended April 30, 2022 at compared with $30,281 loss in the comparable nine month period of 2021.

Other Revenue and Operating Expenses

Other revenues and expenses for the three and nine-month periods ending April 30, 2022 and April 30, 2021 are provided below:

	Three months ended April 30, 2022	Three months ended April 30, 2021	Nine months ended April 30, 2022	Nine months ended April 30, 2021
Interest income	-	17,605	-	114,160
Total operating expenses	1,963,875	2,322,352	7,048,324	3,878,907
Income tax expense	15,000	51,333	45,000	51,772
Total other items	4,100,684	4,496,863	3,036,002	17,201,294
Net loss before tax	(5,044,544)	(6,831,891)	(8,258,912)	(20,996,322)
Net comprehensive income {loss}	(4,383,189)	(6,883,139)	(7,679,337)	(11,276,880)
Loss per share (basic)	(0.039)	(0.149)	(0.115)	(0.544)
Loss per share (diluted)	(0.039)	(0.149)	(0.115)	(0.544)

During the three and nine month periods ended April 30, 2022, the Company recognized $0 interest income compared with $17,605 and $114,160 during the corresponding periods of the prior year respectively. The interest income in the comparable period represented interest on promissory notes advanced to Green Therapeutics.

Total operating expenses during the three months ended April 30, 2022, were $1,963,875 compared with $2,322,352 during the corresponding period of the prior year. This reduction was primarily due to a $855,000 decline in shared based payments reflecting the timing of the issuance of share-based compensation during the prior year. Offsetting this reduction in operating expenses compared with the corresponding period of 2021 were the following factors:

- $276,341 increase in general and administrative expenses associated with the inclusion of the business of OutCo; and
- $361,294 increase in depreciation associated with the inclusion of the business of OutCo.

Total operating expenses during the nine months ended April 30, 2022, were $7,048,324 compared with $3,878,907 during the corresponding period of the prior year. This increase reflects the following factors:

- $1,319,400 increase in salaries, benefits and consulting fees associated with the inclusion of the business of OutCo;
- $1,099,1`94 increase in general and administrative expenses associated with the inclusion of the business of OutCo; and

- $795,414 increase in depreciation associated with the inclusion of the business of OutCo

These increases in Operating expenses during the 9 month period were partially offset by a $335,304 reduction in share based payments.

Breakdown of general and administrative as is as follows:

	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
Security	142,377	2,370
Office supplies	26,334	11,049
Travel	46,038	13,284
Total	**1,879,514**	**780,320**

*August 1, 2019, the Company adopted IFRS 16 that revises the definition of leases and introduced a single, on-balance sheet accounting model for leases. As a result of the adoption of IFRS 16, the Company no longer books rent expense.

Other items

Other items during the three months ended April 30, 2022 represented $4,100,684 compared with $4,496,873 during the corresponding period of the previous year. The decline in other items was primarily due to a $3,339,642 in other expenses during the 3 months period ended April 30, 2021 associated with the elimination of intercompany accounts on the sale of Calyx, partially offset by offsetting gains associated with the debt forgiveness associated with the Palo Verde acquisition reported in the quarter ended April 30, 2021. The losses associated with the sale of Calyx were reclassified to discontinued operations in the fourth quarter ending July 31, 2021 as part of the fiscal 2021 audit. Other factors which contributed to a decline in other income over the comparative periods were a loss in Foreign exchange $29,435 compared with a loss of $277,492 reported in the period ended April 30, 2021.

The decline in other items listed above was offset by the following increases in other items during the quarter ended April 30, 2022 compared with the same period of 2021

- A $2,168,935 impairment of intangible assets associated with Palo Verde which was not present in the same quarter of fiscal 2021;
- Impairment of goodwill of $818,856 related mainly, to Palo Verde not present in the same period of 2021; and
  Loss of debt settlement of $384,479 not present in the same period of 2021;

Other expense items during the nine months ended April 30, 2022 were $3,036,002 compared with $17,201,294 during the corresponding period of the previous year. The decline in other items was primarily due to $10,168,396 in other losses associated with the sale of Calyx during the 9 month period ending April 30, 2021. This charge associated with Calyx was previously recorded in shareholders equity and was reallocated to other losses in the comparable 9 month results ended April 30, 2021 to be consistent with how Calyx was reported in the year end audit.

Other items which also declined in the nine months ended April 30, 2022 compared to the corresponding period of 2021 were as follows:

- Foreign exchange gain of $42,114 compared with a loss in the corresponding period of 2021 of $1,827,441;
- Finance charges fell to $1,014,693 compared with $1,790,248 reflecting conversion of debentures; and
- Gains of $1,218,204 on the change in vale of derivative liability which was $0 in the comparable period.

The decline in other items from the above factors were offset by the following increases in other items over the nine month comparable period:

- Loss of debt settlement of $384,479 compared with a gain in the same period of 2021 of $434,303;
- $2,168,5935 impairment charge associated with Palo Verde not present in the comparable period of 2021; and
- $818,856 impairment of goodwill associated with Palo Verde not present in the comparable period of 2021.

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).

Cash Flow Operating activities
Net cash used in operating activities during the nine months ended April 30, 2022 totaled a negative $1,453,957 as compared to negative cash used of $259,529 in the corresponding period ending April 30, 2021. This decrease in net cash from operating activities was primarily due to the addition of the OutCo business acquired on August 31, 2021.

Investing activities
The net cash generated from investing activities totaled $1,441,927 in nine months ended April 30, 2022, as compared to net cash generated of $219,791in the corresponding nine months ending April 30, 2021.

The increase in cash inflow during the first quarter was due primarily to proceeds from the sale of investments of $1,171,390.

Financing activities

During the nine months ended April 30, 2022, net cash generated in financing activities totaled $711,554 compared to net cash consumed of $14,790 in the corresponding period in 2021. The increase is primarily due to the issuance of promissory notes as well as the proceeds from the NT Financing (see Financing and Capital Markets Activities above). Leases acquired with the acquisition of the Outco business contributed to a $613,216 decline in proceeds from financing activities.

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

During the first quarter ended April 30, 2022 there was no significant concentration risk from any single supplier or customer.

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 it's 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 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.)

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 27). 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;
    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 s.).

s. On February 16, 2022, 22,433,569 subordinate voting shares were issued to certain non-arm's length parties ("**Insiders**[1]") 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 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.

Disclosure of outstanding share data
As at April 30, 2022, the Company had the following securities issued and outstanding:

- 132,030,826 Subordinated Voting Shares;

[1] 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.

• 6,307,561 Multiple Voting Shares;
• 245,000 options;
• 11,319,832 RSUs;
• Principal amount of August 2018 Debentures - $4,405,073;
• Principal amount of August 2019 Debentures - $1,807,000;
• Principal amount of 2020 Debentures - $1,124,678;
• Principal amount of March 2021 Debentures (High Pita)- $250,000;
• Principal amount of September 2021 Debentures (ASC)- $50,464;
• Principal amount of September 2021 Debentures (Gainor)- $78,400; and
• 15,846,101 warrants with a weighted average exercise price $0.43.

As of the date hereof, the Company has the following securities issued and outstanding:

• 136,030,826 Subordinated Voting Shares;
• 6,230,481 Multiple Voting Shares;;
• 245,000 options;
• 11,819,832 RSUs;
• Principal amount of August 2018 Debentures - $4,205,073;
• Principal amount of 2020 Debentures - $1,124,678;
• Principal amount of March 2021 Debentures (High Pita)- $186,700;
• Principal amount of September 2021 Debentures (ASC)- $50,464
• Principal amount of September 2021 Debentures (Gainor)- $78,400; and
• 11,955,059 warrants.

Off-Balance Sheet Arrangements

As of April 30, 2022, the Company is a guarantor under the following contracts which are not included on the consolidated balance sheet:

1. Lease agreement between Lease Innovations and Anthony Westfall relating to the lease of equipment relating to the purchase of Pasa Verde in Sacramento California. (see Legal Action above)

2. On May 23, 2019, the Company entered into a non-binding letter of intent ("LOI") with Good Vibes, LLC ("GV") and Hannah Ashby ("Ashby") to provide a Southern California base of operations for Calyx. At the time, Ashby held 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 Shares. There is, however no assurance that the Lease Settlement will be reached and the Company may be liable under it's guarantee for the balance due under the Chattsworth lease.

3. 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.

4. As part of the acquisition of the assets of OutCo the Company has assumed various obligations of OutCo (see subsequent event note 26). Included as part 4. b. of the OutCo subsequent event note, included in the US$375,500 in obligations assumed by the Company is a US$300,000 secured promissory note due from OutCo to Elan Capital which was in litigation. As part of the acquisition of the assets of OutCo, the Company entered into a conditional settlement and general release dated August 31, 2021. Under the conditional settlement and general release the Company has assumed the obligations due to Elan Capital. The conditions of settlement and release of security are the full repayment of US$300,000 on or before March 1, 2022 and the ongoing payment of $2,800 per month. As of April 30, 2022, the principal balance due to Elan is $185,823.10. The Company is in discussions to settle the obligation to Elan Capital.

5. 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 income tax liability Section 280E of the Internal Revenue Code. Management estimates this income tax liability to be 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. (see Taxation below)

6. 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 in nature.

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 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.

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 acquisitions 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. The cost of the group is allocated to the identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Any excess of the purchase consideration of the asset acquisition over fair value of the acquired assets and liabilities will be recognized as an intangible asset other than Goodwill.

Revenue recognition
Revenue recognition is based on identifying the contract with the customer, identifying the performance obligations, determining the individual transaction price, and allocating the transaction price to the

individual performance obligations making up the contract. Revenue is then recognized when or as the associated performance obligations are delivered and based on the expected consideration to be received.

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

Inventory

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

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

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

Investment property

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

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

Interests in equity accounted investees and joint ventures

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

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

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

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

Capital assets

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

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

Intangible assets

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

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

License and management agreement	Indefinite
Trade name	5 years
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.

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

Company's most recent goodwill impairment test during the second quarter did not result in the recognition of any impairment losses.

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

Leases

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

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

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

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

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

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

Lease liabilities are remeasured in the following circumstances:

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

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

Compound financial instruments

Compound financial instruments issued by the Company comprise of convertible debentures that can be converted to 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 Shares and share purchase warrants, the proceeds from the issuance of equity units is allocated between the Shares and common share purchase warrants on a pro-rated basis using the relative fair values of Shares and common share purchase warrants. The fair value of the 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 (“RSU”)

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 Shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method of calculating the weighted average number of 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 Shares of the Company at the average price of the Shares for the period.

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

Taxation
Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

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

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

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

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

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

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

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

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

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.

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 24 for the Company's financial instruments and their respective financial instrument classification and carrying values.

(i) FVTPL financial assets

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

(ii) Amortized cost financial assets

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset is initially measured at fair value, including transaction costs and subsequently at amortized cost.

(iii) Impairment of financial assets

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

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

(iv) Financial liabilities and other financial liabilities

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

(v) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value 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 upon transition and at July 31, 2021.

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

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

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

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

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

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

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

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

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

Significant accounting estimates and judgments

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

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

Significant estimates

Useful life of long-lived assets

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

Business combination and asset acquisitions

In a business combination and asset acquisitions, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with International Financial Reporting Standards ("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 Combinations

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 brokers' warrants

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

Fair value of financial instruments

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

Recoverability of long-lived assets

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

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

Convertible debentures

The accounting for convertible debentures involves discounted cash flow technique which includes both inputs that are not based on observable market data and inputs that are available from observable market data. Where available, the Company seeks comparable interest rates and, if unavailable users those considered appropriate e 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 combination

The determination of whether a set of assets acquired, and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The acquisition of Palo Verde LLC was determined to be business combination by management. (See Note 3). The acquisition of PSC was determined to be an asset acquisition (See Note 3)

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

Functional currency

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

Leases

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

ISSUERS WITH U.S. CANNABIS-RELATED ASSETS

On February 8, 2018, the Canadian Securities Administrators ("CSA") published Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities ("Staff Notice 51-352"), which provides specific disclosure expectations for reporting issuers in Canada that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All reporting issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other applicable disclosure documents in order to fairly present all material facts, risks and uncertainties about issuers with U.S. cannabis-related activities.

Such disclosure includes, but is not limited to, (i) a description of the nature of a reporting issuer's involvement in the U.S. cannabis industry; (ii) an explanation that cannabis is illegal under U.S. federal law and that the U.S. enforcement approach is subject to change; (iii) a statement about whether and how the reporting issuer's U.S. cannabis-related activities are conducted in a manner consistent with U.S. federal enforcement priorities; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the U.S. cannabis industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice. Public reaction to the notice was generally positive and industry participants welcomed the opportunity to review and provide enhanced disclosure.

SUMMARY OF THE COMPANY'S SUBSIDIARY/AFFLIATE WITH U.S. CANNABIS ACTIVITIES

Below is the summary chart of the Company's direct, indirect or material ancillary involvement in U.S. marijuana, through its subsidiaries and investments as at the date of hereof. "Direct", "Indirect" and "Material Ancillary" are classification terms as defined in Staff Notice 51-352 (as described above).

Subsidiary/ Affiliate	% ownership	Classification	Jurisdictions	State and Local Regulators	United States circuit and federal judicial district	Description of Involvement
Nutritional High (Colorado) Inc. ("**NHCI**")	100%	Material Ancillary	Colorado	N/A	Tenth Circuit – District of Colorado	NHCI provided a revolving loan and promissory note to Palo Verde which was sold and assigned to a third party in April 2019 and settled with the acquisition of Palo Verde in March 2021.
NHC Edibles LLC ("**NHC**")	100%	Material Ancillary	Colorado	N/A	Tenth Circuit – District of Colorado	NHC owns the Pueblo property and equipment and allows Palo Verde to utilize in their operations.
Nutritional High (Oregon) LLC ("**NHOL**")	100%	Direct	Oregon	OLCC and City of La Pine	Ninth Circuit – District of Oregon	NHOL holds a Processor License with the OLCC.
NH (Oregon) Properties LLC ("**NHOP**")	100%	Direct	Oregon	N/A	Ninth Circuit – District of Oregon	NHOP owns the La Pine Property and allows NHOL to utilize in their operations.
Pasa Verde LLC	100%	N/A	California	BCC and City of Sacramento	Ninth Circuit – Central District of California and Northern District of California.	*The Company acquired all of the interests of Pasa Verde in July 2018. Pasa Verde was the holder of a manufacturing permit (the "**Permit**") in the City of Sacramento and a CA Manufacturing License. On February 1, 2019, the Permit was rescinded by the City of Sacramento and CA Manufacturing License was revoked by CDPH. The Pasa Verde lease in Sacramento was terminated. Pasa Verde does not carry out any activity that would qualify as involvement in U.S. Cannabis Activities under the Staff Notice 51-352.*

Subsidiary/ Affiliate	% ownership	Classification	Jurisdictions	State and Local Regulators	United States circuit and federal judicial district	Description of Involvement
NH Processing (Nevada) Inc. ("**NHPN**")	100%	Material Ancillary	Nevada	N/A	Ninth Circuit – District of Nevada	NHPN advanced funds to Green Therapeutics (which was sold to Australis Capital). The Company entered into a Settlement and Release Agreement with respect to the repayment of promissory note receivable from GT and has been repaid in common shares of Australis Capital
Palo Verde LLC	100%	Material Ancillary	Colorado	The Colorado MED	Tenth Circuit – District of Colorado	On March 12, 2021 the Company acquired 100% interest in Palo Verde which holds an RMP and MMP License.
Nutritional High LLC	100%	Material Ancillary	Nevada	BCC, San Diego County and Mendocino County	Ninth Circuit – District of Nevada	On August 31, 2021 the Company acquired all the assets of OutCo Labs Inc. including control over three licenced cannabis operations in the state of California.

Other than set out below, neither the Company nor any of its subsidiaries, affiliates or Licensed Operators that the Company or any of its subsidiaries has a material relationship with, have received any notices, citations of non-compliance, violation or denial from any applicable local municipal or the U.S. State regulatory authorities.

In addition to the interest that the Company has in various subsidiaries which have material involvement in cannabis-related activities in the U.S., it also has various contractual relationships with various entities which are Licensed Operators. In certain cases, the Company holds an interest in such Licensed Operators and in certain instances the Company's respective subsidiary has a contractual relationship with such Licensed Operators. The table below also outlines the Licensed Operators of which the Company has an interest in or has a contractual relationship with, as well as a relevant summary of their compliance with applicable laws.

Licensed Operator	Nature of relationship	State and Local Regulators	U.S. circuit and federal judicial district	Licensed Operator is in compliance with applicable U.S. State law and related licensing framework	Notices, citations of non-compliance, violation or denial from any applicable local municipal or U.S. State regulatory authorities
NHOL	Direct involvement: 100% wholly owned subsidiary.	OLCC and City of La Pine	Ninth Circuit – District of Oregon	Yes	See note 1.

Notes 1 – On September 17, 2019, the OLCC commenced an administrative proceeding against the Company alleging that it used denatured alcohol at its processing facility in La Pine, Oregon, in violation Oregon Administrative Rule 845-0256-3260(3)(a)(A), which is a Category I administrative rules violation. On January 16, 2020, OLCC put forth a settlement agreement to destroy the offending products as well as a payment of $4,950 civil penalty to be paid before February 28, 2020. The Company has accepted the settlement proposal, removed all non-compliant products and paid the penalty in February 2020.

2 - On March 2022 Nutritional High Oregon was notified by the OLCC of a fine or suspension due to an interruption of the security system during the period from August 19, 2020 to September 7, 2020. The Company intends to resolve the notice with payment of the stated penalty.

Licensed Operator	Nature of ancillary relationship	Is Licensed Operator in compliance with applicable U.S. State law and related licensing framework to the best of the Company's knowledge?
Palo Verde	Direct involvement: • 100% wholly owned subsidiary.	Yes [1]

Notes:

1 - On December 8, 2017, Palo Verde received a Notice of Denial ("NoD") on its renewal of RMP License and new license applications for RMC License and MMP License. Palo Verde has subsequently reached a settlement with the MED, whereby MED has conditionally approved the renewal of the RMP License and applications for RMC License and MMP License subject to: i) Palo Verde withdrawing its request for hearing; ii) paying a fine; iii) obtaining alternative financing for the promissory notes that is currently in place between the Company and Palo Verde; iv) final approval by the Colorado's State Licensing Authority. The conditions of settlement have been satisfied and Palo Verde's operations continue to run uninterrupted which such conditions have been since satisfied. MED has approved the renewal of Palo Verde's RMP License and MMP License in June 2020. See "Key Developments – Colorado".

On July 8, 2020, Palo Verde received an Order to Show Cause, Notice of Hearing and Notice of Duty to Answer ("Order") regarding alleged violations regarding its relationship with the Company and certain disclosures made by the Company regarding its relationship with Palo Verde. On October 27, 2020 Palo Verde reached a settlement with the MED, whereby Palo Verde will pay a US$25,000 fine and commensurate with the sale of Palo Verde to the Company the current owner shall surrender his licence and shall not be permitted to hold a cannabis licence for 3 years.

2 - NHDC and Calyx no longer operate out of the Chatsworth Licensed Premises.

On August 31, 2021 the Company acquired all the assets of OutCo Land Inc. including control over three licenced cannabis operations in the state of California.

Licensed Operator	Nature of ancillary relationship	Is Licensed Operator in compliance with applicable U.S. State law and related licensing framework to the best of the Company's knowledge?
Downwind 27 Inc. a California Non-Profit Mutual Beneficial Corporation	• Management Services Agreement with Nutritional High LLC • Representation on the board of directors	Yes
San Diego Natural Inc. a California Non-Profit Mutual Beneficial Corporation	• Management Services Agreement with Nutritional High LLC Representation on the board of directors	Yes
East Hill Wellness Inc. a California Non-Profit Mutual Beneficial Corporation	• Management Services Agreement with Nutritional High LLC[1] • Representation on the board of directors	Yes

[1] On March 22, 2022 the Company terminated its management agreement with East Hill Wellness.

The Company has obtained legal advice regarding compliance with applicable state regulatory frameworks, exposure and implication arising from U.S. federal laws in the states where it conducts operation. As of the date hereof, the Company has not received any notices of violation, denial or non-compliance from U.S. authorities other than those disclosed above.

REGULATORY OVERVIEW

U.S. Federal Law

While marijuana and Cannabis-Infused Products are legal under the laws of several U.S. states (with vastly differing restrictions), presently the concept of "medical marijuana" and "retail marijuana" do not exist under U.S. federal law. The United States *Federal Controlled Substances Act* ("**CSA**") classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision.

The United States Supreme Court has ruled in a number of cases that the federal government does not violate the U.S. Constitution by regulating and criminalizing cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana pre-empts state laws that legalizes its use for medicinal and adult-use purposes.

The U.S. Department of Justice has issued official guidance regarding marijuana enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use marijuana. In each instance, the U.S. Department of Justice (the "**DOJ**") has stated that it is committed to the enforcement of federal laws and regulations related to marijuana. However, the DOJ has also recognized that its investigative and prosecutorial resources are limited. As of January 4, 2018, the DOJ has rescinded all federal enforcement guidance specific to marijuana and has instead directed that federal prosecutors should follow the "Principles of Federal Prosecution" originally set forth in 1980 and subsequently refined over time in chapter 9-27.000 of the U.S. Attorney's Manual creating broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo as being an enforcement priority. Prior to 2018 and in the Cole Memo, the DOJ acknowledged that certain U.S. states had enacted laws relating to the use of marijuana and outlined the U.S. federal government's enforcement priorities with respect to marijuana notwithstanding the fact that certain states have legalized or decriminalized the use, sale, and manufacture of marijuana. "**Cole Memo**" means the memorandum dated August 29, 2013, addressed to "All United States Attorneys" from James M. Cole, Deputy Attorney General of the United States, as may be supplemented or amended indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight priorities, which are to prevent: (1) distribution of cannabis to minors; (2) criminal enterprises, gangs and cartels from receiving revenue from the sale of cannabis; (3) transfer of cannabis from states where it is legal to States where it is illegal; (4) cannabis activity from being a pretext for trafficking of other illegal drugs or illegal activity; (5) violence or use of firearms in cannabis cultivation and distribution; (6) drugged driving and adverse public health consequences from cannabis use; (7) growth of cannabis on federal lands; and (8) cannabis possession or use on federal property.

On January 4, 2018 and as discussed above, the Cole Memo was rescinded by a one-page memo signed by the former U.S. Attorney General Jeff Sessions ("**Sessions Memorandum**"). It is the Company's opinion that the Sessions Memorandum does not represent a significant policy shift as it does not alter the U.S. Justice Department's discretion or ability to enforce federal marijuana laws rather just provides additional latitude to the U.S. Justice Department to potentially prosecute state-legal marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo as being an enforcement priority. U.S. state attorney generals will continue to have discretion over how the federal law is enforced with respect to the companies that operate in the states where cannabis has been legalized for medical or adult use.

Even though the Cole Memo has been rescinded the Company intends, as guiding corporate policy, to continue to abide by its principles and prescriptions, as well as strictly following the regulations set forth by the current U.S. Federal enforcement guidelines relating to U.S. states in which the Company operates or has investments in.

There is no guarantee that the current presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with state laws. Additionally, any new U.S. federal government administration that follows could change this policy and decide to enforce the U.S. federal laws vigorously. Any such change in the U.S. federal government's enforcement of current U.S. federal laws could cause adverse financial impact and remain a significant risk to the Company's business.

On December 16, 2014, President Obama signed the H.R.83 - Consolidated and Further Continuing Appropriations Act, 2015 ("**Omnibus Bill**"), approving spending for certain federal agencies through September 30, 2015. Section 583 of the Omnibus Bill prohibits the United States government from using federal funds to prevent states with medical marijuana laws from implementing state laws that authorize the use, distribution, possession, or cultivation of medical marijuana.

On May 5, 2017, U.S. President Trump signed into law H.R. 244 - the Consolidated Appropriations Act, 2017, which authorizes appropriations that fund the operation of the Federal Government through September 30, 2017. Section 587 of the Consolidated Appropriations Act prohibits the United States government from using federal funds to prevent States with medical marijuana laws from implementing state laws that authorize the use, distribution, possession, or cultivation of state-legal medical marijuana. Nevertheless, (1) this does not prevent the United States government from using federal funds to prevent states with retail marijuana laws from implementing such laws requiring use, distribution, possession or coloration of adult use marijuana; and (2) there can be no certainty that future U.S. federal funding bills will include similar provisions.

On November 14, 2017, Jeff Sessions, the former Attorney General of the United States appearing before the House Judiciary Committee commented on prosecutorial forbearance regarding state-licensed marijuana businesses. In his statement Mr. Sessions stipulated that the U.S. Federal Government's current policy is the same fundamentally as the Holder-Lynch policy, whereby the states may legalize marijuana for its law enforcement purposes, but it still remains illegal with regard to federal purposes.

On March 22, 2018, the House of Representatives and Senate voted in favour of approving the Omnibus Spending Bill and it was signed into law the following day by the President of the United States. Section 538 of the Bill provided for an extension of the Rohrabacher-Leahy Amendment until September 30, 2018. The extension has been extended through December 22, 2018 as part of a short-term continuation of appropriations. The Rohrabacher-Leahy Amendment prevents the U.S. Department of Justice from using federal funds in enforcing federal law relating to state-legal medical cannabis, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical marijuana. The amendment was first introduced in 2014 and has been reaffirmed annually since that time. It should be noted that this amendment does not apply to state-legal retail marijuana.

On April 13, 2018, the Washington Post reported that President Trump and Colorado Sen. Cory Gardner reached an understanding that the marijuana industry in Colorado will not be the subject of interference from the federal government and that the DOJ's recession of the Cole memo will not impact Colorado's state legal marijuana industry. Furthermore, President Trump provided assurances that he will support a federalism-based legislative solution to fix the issue regarding the states' rights to regulate cannabis. Around the same timeframe it was announced that a former Republican House Speaker John Boehner has been appointed to the advisory board of a U.S. cannabis company. The Company is cautiously optimistic that these developments represent a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the federal government.

On November 7, 2018, Jeff Sessions resigned as Attorney General, William Barr was then appointed as Attorney General on February 14, 2019, and in his hearing, mentioned that he would "not go after companies that have relied on the Cole memorandum" nor would he "upset settled expectations and reliant interests" related to it. The Department of Justice under Mr. Barr has not taken a formal position on federal enforcement of laws relating to cannabis. Mr. Barr has stated publicly that his preference would be to have a uniform federal rule against cannabis, but, absent such a uniform rule, his preference would be to permit the existing federal approach of leaving it up to the states to make their own decisions. There is no guarantee that the position of the Department of Justice will not change. If the Department of Justice policy under Attorney General William Barr were to aggressively pursue financiers or owners of cannabis-related businesses, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Company could face (i) seizure of its cash and other assets used to support or derived from its cannabis operations, (ii) the arrest of its employees, directors, officers, managers and investors, and charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to cannabis companies that service or provide goods to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis, and/or (iii) the barring of its employees, directors, officers, managers and investors who are not United States citizens from entry into the United States for life.

Additionally, on April 4, 2019, the "Strengthening the Tenth Amendment Through Entrusting States Act" ("**STATES Act**") was introduced in the Senate by Democratic Senator Elizabeth Warren of Massachusetts, along with 9 cosponsors, 5 republicans and 4 democrats. That same day, an identical bill was introduced in the House by Democratic representative Earl Blumenauer of Oregon, along with 47 Cosponsors, 31 Democrats and 16 Republicans. The bill provides in relevant part that the provisions of the CSA, as applied to marijuana, "shall not apply to any person acting in compliance with state law relating to the manufacture, production, possession, distribution, dispensation, administration, or delivery of marihuana." Even though marijuana will remain within Schedule I under the STATES Act, it makes the CSA unenforceable to the extent it is in conflict with state law. In essence, the bill extends the limitations afforded by the Rohrabacher-Blumenauer protection within the federal budget − which prevents the Department of Justice and the Drug Enforcement Agency from using funds to enforce federal law against state-legal medical cannabis commercial activity − to both medical and recreational cannabis activity in all states where it has been legalized. By allowing continued prohibition to be a choice by the individual states, the STATES Act does not fully legalize cannabis on a national level. In that respect, the bill emphasizes states' rights under the Tenth Amendment, which provides that "the powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

On September 25, 2019, the House voted in favor of the SAFE Banking Act. The historic vote was the first time that a standalone marijuana bill has come before the full House. The vote needed a two-thirds majority to pass and was supported by 321 votes in favor to 103 against. While the Company is pleased with the vote, which will help remedy the severe impact the lack of access to banking has had on the industry and the particular risks associated with operating in a largely cash-based industry, it would also urge the Senate to adopt similar banking protections and approve the Marijuana Opportunity Reinvestment and Expungement Act which would remove cannabis from the FCSA and take steps to begin repairing the harms of the war on drugs.

On November 21, 2019, the House Judiciary Committee voted 24-10 to pass the Marijuana Opportunity Reinvestment and Expungement Bill of 2019 ("MORE Act"). The bill would effectively put an end to cannabis prohibition in the United States on the federal level by removing it from Schedule 1 of the Controlled Substances Act, and past federal cannabis convictions would be expunged. Additionally, if fully passed, the law would allow the Small Business Administration to issue loans and grants to marijuana-related businesses and provide a green light for physicians in the Veterans Affairs system to prescribe medical cannabis to patients, as long as they abide by state-specific laws.

Although the House of Representatives voted to pass the MORE Act on December 4, 2020, it failed to pass in the Senate prior to the end of the 2020 legislative session. There can be no assurance that it will be passed in its current form or at all.

On November 3, 2020, the U.S. held a presidential election and on November 6, 2020, despite ongoing legal challenges from the Trump administration, Joseph R. Biden was named the next President-Elect of the U.S. While this development is widely viewed to be favorable for the cannabis industry, the ultimate impact of a Biden administration is, as yet, unknown.

On December 14, 2020, President Trump announced that William Barr would be resigning from his post as Attorney General, effective December 23, 2020. President-Elect Joseph Biden has nominated Merrick Garland to succeed Mr. Barr as the U.S. Attorney General. It is unclear what impact, if any, the new administration will have on U.S. federal government enforcement policy on cannabis. If the DOJ policy shifts to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such policies through pursuing prosecutions, then the Company could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, and (ii) the arrest of its employees, directors, officers, managers and investors, who could face charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis. Additionally, as has recently been affirmed by U.S. Customs and Border Protection, employees, directors, officers, managers and investors of the Company who are not U.S. citizens face the risk of being barred from entry into the United States for life.

On December 27, 2020, President Donald Trump signed the Consolidated Appropriations Act of 2021, which included the Rohrabacher-Farr Amendment, which prohibits the funding of federal prosecutions with respect to medical cannabis activities that are legal under state law. The Consolidated Appropriations Act of 2021 makes appropriations for the fiscal year ending September 30, 2021. There can be no assurances that the Rohrabacher- Farr Amendment will be included in future appropriations bills or budget resolutions.

At this time, there is still very little clarity as to how President Biden, or Attorney General Merrick Garland (appointed since March 2021), will enforce federal law or how they will deal with states that have legalized medical or recreational marijuana. While bipartisan support is gaining traction on decriminalization and reform, there is no imminent timeline on any potential legislation. There is no guarantee that the current Presidential administration will not change its stated policy regarding the low-priority enforcement of US federal laws that conflict with State laws. There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed, amended or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends or repeals the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendment or repeal there can be no assurance), there is a significant risk that federal authorities may enforce current federal law. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Company's business, results of operations, financial condition and prospects would be materially and adversely affected. Additionally, any new US federal government administration that follows could change this policy and decide to enforce the US federal law vigorously. **Any such change in the US federal government's enforcement of current US federal law could cause adverse financial impact and remain a significant risk to the Company's businesses, which could in turn have an impact on the Company's operations or financial results. A change in its enforcement policies could impact the ability of the Company to continue as a going concern**. (see "*Risk Factors*.")

Responses of U.S. Attorneys to Sessions Memorandum

The following is a summary of U.S. Attorneys' responses following the Sessions Memorandum in the States in which the Company operates.

California

McGregor Scott, U.S. Attorney for the Eastern District of California, said he will prioritize illegal marijuana operations rather than going after the legal recreational marijuana market. He commented, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there, so for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

David L. Anderson was sworn in as United States Attorney for the Northern District of California on January 15, 2019. To the Company's knowledge, he has not yet offered a public stance on his approach to legislation of marijuana in his judicial district.

The US Attorney for the Central District of California is Nicola Hanna, who was nominated and confirmed by the Senate in April of 2018. She has not yet offered a public stance on her approach to legislation of marijuana in his judicial district.

Adam Braverman, U.S. Attorney for the Southern District of California, commented that the Department of Justice is committed to reducing violent crime and enforcing the laws as enacted by Congress. The cultivation, distribution, and possession of marijuana has long been and remains a violation of federal law and the Southern District of California will utilize long-established prosecutorial priorities to carry out its mission to combat violent crime, disrupt and dismantle transnational criminal organizations, and stem the rising tide of the drug crisis.

In California, two state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memorandum. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize cannabis", "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent." On May 29, 2018, federal and state authorities announced a joint effort to target illegal cannabis grows, with $2.5 million in federal money backing the effort.

On July 20, 2020, a petition was filed with the US District Court for the Southern District of California stating that the Federal Drug Enforcement Agency (the "DEA") delivered a subpoena to the BCC in January of 2020 seeking "unredacted cannabis license(s), unredacted cannabis license application(s), and unredacted shipping manifest(s)" for six different unnamed entities in connection with an ongoing DEA investigation. The BCC declined to comply with the DEA's initial subpoena by claiming that it lacked specificity and would risk violating certain state privacy laws.

The BCC attempted to remain firm in its position, but ultimately on August 31, 2020, the federal court ruled that the BCC was required to comply with the DEA's subpoena. Based on publicly available information, the DEA's intent behind the subpoena is focused strictly on potential black-market activity between California and Mexico.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

Oregon

The Company's Oregon operations are in La Pine, which falls within the U.S. District Court for the District of Oregon. The U.S. Attorney for the District of Oregon is Billy Williams, who was appointed in 2015. In response to the Sessions Memo, he commented, "As noted by Attorney General Sessions, today's memo on marijuana enforcement directs all U.S. Attorneys to use the reasoned exercise of discretion when pursuing prosecutions related to marijuana crimes. We will continue working with our federal, state, local and tribal law enforcement partners to pursue shared public safety objectives, with an emphasis on stemming the overproduction of marijuana and the diversion of marijuana out of state, dismantling criminal organizations and thwarting violent crime in our communities."

In February 2018, U.S. Attorney Billy Williams told a gathering that included Governor Kate Brown, law enforcement officials and representatives of the cannabis industry that Oregon has an "identifiable and formidable overproduction and diversion problem." In May 2018, Attorney Williams issued a memorandum spelling out five priorities for going after illegal cannabis operations that violate federal laws, with the first priority to crack down on the leakage of surplus marijuana into bordering states where pot is still against the law. The memo also stated that federal prosecutors will also target keeping marijuana out of the hands of minors, any crimes that involve violence or firearm violations or organized crime, and cultivation that threatens to damage federal lands through improper pesticide and water usage. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Oregon, other than an August 3, 2018 statement by Mr. Williams that an Oregon-Idaho High Intensity Drug Area program report "confirms what we already know (about cannabis in Oregon) – it is out of control." Williams also issued a missive that state officials respond "quickly and in a comprehensive manner to address the many concerns raised. To date, we've seen insufficient progress from our state officials." The Oregon legislature subsequently passed a law, SB 218, requested by Governor Kate Brown, which allows the Oregon Liquor Control Commission ("OLCC") to refuse to issue marijuana production licenses at its sole discretion, based on existing supply of marijuana in the state. SB 218 took effect June 17, 2019, and the OLCC has enacted temporary rules pursuant thereto effective from September 1, 2019 to December 31, 2019. Those temporary rules allow OLCC to inactivate certain marijuana producer applications. OLCC has instructed its staff to initiate permanent rulemaking on producer application processing and deadlines going forward.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Oregon.

Colorado

On October 26, 2018, U.S. Attorney Jason R. Dunn was sworn in as the United States Attorney for the District of Colorado. Mr. Dunn has not released a public statement regarding the enforcement of state licensed marijuana businesses; however, he has stated that he has to make decisions for enforcement actions and priority with regards to resources and intends to focus on black market activities. Mr. Dunn does participate on a cannabis working group with other federal prosecutors around the U.S.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Colorado.

Enforcement of U.S. Federal Laws

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction. See "Risk Factors".

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could continue to operate or to expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors".

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See “Risk Factors”.

U.S. Enforcement Proceedings

The U.S. Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 (“**Rohrabacher-Blumenauer Amendment**”), which by its terms does not appropriate any federal funds to the DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the U.S. Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the “**Rohrabacher-Leahy Amendment**”) and continued the protections for the state-legal medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of September 30, 2018. American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the U.S. CSA, any individual or business – even those that have fully complied with state law – could be prosecuted for violations of federal law. If Congress restores funding, the U.S. federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the U.S. CSA's five-year statute of limitations.

Most recently, the U.S. Congress passed H.R. 3055, the “Commerce, Justice, Science, Agriculture, Rural Development, Food and Drug Administration, Interior, Environment, Military Construction, Veterans Affairs, Transportation, and Housing and Urban Development Appropriations Act, 2020” (the “**2020 Appropriations Act**”).

On June 20, 2019, the 2020 Appropriations Act was Amended by a U.S. Congress house floor vote (267-165) to include Amendment No. 17 (***Blumenauer (D-OR), Norton (D-DC), McClintock (R-CA)***), which expanded the previously-mentioned protective cannabis amendments to appropriations bills and which now specifically prohibits the Department of Justice from interfering with “state cannabis programs”, which includes both medical and adult-use cannabis programs. On September 26, 2019 the Senate Appropriations Committee declined to take up the broader amendment but did approve the Rohrabacher–Farr Amendment for the 2020 fiscal year spending bill. On September 27, 2019, the Rohrabacher–Farr Amendment was renewed as part of a stopgap spending bill, in effect through November 21, 2019.
On December 20, 2019, President Donald Trump signed the Consolidated Appropriations Act, 2020 which included the Rohrabacher/Blumenauer Amendment, which prohibits the funding of federal prosecutions with respect to medical cannabis activities that are legal under state law, extending its application until September 30, 2020. There can be no assurances that the Rohrabacher/Blumenauer Amendment will be included in future appropriations bills.

US courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with applicable State law. However, because this conduct continues to violate US federal law, US courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business – even those that have fully complied with applicable State law – could be prosecuted for violations of US federal law. If Congress restores funding, the US federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the CSA’s five-year statute of limitations.

Ability to Access Public and Private Capital

The Company has historically, and continues to have, access to both public and private capital in Canada in order to support its continuing operations. The Company has had cannabis-related activities in the United States since 2014. In addition, the Company has had successes in completing several public and private offerings in the last number of years, including private placements of Shares, Common Share purchase warrants, Convertible Debentures and secured notes. However, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants, given that marijuana is illegal under U.S. federal law. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company has never needed to access public equity capital in the U.S.

State-Level Overview

Regulations differ significantly amongst the U.S. states. Some U.S. states only permit the cultivation, processing and distribution of medical marijuana and Cannabis-Infused Products. Some U.S. states may also permit the cultivation, processing, and distribution of marijuana for adult purposes and retail Cannabis-Infused Products.

The following sections present an overview of state-level regulatory and operating conditions for the marijuana industry in which the Company has direct, indirect and material ancillary involvement.

California

California has an existing medical marijuana law and voted to approve the "Adult Use of Marijuana Act" ("**AUMA**") to tax and regulate for all adults 21 years of age and older on November 8, 2016. California was the first State to pass medical marijuana in 1996, allowing for a not-for-profit patient/caregiver system, but there was no State licensing authority to oversee businesses that emerged. In September of 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("**MCRSA**"). The MCRSA establishes a licensing and regulatory framework for medical marijuana businesses in California. The system has multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused product manufacturers will require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies will oversee different aspects of the program and businesses will require a State license and local approval to operate.

On July 2, 2017, California State Legislature passed Senate Bill No. 94, known as Medicinal and Adult-Use Cannabis Regulation and Safety Act ("**MAUCRSA**"), which amalgamates MCRSA and AUMA to provide a set of regulations to govern medical and adult use licensing regime for cannabis businesses in the State of California. On November 16, 2017, the State of California introduced the emergency regulations, which governed by the BCC, CDPH and California Department of Food and Agriculture (collectively "**Emergency CA Regulations**"), provided further clarity on the regulatory framework that governed cannabis businesses. The regulations built on the regulations provided by MCRSA and AUMA and also specified that businesses need to comply with the local law in order to also comply with the State regulations. The current Emergency CA Regulations, adopted by the BCC, CDPH and California Department of Food and Agriculture were readopted in June 2018, to meet the legislative mandate to open California's regulated cannabis market on January 1, 2018, the same date California moved to full-adult use state legalization for cannabis products. In July, California's three state cannabis licensing authorities announced the publication of proposed regulations in the California Regulatory Notice Register, the first step toward adopting non-emergency regulations. This publication started the formal rulemaking process. Temporary regulations were extended throughout the rule making process and on January 16, 2019, California's three state cannabis licensing authorities announced that the Office of Administrative Law (OAL) officially approved state regulations for cannabis businesses across the supply chain and the new regulations took effect immediately, meaning the previous emergency regulations were no longer in effect. To operate legally in California, cannabis operators must obtain a state license and local authorization. Local authorization is a prerequisite to obtaining the state license, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold, except as it relates to certain cultivation Medium Outdoor, Medium Indoor or Medium Mixed light A or M license, where a party may only receive one license in the respective category but may supplement with other license types. Although vertical integration across multiple license types is allowed, testing laboratory licensees may not hold any other licenses aside from a laboratory license and distributors may not also hold a transport license. There are no residency requirements for ownership under the California State licensing regime.

In California, two state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memorandum. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize, cannabis," "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent."

On May 29, 2018, US federal and California State authorities announced a joint effort to target illegal cannabis grows, with $2.5 million in federal money backing the effort. McGregor Scott, US Attorney for the Eastern District of California, said he will prioritize illegal cannabis rather than pursuing enforcement with respect to the legal recreational marijuana market even though US federal law bans marijuana. He stated, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there … So for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

On September 27, 2018, California State Governor Jerry Brown signed Senate Bill 1459, which modified MAUCRSA to allow the State licensing authorities to issue provisional licenses to temporary licensees as a bridge between temporary and annual licenses until January 1, 2020. A provisional license has the same requirements as an annual license. In March 2019, lawmakers in California had proposed State Senate Bill 51, which is designed to help cannabis businesses that have been shut out from the traditional banking system. Cannabis businesses have transacted predominantly in cash due to continued US federal banking restrictions that make it nearly impossible for them to have bank accounts with federally chartered financial institutions. There had also been efforts underway at the US federal level to pass legislation that would allow banks to serve cannabis-related businesses without the risk of being prosecuted. The proposed measure would allow private banks or credit unions to apply for a limited-purpose state charter so they can provide depository services to licensed cannabis businesses. California's legal marijuana industry is struggling to compete with the black market and is facing challenges that include banking access and high taxes.

In May 2019, Attorney General Becerra, along with 37 other state and territorial attorneys, sent a letter to congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for cannabis companies.

On August 6, 2019, the California DOJ released the "Guidelines for the Security and Non-Diversion of Cannabis Grown for Medicinal Use" to clarify the state's laws governing medicinal cannabis, and specifically those related to the enforcement, transportation, and use of medicinal cannabis. The Guidelines come after significant changes in state law on recreational cannabis use. The revised guidelines include:

(1) A summary of applicable laws;
(2) Guidelines regarding individual qualified patients and primary caregivers;

(3) Best practices for the recommendation of cannabis for medical purposes;
(4) Enforcement guidelines for state and local law enforcement agencies; and
(5) Guidance regarding collectives and cooperatives.

In July 2019, California State Governor Gavin Newsome signed Assembly Bill 97, which modifies MAUCRSA to extend the sunset date for the issuance of provisional licenses from January 1, 2020, to January 1, 2022. Further, the bill allows for the issuance of provisional licenses to applicants who did not previously hold a temporary license.

On October 12, 2019, California State Governor Gavin Newsom signed several cannabis-related bills that, among other things, are designed to bolster minority participation in the industry, ensure labor peace and institute a vaporizer cartridge labeling requirement, including one that will let legal businesses take advantage of more tax deductions. He also vetoed another measure that would have allowed some patients to use medical cannabis in health care facilities. A summary of the cannabis bills signed into law include:

(1) Senate Bill 595 requires the State to implement a program by January 1, 2021, that defers or waives license application and licensing or renewal fees for qualified "needs-based" applicants. This is a social equity provision to boost minority participation in the industry.

(2) Assembly Bill 1529 requires adding a universal symbol no smaller than a quarter-inch-by-quarter-inch on all cannabis vaporizer cartridges. The symbol must be engraved, affixed with a sticker or printed in black or white.

(3) Assembly Bill 1291 strengthens an existing provision for marijuana businesses by requiring applicants with 20 or more employees to provide a notarized statement that they will enter into and abide by the terms of a labor peace agreement.

(4) Assembly Bill 858 clarifies some requirements for "specialty cottage" growers with a maximum 2,500 sq. ft. of canopy.

(5) Senate Bill 34 allows marijuana retailers to provide free products to medical patients that meet certain criteria. Such was a common industry practice until new regulations went into effect in 2018.

California State Governor Newsom also signed a bill, AB 37, that allows cannabis business owners to deduct business expenses at the state level, something that remains illegal federally.

On January 10, 2020, Governor Newsom also unveiled his annual budget proposal which contains several provisions aimed at simplifying and streamlining regulations for the marijuana industry. The biggest proposed change concerns the State's cannabis licensing system, which would consolidate into The Department of Cannabis Control, rather than the three that are currently in charge of approving marijuana businesses. "Establishment of a standalone department with an enforcement arm will centralize and align critical areas to build a successful legal cannabis market, by creating a single point of contact for cannabis licensees and local governments," the administration said in a summary. The proposals are not yet final, and the administration is scheduled to post changes in May 2020, with the final budget expected to be enacted in the summer of 2020.

Per a May 15, 2020 Summary of Governor Gavin Newsom's May Budget Revision for the 2020-21 Fiscal Year (the "May Revision") provided by the California Cannabis Industry Association, the Governor's May budget revision postponed agency consolidation as a result of the COVID-19 pandemic to the 2021-22 fiscal year budget. Considering the delayed cannabis consolidation effort, the May Revision maintains funding for licensing and enforcement activities within the existing licensing entities, with some modifications. When asked whether anything would be proposed relative to agency consolidation in the 2020 legislative year, Nicole Elliott (Senior Advisor on Cannabis, Governor Gavin Newsom) suggested that uniform licensing protocols and regulatory clean-up were under consideration and could be part of a short-term, as well as a longer-term strategy. Additionally, the tax simplification for cannabis has been postponed until 2021.

Contract Manufacturing

The Company has assessed its relationships with its brand partners in order to ensure full compliance in regard to contract manufacturing (California Code of Regulations Title 16, Division 42 – Medicinal and Adult Use Cannabis Regulation, Section 5032 – Commercial Cannabis Activity).

Zoning and Land Use Requirements

Applicants are required to comply with all local zoning, environmental and land use regulations and provide written authorization from the property owner and the local jurisdiction where the commercial cannabis operations are proposed to take place, which must dictate that the applicant has the property owner's authorization and the jurisdiction's authorization to engage in the specific state-sanctioned commercial cannabis activities proposed to occur on the premises.

Record-Keeping and Continuous Reporting Requirements

California's state license application process additionally requires comprehensive criminal history, regulatory history, financial and personal disclosures, coupled with stringent monitoring and continuous reporting requirements designed to ensure only good actors are granted licenses and that licensees continue to operate in compliance with the State regulatory program.

Operating Procedure Requirements

Applicants must submit standard operating procedures describing how the operator will, among other requirements, address transportation, security, inventory, waste disposal, and quality control as applicable to the license sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the processes described and seek regulatory agency approval before any changes to such procedures may be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses.

Site-Visits & Inspections

The California Operators will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the state of California without satisfying and maintaining compliance with state and local law. As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as all of the facility's books and records to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

Compliance with United States operations - California

The Company has two full-time staff members (SVP, Operations and Director of Operations) whose responsibilities, among others, include monitoring compliance of the Company's operations in the states where its subsidiaries directly operate, or where it has indirect or material ancillary interest. The Company's staff tasked with overseeing compliance with applicable local and state regulations work closely with the Company's CEO and external consultants tasked with evaluating compliance, the Company's standard operating procedures and mechanisms in place to remedy any potential instances of non-compliance. The staff's responsibilities include:

- Securing and updating local operating permits and state manufacturing permits;

- Screening products and product packaging for any discrepancies with regulations issued by the State's three ruling agencies: BCC, CDPH, and the California Department of Food and Agriculture's CalCannabis Cultivation Licensing Division;
- Working with manufacturers and cultivators to address any packaging deficiencies;
- Testing all products according to the State code via licensed facilities;
- Working with State regulators to address any issues exposed through testing including relabeling, remediation or product destruction via licensed cannabis waste management organization; and
- Managing integration with the State's forthcoming Track and Trace program.
- Communication with general managers of the Company's facilities outside of California to monitor compliance of those facilities, review the information provided regarding compliance with applicable regulations and if necessary, relay that information to the appropriate members of the senior management team to take the corrective action.

In addition, the Company has previously sought and continues to seek legal advice from JRG Attorneys at Law ("**JRG**"), as local external counsel, to ensure that all aspects of the license/permit, products and operation prior to acquisition (as part of due diligence) and post-acquisition is in compliance with applicable State of California law. The executive of each operating unit is responsible for overseeing and maintaining compliance post-acquisition. Aaron Johnson, a JRG partner, and who sits on the board of directors of the Company, provides additional resources for operating units, supporting all licensing activities and advising on any compliance questions or issues.

Oregon

Oregon has both medical and adult-use marijuana programs. In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical marijuana law with an inclusive set of qualifying conditions that include chronic pain. In 2013, the legislature passed, and the Governor signed, House Bill 3460 to create a regulatory structure for existing unlicensed medical marijuana businesses. However, the original regulations created by the Oregon Health Authority ("**OHA**") after the passage of House Bill 3460 were minimal and only regulated storefront dispensaries, leaving cultivators and infused-product manufacturers within the unregulated patient/caregiver system.

In November of 2014, Oregon voters passed Measure 91, "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act," creating a regulatory system for individuals 21 years of age and older to purchase marijuana for personal use from licensed retail marijuana stores, as well as cultivate marijuana at home. The Oregon Liquor Control Commission ("**OLCC**") licenses and regulates adult-use marijuana businesses and is currently accepting applications.

On June 30, 2015, Gov. Kate Brown signed House Bill 3400 into law, which improved on the existing regulatory structure for medical marijuana businesses and created a licensing process for adult-use cultivators, processors, wholesalers, retailers, testing facilities and research laboratories.

On October 15, 2015, OLCC published draft recreational marijuana rules, which were finalized and took effect on June 29, 2016, as OLCC Division 25 of the Oregon Administrative Rules ("**OAR Division 25**"). These rules have been updated on a regular basis since that time, due to administrative prerogative and legislative changes. Currently licensed cannabis companies in the State of Oregon are not subject to residency requirements. OAR Division 25 will continue to evolve and there is no certainty that changes will not adversely affect the Company's operations, as the changes are subject to OLCCs review and approval.

In Oregon, Licensed Operators generally must also obtain local permits from the municipalities where the facility will be located where the Licensed Operator intends to carry out its operations. In most municipalities in Oregon where adult-use cannabis businesses are permitted to operate, Licensed Operators must obtain a LUCS from the land use/zoning department of the county (if located in unincorporated areas of the county) or the city (if located in the incorporated areas of the county). Local governments may restrict the number of both medical and adult-use marijuana businesses. Laws passed during the 2016 legislative session removed the two-year residency requirement that existed within House Bill 3400.

Both the OLCC and OHA license and regulate medical marijuana businesses to some extent. The OLCC licenses and regulates adult-use marijuana businesses, with assistance from OHA on discrete issues like testing, and with assistance from the Oregon Department of Agriculture (ODA) on hemp- and pesticide-related issues. In all other respects, ODA regulates industrial hemp. There is some additional overlap among the three agencies, with both OHA marijuana and ODA hemp allowed to enter into the OLCC system when certain requirements are met.

Aside from ODA industrial hemp permits, there are six distinct types of license types are available for medical and adult-use businesses: cultivation ("**production**"), manufacturing ("**processing**"), wholesaling, dispensing ("**retailing**"), testing and research. These licenses may have various optional categories and attributes: e.g., "indoor" and "outdoor" production licenses are offered in different tiers, with different canopy restrictions; processing licenses may contain product endorsements (edibles, topicals, extracts, concentrates, etc.); retail licenses may come with a delivery certificate, etc.

In Oregon vertical integration between and among production, processing, wholesale and retail is permissible, but not required, for both medical and adult-use. The law does not impose a limit on the number of licenses, although proposed Senate Bill 218 would allow OLCC to refuse to issue marijuana production licenses "based on market demand and other relevant factors." For now, though applications are currently being accepted for both medical and adult-use businesses on a rolling basis, notwithstanding the OLCC "pause" in its review of any application submitted after June 15th, 2018.

The Company, by and through its wholly owned subsidiary, Nutritional High (Oregon) LLC, received Marijuana Processor License No. 030 1002801EE73 from the OLCC on September 14, 2018. That license contains endorsements for both edible and concentrate products.

In the course of US midterm elections, which took place on November 6, 2018, a number of cities and counties in Oregon have lifted bans on various prohibitions relating to operating marijuana businesses. The cities included: Ontario, Klamath Falls, Clatskanie and Sumpter.

On October 4, 2019, Oregon's Governor Brown issued Executive Order No. 19-09, ordering a ban of flavored vaping products. The ban was subsequently enacted by OLCC and OHA, and covers all flavored tobacco and nicotine products, as well as marijuana products flavored with non-marijuana terpenes. The Oregon Appellate Commissioner ordered a stay of enforcement of the flavored tobacco and nicotine products ban on October 17, 2019, but the ban on marijuana products flavored with non-marijuana terpenes ("**Ban**") remains in place. The Ban may have a material affect on Nutritional High (Oregon) LLC operations.

Oregon will likely continue to refine its cannabis programs through the end of 2019, in the 2020 legislative session and in subsequent rulemaking by OLCC, OHA and ODA. It is unclear what effects, if any, such changes would have on the Company's business.

On January 16, 2020, the Commissioners of the Oregon Liquor Control Commission adopted changes to the rules for the Recreational Marijuana Program that address the technical fixed and changes made during the 2019 legislative session.

Many of the approved changes in the Division 25 rules affect all licensees while some apply to a specific license type. The new rules take effect February 1, 2020. Under the new rules, **<u>all licensees</u>** must notify the OLCC at least 15 days in advance of losing access to their licensed premises.

Additional rule modifications that effect **<u>all licensees</u>** include:

- Clarifications regarding video surveillance and quality control samples;
- A deadline change for daily reporting into the Cannabis Tracking System; and
- An adjustment to the tracking of marijuana items transported around the state.

There are news rules for licensed marijuana producers regarding:

- Canopy area designation; and
- Providing proof of consent from the property owner for the location where the producer is growing their marijuana crop.

For producer, processor and wholesaler licensees there are new trade sample limits, and new THC concentration and testing limits for OLCC certified hemp growers and handlers (processors.)

Commission staff plan to release guidance and other communications to licensees and stakeholders before the new rules take effect.

Compliance with United States operations – Oregon

The Company has previously sought and continues to seek legal advice from Harris Bricken, as local external counsel, to ensure that the Company is in compliance with all applicable Oregon law. The Company hired a Compliance and Packaging Specialist in Oregon in June 2019 to oversee the compliance, packaging, METRC, building and maintaining relationships with the regulatory authorities.

Colorado

On November 7, 2000, 54% of Colorado voters approved Amendment 20, which amended the State Constitution to allow the use of marijuana in the State for approved patients with written medical recommendation from a license physician.

Colorado voters legalized the use of retail marijuana in 2012 through amendments to the Colorado Constitution. The Colorado Amendment 64, which was passed by voters on November 6, 2012, led to legalization in January 2014. There are two sets of policies in Colorado relating to cannabis use: those for medicinal cannabis and for recreational use, along with a third set of rules governing hemp.

On January 1, 2014, Colorado became the first state in the nation to allow sales of recreational cannabis, with a licensing scheme that is overseen by the Department of Revenue, Marijuana Enforcement Division. Unlike the State of Washington, Colorado did not place caps on production or the number of licensed retail cannabis stores available within the State – as of August 1, 2018, there were about 532 licensees in the state. Any adult aged 21 or over may purchase up to one ounce of cannabis or cannabis products per day from a licensed retailer.

Governor Hickenlooper signed several bills into law on May 28, 2013, implementing the recommendations of the Task Force on the Implementation of Amendment 64. On September 9, 2013, the Colorado Department of Revenue adopted final regulations for recreational marijuana establishments, implementing the Colorado Retail Marijuana Code (HB 13-1317). On September 16, 2013, the Denver City Council adopted an ordinance for retail marijuana establishments. During 2014, the first year of implementation of Colorado Amendment 64, Colorado's legal marijuana market (both medical and recreational) reached total sales of $700 million.

In May 2019, Governor Polis signed into law multiple marijuana laws, including *HB19-1090 - "Publicly Licensed Marijuana Companies"* which repeals the provision that prohibits publicly traded companies from holding a marijuana license and increases investment flexibility in Colorado licensed marijuana companies. Also passed was SB19-224 - "*Sunset Regulated Marijuana*" which makes the Colorado marijuana regulations permanent while streamlining such regulations to create efficiencies for operators and regulators. The Colorado Department of Revenue's Marijuana Enforcement Division licenses and regulates Marijuana Businesses in the State of Colorado. To operate legally in Colorado, cannabis operators must apply for a Marijuana Business License, and must meet certain statutory requirements including being at least 21 years of age or older and a resident of the state of Colorado. Additionally, they must confirm that the city and county where they plan to operate their business within their jurisdiction. Anyone working within Colorado's marijuana industries must also obtain a Marijuana Occupational License. These application and licensing fees can range anywhere from $3,000 to over $13,000.

Summary of balance sheets and operating results with exposure to the U.S. cannabis-related activities
The Company's exposure to the U.S. marijuana-related activities through (1) the manufacture and sale of various cannabis consumer products in California and Oregon; (2) material ancillary involvement in companies it does not control with operation in Colorado and California; and (3) indirect involvement in in the State of Nevada.

The non-controlling investments held by the Company consists of investments without significant influence in Australis and Pharmadrug.

The following is the summary of the Company's balance sheet exposure to the U.S. cannabis-related activities as at April 30, 2022:

	Subsidiaries	Non-controlling Investments	Total	Percentage (%) exposure to the US cannabis activities
Current Assets	4,270,320	-	4,270,320	98%
Non Current Assets	15,620,110	-	15,620,110	78%
Total assets	$ 6,981,195	$ -	$ 6,981,195	82%
Current Liabilities	26,915,498	-	26,915,498	181%
Non Current Liabilities	1,267,851	-	1,267,851	67%
Total liabilities	$ 20,534,162	$ -	$ 20,534,162	168%

The following is the summary of operating losses from U.S. cannabis-related activities for the year ended April 30, 2022:

	Subsidiaries	Non-controlling Investments	Total	Percentage (%) exposure to the US cannabis activities
Sales	$ 4,668,401	-	$ 4,668,401	100.0%
COGS	$ (3,412,741)	-	$ (2,833,179)	99.7%
Operating expenses	$ (3,608,015)	-	$ (4,187,576)	59.4%
Other Income (expense)	$ (4,583,647)	-	$ (4,583,647)	0.0%
Gain on sale of leaseback	$ 30,045	-	$ 30,045	0.0%
Finance cost	$ (312,328)	-	$ (312,328)	30.8%
FX Gain (loss)	$ 1,189	-	$ 1,189	2.8%
Impairment of Intangible	$ (3,026,447)	-	$ (3,026,447)	-101.3%
Income from investment	$ -	-	$ -	0.0%

The operating expenses include expenses incurred directly by subsidiaries, amortization for investment properties, intangibles assets, and capital assets. The operating expenses exclude share-based payments and any allocation of expenses incurred at the Company’s head office.

RISK FACTORS

There are numerous and various risks, known and unknown, that may prevent the Company from achieving its goals. It is believed that these are the factors that could adversely affect the Company's business, financial condition or results of operation. In such case, the trading price of the Shares could decline, and investors could lose all or part of their investment. The following is a summary of certain risks that could be applicable to the business of the Company:

Limited operating history

The Company has a limited history of operations, is in the early stage of development. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations. The Company has no history of earnings. Because the Company has a limited operating history in emerging area of business, you should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy.
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements.
- risks that its growth strategy may not be successful.
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving regulatory regime.

The Company's future growth will depend substantially on its ability to address these and the other risks described in this section. If it does not successfully address these risks, its business may be significantly harmed.

Reliance on securing agreements with Licensed Operators

The regulatory framework in some US states restricts the Company from obtaining a License to grow, store and sell marijuana products. As such, in those US states the Company relies on securing agreements with Licenses Producers in the targeted jurisdictions that have been able to obtain a License with the appropriate regulatory authorities. Failure of a Licensed Producer to comply with the requirements of their License or any failure to maintain their License would have a material adverse impact on the business, financial condition and operating results of the Company. Should the regulatory authorities not grant a License or grant a License on different terms unfavorable to the Licensed Operators, and should the Company be unable to secure alternative Licensed Operators, the business, financial condition and results of the operation of the Company would be materially adversely affected.

If the U.S. federal government changes its approach to the enforcement of laws relating to cannabis, the Company would need to seek to replace those tenants with non-cannabis tenants, who would likely pay lower rents. It is likely that the Company would realize an economic loss on its capital acquisitions and improvements made to its capital assets specific to the cannabis industry, and the Company would likely lose all or substantially all of its investments in the markets affected by such regulatory changes.

Regulation

The activities of the Company are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The Company cannot predict the nature of any future laws, regulations, interpretations, policies or applications, nor can it determine what effect additional governmental regulations or administrative interpretations or procedures, when and if promulgated, could have on the Company's operations.
Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

Local, State and federal laws and regulations governing marijuana for medicinal and adult use purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's business.

Epidemic diseases, such as recent outbreak of the COVID-19 illness
The recent outbreak of novel coronavirus, specifically identified as "COVID-19", has been declared a global pandemic by the World Health Organization in March 2020. The outbreak has spread across the globe and is impacting worldwide economic activity. A public health epidemic, including COVID-19, poses the risk that the Company, our employees, contractors, suppliers and partners may be prevented from conducting business activities for an indefinite period of time due to shutdowns that are either self-imposed or mandated by the governmental authorities. Specifically, the COVID-19 outbreak may have an adverse impact on global economic conditions which could have an adverse effect on our business and financial condition. The extent, to which the COVID-19 outbreak impacts our financial results, will depend on future developments that are currently uncertain and cannot be predicted.

U.S. Federal Laws
The Federal Controlled Substances Act classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under U.S. federal law. Strict compliance with State laws with respect to marijuana will neither absolve the Company of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. The enforcement of relevant laws is a significant risk.

The business operations of the Company are dependent on State laws pertaining to the cannabis industry. Continued development of the cannabis industry is dependent upon continued legislative authorization of cannabis at the state level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturer and sale of cannabis, which would negatively impact the business of the Company.

Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect, and as a result the Company, including their reputation and ability to conduct business, their holdings (directly or indirectly) of medical cannabis licenses in the United States, and the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of their publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

As of the date hereof, thirty-three states, the District of Columbia and Guam allow their residents to use medical cannabis. Voters in the States of Colorado, Washington, Oregon, Alaska, California, Nevada, Massachusetts, Michigan and Maine have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The state laws are in conflict with the Federal Controlled Substances Act, which makes cannabis use and possession illegal on a national level. The Obama administration has made numerous statements indicating that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical cannabis. However, there is no guarantee that the Trump administration will not change the government's stated policy regarding the low-priority enforcement of federal laws and decide to enforce the federal laws to the fullest extent possible. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to the Company and its stockholders, including the potential exposure to criminal liability.
The constant evolution of laws and regulations affecting the cannabis industry could detrimentally affect the Company's operations. Local, state and federal medical cannabis laws and regulations are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt the business of the Company and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to the business of the Company.

United States border crossing
Investors in the Company and the Company's directors, officers and employees may be subject to travel and entry bans into the United States. Recent media articles have reported that certain Canadian citizens have been rejected for entry into the United States due to their involvement in the cannabis sector.

The majority of persons travelling across the Canadian and U.S. border do so without incident, whereas some persons are simply barred entry one time. The U.S. Department of State and the Department of Homeland Security have indicated that the United States has not changed its admission requirements in response to the legalization in Canada of recreational cannabis, but anecdotal evidence indicates that the United States may be increasing its scrutiny of travelers and their cannabis related involvement.

Admissibility to the United States may be denied to any person working or 'having involvement in' the cannabis industry, according to United States Customs and Border Protection. Inadmissibility in the United States implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver.

<u>Local regulation could change and negatively impact on the Company's operations</u>
Most U.S. states that permit cannabis for adult use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult use cannabis businesses in their jurisdictions. If local municipalities where the Company or its Licensed Operators have established facilities decide to prohibit cannabis businesses from operating, the Company or its Licensed Operators could be forced to relocate operations at great cost to the Company, and the Company or its Licensed Operators may have to cease operations in such state entirely if alternative facilities cannot be secured.

<u>The Company currently has insurance coverage; however, because the Company operates within the cannabis industry, there additional difficulties and complexities associated with such insurance coverage.</u>
The Company believes that it and its subsidiaries currently have insurance coverage with respect to directors and officers, workers' compensation, general liability, fire and other similar policies customarily obtained for businesses to the extent commercially appropriate; however, because the Company is engaged in and operates within the cannabis industry, there are exclusions and additional difficulties and complexities associated with such insurance coverage that could cause the Company to suffer uninsured losses, which could adversely affect the Company's business, results of operations, and profitability. There is no assurance that the Company will be able to fully utilize such insurance coverage, if necessary.

<u>Proposed Acquisitions and Dispositions</u>
The proposed acquisitions and dispositions are subject to certain conditions, many of which are outside of the control of the Company and there can be no assurance that they will be completed, on a timely basis or at all. As a consequence, there is a risk that one or more of the proposed acquisitions or dispositions will not close in a timely fashion or at all. If one or more of the proposed acquisitions or dispositions is not completed for any reason, the ongoing business of the Company may be adversely affected and, without realizing any of the benefits of having completed such transactions, the Company will be subject to a number of risks, including, without limitation, the Company may experience negative reactions from the financial markets, including negative impacts on the Company's stock price, in the case of a proposed acquisition, the Company will need to find an alternative use of any proceeds earmarked for such proposed acquisitions, in the case of a proposed disposition, the Company will not receive the anticipated proceeds of such disposition and accordingly may not be able to execute on other business opportunities for which such proceeds have been earmarked, and matters relating to the proposed acquisitions and dispositions will require substantial commitments of time and resources by management of the Company which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to the Company. If one or more of the proposed acquisitions or dispositions are not completed, the risks described above may materialize and they may adversely affect the business, results of operations, financial condition and prospects and stock price of the Company.

<u>The Company is dependent on intellectual property, and failure to protect the rights to use that intellectual property could adversely the Company's future growth and success.</u>
As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available. As a result, intellectual property of the Company's U.S. investments may never be adequately or sufficiently protected against the use or misappropriation by third parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that the businesses in which it invests will ever obtain any protection of its intellectual property, whether on a federal, state or local level.

The Company's failure to protect its existing intellectual property rights may result in the loss of exclusivity or the right to use the brands and technologies to which the Company has acquired or internally developed. If the Company does not adequately ensure the freedom to use this intellectual property the Company may be subject to damages for infringement or misappropriation, and/or be enjoined from using such intellectual property. In addition, it may be difficult for the Company to enforce certain of its intellectual property rights against third parties who may have inappropriately acquired interests in the Company's intellectual property rights by filing unauthorized trademark applications in foreign countries to register the Company's marks because of their familiarity with our business in the United States. See "Business Overview – Products and Services – Brands and Intellectual Property". Any potential intellectual property litigation could result in significant expense to the Company, adversely affect the development of sales of the challenged product or intellectual property and divert the efforts of the Company's technical and management personnel, whether or not such litigation is resolved in the favor of the Company. In the event of an adverse outcome in any such litigation, the Company may, among other things, be required to: pay substantial damages; cease the development, manufacture, use, sale or importation of products that infringe upon other patented intellectual property; expend significant resources to develop or acquire non-infringing intellectual property; discontinue processes incorporating infringing technology; or obtain licenses to the infringing intellectual property.

There are risks associated with removal of U.S. Federal Budget Rider Protections
In May 2018, the House Appropriations Committee approved inclusion of the Rohrabacher-Blumenauer Amendment ("**RBA**") in the CJS appropriations bill for fiscal year 2019, in a voice vote led by sponsor Rep. David Joyce. The amendment was then renewed through a series of short-term spending bills signed on September 28, 2018, December 7, 2018 and January 25, 2019. On February 15, 2019, the amendment was renewed as part of an omnibus spending bill in effect through September 30, 2019. However, the bill 22 does not afford the same DOJ prohibitions regarding prosecuting conduct and commerce regarding recreational marijuana, which poses a significant risk to the Company's operations. Moreover, there can be no certainty that Congressional support for the RBA amendment will continue.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business-even those that have fully complied with state law could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

Access to Banks
On March 28, 2019, the House Financial Services Committee approved Secure and Fair Enforcement (SAFE) Banking Act reintroduced by U.S. Sens. Jeff Merkley (D-OR) and Cory Gardner (R-CO). The bill would prevent the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) from taking action against banks or credit unions that serve cannabis-related businesses, prevent those regulators from limiting access to financial institutions by cannabis-related businesses, require the Financial Crimes Enforcement Network (FinCEN) and the Federal Financial Institutions Examination Council (FFIEC) to issue guidance for institutions that provide services to cannabis-related businesses, require reporting by financial regulators and the Government Accountability Office, and impose or increase the cost of private-sector mandates on financial institutions and remove a private right of action against financial institutions.
The Company may have difficulty accessing the service of banks, which may make it challenging to operate efficiently. As the result of U.S. federal prohibitions on cannabis and concerns in the banking industry regarding money laundering and other federal financial crime related to marijuana, the access to U.S. banking system which include, but not limited to, inability to deposit funds in federally insured and licensed banking institutions have been restricted. Consequently, businesses involved in the cannabis industry often

have difficulty finding a bank willing to service their businesses or access to credit card processing services. As a result, cannabis businesses in the U.S. are largely cash-based which complicates the implementation of financial controls and increases security and safety issues. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

Anti-Money Laundering Laws and Regulations
The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada. In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while there are no current intentions to declare or pay dividends on the Shares in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Reliance on third-party suppliers, manufacturers and contractors
The Company intends to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in Canada and U.S., the Company's third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company's business and operational results. Such third parties may include but not limited to: suppliers, contractors, business service providers, financial service providers, depository and clearing service providers.

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal at a federal level, judges may refuse to enforce contracts in connection with activities that violate federal law, even if there is no violation of state law. There remains doubt and uncertainty that the Company will be able to legally enforce contracts it enters into if necessary. The Company cannot be assured that it will have a remedy for breach of contract, the lack of which may have a material adverse effect on the Company's business, revenues, operating results, financial condition or prospects.

Lack of Access to U.S. Bankruptcy Protections

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Company were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to the Company's United States operations, which would have a material adverse effect on the Company, its lenders and other stakeholders.

Product liability, operational risk

As a licensing company (in the case of the Company) and a manufacturer and distributor of products (in the case of Licensed Operators and the Company) designed to be ingested by humans, the Licensed Operators and the Company face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of Cannabis-Infused Products based on the Company's recipes and brands involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's and the Licensed Operator's products alone or in combination with other medications or substances could occur.

Recent Announcements and Risks Regarding Vaporizer Products.

On March 13, 2019, the FDA issued draft guidance which proposes to modify the current compliance policy for certain deemed tobacco products that qualify as "new tobacco products". Relevant to vaping products, the document proposes to change the deadline for submitting a marketing application for flavoured products, which can include flavoured products containing cannabis. In September 2019, President Trump announced that the sale of most flavoured e-cigarettes would be banned by the FDA, but since has rescinded his position after meeting with industry in November 2019. Certain health problems have been linked to the inhalation of e-liquids. There may be governmental and private sector actions aimed at reducing the incidence of vaping and/or seeking to hold manufacturers of e-liquids responsible for the adverse health effects associated with the use of vaping products. These actions, combined with potential deterioration in the public's perception of e-liquids, may result in a reduced market for the Company's vaporizer products. While the Company does deal directly in e-liquids it does have vaporizer products. Certain chemicals used in vaporizer products, including Vitamin E acetate, polyethylene glycol (PEG), propylene glycol (PG), vegetable glycerin and medium chain triglycerides have been linked to certain health problems. The Company does not use any of these chemicals in its products. Federal, state and local regulations or actions that prohibit or restrict the sale of the Company's vaporizer products, or that decrease consumer demand or the Company's products by prohibiting their use, raising the minimum age for their purchase, raising their prices to unattractive levels via taxation, or banning their sale could adversely impact the financial condition and results of operations of the Company.

Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company and sold by Licensed Operators are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. In addition, a product recall may require significant management attention and could harm the image of the brand and Company.

Uninsurable risks

Medical and adult-use cannabis businesses are subject to several risks that could result in damage to or destruction of properties or facilities or cause personal injury or death, environmental damage, delays in production and monetary losses and possible legal liability. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

The Market Price of Securities is volatile and may not accurately reflect the long-term value of the Company

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of Shares to sell their securities at an advantageous price. Market price fluctuations in the Shares may be due to the Company's operating results or its U.S. investees' operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Shares.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Shares may decline even if the Company's investment results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in investment values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the Shares may be materially adversely affected.

Additional financing

The Company may need to raise significant additional funds in order to support its growth, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive businesses or technologies, or take advantage of unanticipated opportunities. If its financial resources are insufficient, it will require additional financing in order to meet its plans for expansion. There is no certainty that additional financing, if needed, will be available on acceptable terms, or at all.

Access to public and private capital and financing continues to be negatively impacted by the federal illegality of cannabis in the United States. Although the Company has had success completing public and private capital in the past, the Company's ability to obtain debt and/or equity financing in the future on favorable terms or obtain any financing at all cannot be guaranteed.

Furthermore, any debt financing, if available, may involve restrictive covenants and granting of security against assets of the Company, which may limit its operating flexibility with respect to business matters as well as may make it more difficult for the Company to obtain additional capital. The Company will require additional financing to fund its operations until anticipated positive cash flow is achieved.

If additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced, such shareholders may experience additional dilution in net book value, and such equity securities may have rights, preferences or privileges senior to those of its existing shareholders.

Risks Affecting the real estate industry

The Company is subject to risks generally associated with ownership of real estate, including: (a) changes in general economic or local conditions; (b) changes in supply of, or demand for, similar or competing properties in the area; (c) bankruptcies, financial difficulties or defaults by tenants or other parties (including Licensed); (d) increases in operating costs, such as taxes and insurance; (e) the inability to achieve full stabilized occupancy at rental rates adequate to produce targeted returns; (f) periods of high interest rates and tight money supply; (g) excess supply of rental properties in the market area; (h) liability for uninsured losses resulting from natural disasters or other perils; (i) liability for environmental hazards; and (j) changes in tax, real estate, environmental, zoning or other laws or regulations. There is no assurance that the Company's investments will yield an economic profit.

Weakness in regional and national economies could materially and adversely impact the Licensed leasing the real estate properties that the Company's may acquire in the future. If the Licensed Operators suffer a business disruption or the Company's ability to collect the rents from those parties may be limited, and the recourse available to the Company can be limited. As such, this may hinder the Company's ability to service its financial obligations, and in some cases, may lead to complete loss of the Company's assets if its lenders were to foreclose.

Taxes

U.S. federal prohibitions on the sale of cannabis may result in the Company not being able to deduct certain costs from its revenue for U.S. federal taxation purposes if the U.S. Internal Revenue Service (IRS) determines that revenue sources of the Company are generated from activities which are not permitted under U.S. federal law. Section 280E of the Internal Revenue Code of 1986 prohibits businesses from deducting certain expenses associated with trafficking-controlled substances (within the meaning of Schedule I and II of the CSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted. 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 cannabis businesses.

The Company may be vulnerable to unfavorable publicity or consumer perception

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise hindering market growth and state adoption due to inconsistent public opinion and perception of the medical-use and adult-use cannabis industry. Public opinion and support for medical and adult-use cannabis has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical cannabis as opposed to legalization in general).

Illegal drug dealer could pose threats

Currently, there are many drug dealers and cartels that cultivate, buy, sell and trade marijuana in the United States, Canada and worldwide. Many of these dealers and cartels are violent and dangerous, well financed and well organized. It is possible that these dealers and cartels could feel threatened by legalized cannabis businesses such as those with whom the Company does business and could take action against or threaten the Company, its principals, employees and/or agents and this could negatively impact the Company and its business.

Reliance on management

The success of the Company is currently dependent on the performance of its senior management. The loss of the services of these persons would have a material adverse effect on the Company's business and prospects in the short term. There is no assurance the Company can maintain the services of its officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Factors which may prevent realization of growth targets

The Company is currently in the early development stage. There is a risk that additional resources will be needed, and milestones will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company and its Licensed Operators:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

Risks associated with increasing competition

The cannabis industry is highly competitive. The Company will compete with numerous other businesses in the medicinal and adult use industry, many of which possess greater financial and marketing resources and other resources than the Company. The marijuana business is often affected by changes in consumer tastes and discretionary spending patterns, national and regional economic conditions, demographic trends, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw material and labour, and governmental regulations. Any change in these factors could materially and adversely affect the Company's operations.

The Company expects to face additional competition from new entrants. If the number of legal users of marijuana in its target jurisdiction increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products.

The products provided by the Company to Licensed Operators may become subject to regulation governing food and related products

Should the federal government legalize marijuana for medical or adult use nation-wide, it is possible that the U.S. Food and Drug Administration ("**FDA**") would seek to regulate the products under the Food, Drug and Cosmetics Act of 1938 or the United States Department of Agriculture ("**USDA**"). The FDA and the USDA may issue rules and regulations including certified good manufacturing practices related to the growth, cultivation, harvesting and processing of medical cannabis and cannabis-infused products. Clinical trials may be needed to verify efficacy and safety of the medical marijuana. It is also possible that the FDA would require that facilities where medical marijuana is cultivated be registered with the applicable government agencies and comply with certain federal regulations. In the event, any of these regulations are imposed, the Company cannot foresee the impact on its operations and economics. If the Company or the Licensed Operators are unable to comply with the regulations and or registration as prescribed by the FDA, USDA or another federal agency, the Company or its suppliers may be unable to continue to operate in its current form or at all.

Environmental and employee health and safety regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated evets could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Difficult to forecast

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the marijuana industry in Canada and the U.S. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Holding company

As a holding company with no material assets other than the stock of the Company's operating subsidiaries and intellectual property, nearly all of the Company's funds generated from operations are generated by the Company's operating subsidiaries. The Company's subsidiaries are subject to requirements of various regulatory bodies, both domestically and internationally. Accordingly, if the Company's operating subsidiaries are unable, due to regulatory restrictions or otherwise, to pay the Company's dividends and make other payments to the Company when needed, the Company may be unable to satisfy the Company's obligations when they arise.

Management of growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Dividends

The Company has no earnings or dividend record and does not anticipate paying any dividends on the Common Shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Currency exchange rates

Exchange rate fluctuations may adversely affect the Company's financial position and results. It is anticipated that a significant portion of the Company's business will be conducted in the United States using U.S. Dollars. The Company's financial results are reported in Canadian Dollars and costs are incurred primarily in U.S. Dollars. The depreciation of the Canadian Dollar against the U.S. Dollar could increase the actual capital and operating costs of the Company's U.S. operations and materially adversely affect the results presented in the Company's financial statements.

The Company shares control in joint venture projects, which limits its ability to manage third-party risks associated with these projects.
Joint ventures often have shared control over the operation of our joint venture assets and do not control all the decisions of the joint ventures. Therefore, joint venture investments may involve risks such as the possibility that a co-venture in an investment might become bankrupt, be unable to meet its capital contribution obligations, have economic or business interests or goals that are inconsistent with our business interests or goals, or take actions that are contrary to our instructions or to applicable laws and regulations. In addition, we may be unable to take action without the approval of our joint venture partners, or our joint venture partners could take actions binding on the joint venture without our consent. Consequently, actions by a co-venture or other third-party could expose us to claims for damages, financial penalties and reputational harm, any of which could have an adverse effect on our business and operations. In addition, we may agree to guarantee indebtedness incurred by a joint venture or co-venture or provide standard indemnifications to lenders for loss liability or damage occurring as a result of our actions or actions of the joint venture or other co-ventures. Such a guarantee or indemnity may be on a joint and several bases with a co-venture, in which case we may be liable in the event such co-venture defaults on its guarantee obligation. The non-performance of such obligations may cause losses to us in excess of the capital we initially may have invested or committed under such obligations.

Preparing our financial statements requires us to have access to information regarding the results of operations, financial position and cash flows of our joint ventures. Any deficiencies in our joint ventures' internal controls over financial reporting may affect our ability to report our financial results accurately or prevent or detect fraud. Such deficiencies also could result in restatements of, or other adjustments to, our previously reported or announced operating results, which could diminish investor confidence and reduce the market price for our shares. Additionally, if our joint ventures are unable to provide this information for any meaningful period or fail to meet expected deadlines, we may be unable to satisfy our financial reporting obligations or timely file our periodic reports.

Although our joint ventures may generate positive cash flow, in some cases they may be unable to distribute that cash to the joint venture partners. Additionally, in some cases our joint venture partners control distributions and may choose to leave capital in the joint venture rather than distribute it. Because our ability to generate liquidity from our joint ventures depends in part on their ability to distribute capital to us, our failure to receive distributions from our joint venture partners could reduce our return on these investments.

The joint venture might require a need for additional capital infusions which might create an obligation on the Company to make additional contributions, failing to do which may result in reduction of the Company's interest in joint venture operations.

Non-compliance with federal, provincial or state laws and regulations, or the expansion of current, or the enactment of new laws or regulations, could adversely affect the Company's business.
The activities of the Company are subject to regulation by governmental authorities. Achievement of the Company's Business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the Business, results of operations and financial condition of the Company.
While oil derived from industrial hemp stalk that has naturally occurring THC content equal to or less than 0.3% is excluded from the definition of marijuana under the CSA, there is no certainty that this exclusion could not be altered by court or governmental action or re-interpretation. There is no certainty that the FDA will not regulate the use of hemp oil as a drug and prohibit use as a dietary ingredient. There is no certainty that hemp oil will be considered a grandfathered dietary ingredient under the Dietary Supplement Health

and Education Act of 1994 ("**DSHEA**") or would otherwise be permitted for use under the DSHEA. The FDA has taken steps to pursue companies that manufacture hemp-infused products that make health and medical claims about their products and may take steps to pursue companies that manufacture marijuana products. This may include Licensed Operators, which would adversely affect the Company's financial performance.

The Company has limited control over the operations and activities of the Licensed Operators.
In certain instances, the Company has limited control under the license agreements over the operations and activities of the Licensed Operators that it does not control or have a significant influence over. Since the income of the Company will be highly dependent upon the activities and operations of the Licensed Operators and any other agreement with such Licensed Operators, any substantial alteration of the Licensed Operators' business, operations, or production could adversely affect the income of the Company.

Default by the Licensed Operators under the agreements with the Company could have a material impact on the Company.
The Company expects to enter into various transactions with the Licensed Operators in addition to licensing agreements, including loans, advisory agreements, management service agreements, joint venture agreements and equity investments in Licensed Operators. Default by the Licensed Operators under these agreements could substantially reduce expected fee income, and in the case of defaulted loans or equity investments in failing Licensed Operators, a decrease in assets of the Company that could materially affect the financial results of the Company.

Scientific research related to the benefits of marijuana remains in early stages, is subject to a number of important assumptions and may prove to be inaccurate.
Research in Canada, the United States and internationally regarding the medical benefits, viability, safety, efficacy and dosing of cannabis or isolated cannabinoids remains in early stages. To the Company's knowledge, there have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids. Any statements concerning the potential medical benefits of cannabinoids are based on published articles and reports. As a result, any statements made herein are subject to the experimental parameters, qualifications, assumptions and limitations in the studies that have been completed.

Although the Company believes that the articles and reports, and details of research studies and clinical trials that are publicly available reasonably support its beliefs regarding the medical benefits, viability, safety, efficacy and dosing of cannabis, future research and clinical trials may prove such statements to be incorrect or could raise concerns regarding and perceptions relating to cannabis. Given these risks, uncertainties and assumptions, investors should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this document or reach negative conclusions regarding the viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could materially impact the Company.

Negative publicity or consumer perception may affect the success of our business.
The success of the marijuana industry may be significantly influenced by the public's perception of marijuana. Both the medical and recreational use of marijuana are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to marijuana will be favourable. The marijuana industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical and recreational marijuana is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion (whether or not accurate or with merit) relating to the consumption of marijuana, whether in Canada, the United States or elsewhere, may have a material adverse effect on our operational results, consumer base and financial results. Among other things, such a shift in public opinion could cause state

jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could identify potential acquisition opportunities.

Certain events or developments in the cannabis industry more generally may impact the Company's reputation.
Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Cannabis has often been associated with various other narcotics, violence and criminal activities, the risk of which is that our business might attract negative publicity. There is also risk that the action(s) of other participants, companies and service providers in the cannabis industry may negatively affect the reputation of the industry as a whole and thereby negatively impact the reputation of the Company. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regard to the Company and its activities, whether true or not and the cannabis industry in general, whether true or not. The Company does not ultimately have direct control over how it or the cannabis industry is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business strategy and realize on its growth prospects, thereby having a material adverse impact on the Company.

Negative Cash Flow
The Company has not generated positive cash flows from operating activities. As a result of the Company's negative cash flow from operating activities, the Company continues to rely on the issuance of securities or other sources of financing to generate the funds required to fund its business. The Company may continue to have negative operating cash flow for the foreseeable future.

Internal Control over Financial Reporting

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at April 30, 2022 covered by this management's discussion and analysis, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws.

Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Cautionary Note Regarding Forward Looking Statements

This Management's Discussion and Analysis includes “forward-looking statements”, within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking Statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “budget”, “plan”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Examples of such statements include, without limitation: the intention to grow the business and operations of the Company; statements regarding expected changes in laws and enforcements in the United States; statements related to the effect and consequences of certain regulatory initiatives and related announcements, and the impact thereof for shareholders, industry participants and other stakeholders; the Company's investments in the United States, the characterization, and consequences of those investments under federal law, and the framework for the enforcement of medical cannabis and cannabis related offenses in the United States; the grant and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof; the anticipated future gross margins of the Company's operations. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks are set out in “Risk Factors” of this MD&A. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements.

The acquisition of OutCo is expected to have a material positive effect of the Company’s financial condition, financial performance and cash flow.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained herein are made as of June 29, 2021 and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary Statement.

Management's Responsibility for Financial Information

Management is responsible for all information contained in this report. The Interim financial statements have been prepared in accordance with International Financial Reporting Standards and include amounts based on management's informed judgments and estimates. The financial and operating information included in this report is consistent with that contained in the consolidated financial statements in all material aspects.

Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate, and assets are safeguarded.

The Audit Committee has reviewed the consolidated interim financial statements with management. The Board of Directors has approved the consolidated interim financial statements on the recommendation of the Audit Committee.

June 30, 2022

Robert Wilson
Chief Financial Officer