High Fusion Inc.

Consolidated Financial Statements

For the years ended

July 31, 2022 and 2021

(Expressed in Canadian Dollars, unless otherwise noted)

BFBorgers CPA PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of High Fusion Inc.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern
We draw attention to Note 1 in the financial statements, which indicates that the Company incurred significant operating losses since inception and has an accumulated deficit of $88,659,660 as at July 31, 2022. For the year ended July 31, 2022, the Company incurred a net loss and comprehensive loss of $19,213,626. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter
The financial statements of the Company for the year ended July 31, 2021, were audited by another auditor who expressed an unmodified opinion on those statements on December 14, 2021.

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

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

B F Borgers CPA PC

November 30, 2022
Lakewood, Colorado, USA

High Fusion Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	July 31, 2022	July 31, 2021
ASSETS			
Current assets			
Cash		$ 757,405	$ 21,268
Amounts receivable	4	1,158,530	78,054
Prepaid expenses		186,591	207,377
Inventory	5	2,258,669	202,488
Biological assets	6	286,546	-
Investments	7	-	1,204,321
		4,647,741	1,713,508
Non-current assets			
Property, plant and equipment	9	7,978,454	2,689,614
Intangible assets	8	-	2,227,756
Goodwill	8	-	648,519
		$ 12,626,195	$ 7,279,397
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities	10, 17	$ 5,265,145	$ 4,695,212
Income tax payable		-	151,795
Promissory note payable	11	5,110,679	-
Derivative liabilities	13	330	1,245,645
Convertible debentures	13	5,273,928	-
Lease liabilities	12	1,155,052	698,541
Deferred gain on sale and leaseback	12	-	25,487
		16,805,133	6,816,680
Non-current liabilities			
Convertible debentures	13	92,406	6,625,337
Excise tax liabilities	10	916,566	-
Deferred tax payable	26	745,274	-
Lease liabilities	12	469,227	-
		19,028,607	13,442,017
Shareholders' deficiency			
Share capital	14	56,089,757	50,666,804
Shares to be issued		10,915,228	85,001
Reserve for share based payments	15	6,175,168	5,531,058
Reserve for warrants	16	7,382,874	6,577,402
Reserve for foreign currency translation		(102,717)	(92,373)
Equity component of convertible debenture	13	851,449	773,462
Contributed surplus	18	757,696	-
Accumulated deficit		(88,659,660)	(69,689,224)
Attributable to the Parent		(6,590,205)	(6,147,870)
Attributable to non-controlling interests	18	187,793	(14,750)
		(6,402,412)	(6,162,620)
		$ 12,626,195	$ 7,279,397

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 21)
Subsequent events (Note 27)

Approved by the Board:
/s/ "Adam Szweras" Director /s/ "Rachel Wright" Director

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

High Fusion Inc.
Consolidated Statements of Loss and Comprehensive Loss
Years ended July 31, 2022 and 2021
(Expressed in Canadian Dollars)

	Notes	Year Ended July 31, 2022 (Note 24)	July 31, 2021 (Note 24)
Sales		**$ 6,248,499**	$ 96,067
Cost of goods sold	5	**(5,001,783)**	(75,723)
Gross margin		**1,246,716**	20,344
Operating expenses:			
Salaries, benefits and consulting fees	17	**4,213,040**	2,192,936
Professional fees	17	**1,365,240**	462,874
General and administrative	22	**2,443,423**	917,498
Acquisition and project evaluation costs	17	**591,697**	4,916
Share based payments	15	**644,110**	947,848
Sales, marketing and promotion	17	**65,831**	78,045
Depreciation and amortization	8,9	**1,522,368**	483,573
Bad debt expense	4	**-**	93,685
Total operating expenses		**10,845,709**	5,181,375
Other (income)/expenses:			
Foreign exchange loss (gain)		**150**	177,075
Interest income		**-**	(217,848)
Finance costs	11,12,13	**1,414,598**	1,277,115
Gain on sale and leaseback	12	**(25,819)**	(700,445)
Other loss (income)		**(65,278)**	-
(Gain) on settlement of FVPTL investments	7	**(358,545)**	-
Loss on FVTPL investments	7	**479,780**	-
(Gain) on sale of investments	7	**(105,572)**	(416,201)
Change in fair value of derivative liability	13	**(1,245,315)**	960,073
Loss on debt settlement	4,10,14	**(156,658)**	344,710
Loss on modification of debt		**-**	1,559,244
Loss (gain) on extinguishment of debt		**-**	(2,219,744)
Impairment of goodwill	8	**7,534,105**	-
Impairment of intangible assets	8	**2,182,066**	5,628,006
(Gain) on sale of property, plant and equipment	9	**(30,186)**	-
Total other (income)/expenses		**9,623,326**	6,391,985
Loss before income taxes		**(19,222,319)**	(11,553,016)
Income tax expense (recovery)			
Current	26	**-**	67,816
		-	67,816

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

High Fusion Inc.

Consolidated Statements of Loss and Comprehensive Loss
Years ended July 31, 2022 and 2021
(Expressed in Canadian Dollars)

Net loss before discontinued operations			**(19,222,319)**		(11,620,832)
Income from discontinued operations	24		**19,037**		9,771,214
	.		**(19,203,282)**		(1,849,618)
Other comprehensive loss					
Exchange differences on translating foreign operations			**10,344**		-
Net loss and comprehensive loss		**$**	**(19,213,626)**	$	(1,849,618)
-					
Net loss attributable to:					
Non controlling interest	18		**(232,846)**	$	-
Parent company			**(18,970,436)**		(1,849,618)
		$	**(19,203,282)**	$	(1,849,618)
-					
Net loss and comprehensive loss attributable to:					
Non controlling interest	18		**(232,846)**	$	-
Parent company			**(18,980,780)**		(1,849,618)
		$	**(19,213,626)**	$	(1,849,618)
Weighted average number of common shares outstanding					
Basic & Diluted			**87,843,301**		45,201,322
Net loss per share before discontinued operations					
Basic & Diluted		**$**	**(0.219)**	$	(0.257)
Net loss per share of discontinued operations					
Basic & Diluted		**$**	**0.000**	$	0.216

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

High Fusion Inc.

Consolidated Statements of Cash Flow

Years ended July 31, 2022 and 2021

(Expressed in Canadian Dollars)

	Notes	July 31, 2022	July 31, 2021 (Note 2)
Cash (used in)			
Operating activities:			
Net loss		**(19,203,282)**	(1,849,618)
Items not affecting cash:			
Amortization of capital assets and intangible assets	8,9	**1,522,368**	483,573
Gain on sale of property, plant and equipment	9	**(30,186)**	-
Impairment of intangible assets and goodwill	8	**9,716,171**	5,628,006
Acquisition expenses	10	**364,526**	-
Share based payments	15	**644,110**	947,848
Foreign Exchange		**150**	177,075
Change in fair value of derivative liabilities	13	**(1,245,315)**	960,073
Accretion and finance costs	11.12,13	**1,414,598**	1,277,115
Loss/(gain) on extinguishment of debt	4,10,14	**(156,658)**	1,903,934
Other income		**(65,278)**	-
Gain on modification of debt		**-**	(2,219,744)
Gain on disposal of discontinued operations	24	**(874,196)**	(11,322,463)
Gain on sale leaseback	12	**(25,819)**	(700,445)
Gain on sale of investment	7	**(105,572)**	(416,201)
Loss on FVTPL investments	7	**479,780**	-
Gain on settlement of FVPTL investment	7	**(358,545)**	-
Bad debt expense		**-**	127,549
Net change in non-cash working capital:			
Amounts receivable		**(289,248)**	(1,419,716)
Prepaid		**21,747**	(149,705)
Inventory		**1,407,905**	(330,192)
Biological assets		**757,982**	
Deposits		**-**	153,767
Investments		**14,136**	-
Income taxes payable		**3,719**	(1,699,931)
Accounts payable and accrued liabilities		**4,260,404**	6,044,048
Net cash used in operating activities		**(1,746,503)**	(2,405,027)

High Fusion Inc.

Consolidated Statements of Cash Flow

Years ended July 31, 2022 and 2021

(Expressed in Canadian Dollars)

Investing activities:			
Proceeds from sale of investments	7	**1,174,522**	1,090,476
Cash acquired from acquisition of assets of Outco business	3	**192,144**	-
Proceeds from sale of property, plant and equipment	9	**78,393**	-
Purchase of property, plant and equipment		**-**	(62,480)
Cash acquired on acquisition of Palo Verde LLC		**-**	16,087
Cash acquired from Neural Therapeutics acquisition		**-**	1,178,611
Net cash provided by investing activities		**1,445,059**	2,222,694
Financing activities:			
Proceeds from loan facilities	11	**1,066,685**	-
Lease payments	9	**(672,017)**	(31,323)
Payment of principal on promissory note payables	11	**(57,155)**	-
Interest payments on promissory note payables	11	**(39,119)**	-
Proceeds from shares of subsidiary issued and sold to non-controlling interests, net	3	**750,000**	-
Net cash provided by (used in) financing activities		**1,048,394**	(31,323)
Net change in cash		**746,950**	(213,656)
Effects of exchange rate changes on cash		**(10,812)**	(8,936)
Cash at beginning of year		**21,268**	243,860
Cash at end of year		**757,405**	21,268

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

Supplementary cash flow information (Note 25)

High Fusion Inc.
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in Canadian Dollars)

Description	Share capital	Shares to be issued	Reserve for share-based payments	Reserve for warrants	Reserve for foreign currency translation	Equity component of convertible debentures	Contributed surplus	Accumulated deficit	Attributable to the Company	Non-controlling interest	Total shareholders' equity (deficiency)
Balance as at July 31, 2020	**$ 38,421,113**	**$ 85,001**	**$ 4,591,263**	**$ 3,382,530**	**$ 408,177**	**$ 773,462**	**$ -**	**$ (69,546,199)**	**$ (21,884,653)**	**$ (14,750)**	**$ (21,899,403)**
Share based payments	-	-	87,848	-	-	-	-	-	87,848	-	87,848
RSUs issued to board members	-	-	860,000	-	-	-	-	-	860,000	-	860,000
Shares issued for AP debt settlement	1,098,044	-	-	-	-	-	-	-	1,098,044	-	1,098,044
Shares issued for purchase of company	4,125,689	-	66,947	2,776,860	-	-	-	-	6,969,496	-	6,969,496
Conversion of debentures	6,906,958	-	-	-	-	-	-	-	6,906,958	-	6,906,958
Loss on settlement of AP debt	-	-	-	344,710	-	-	-	-	344,710	-	344,710
Acquisition of Palo Verde LLC	40,000	-	-	73,302	-	-	-		113,302	-	113,302
Exercise of RSUs	75,000	-	(75,000)	-	-	-	-		-		-
Reclassification of AOCI on disposal of Calyx	-	-	-	-	(1,706,593)	-	-	1,706,593	-	-	-
Foreign exchange translation	-	-	-	-	1,206,043	-	-	-	1,206,043	-	1,206,043
Net loss for the year	-	-	-	-	-	-	-	(1,849,618)	(1,849,618)	-	(1,849,618)
Balance as at July 31 2021	**$ 50,666,804**	**$ 85,001**	**$ 5,531,058**	**$ 6,577,402**	**-$ 92,373**	**$ 773,462**	**$ -**	**$ (69,689,224)**	**$ (6,147,870)**	**$ (14,750)**	**$ (6,162,620)**
Balance as at July 31, 2021	**$ 50,666,804**	**$ 85,001**	**$ 5,531,058**	**$ 6,577,402**	**$ (92,373)**	**$ 773,462**	**$ -**	**$ (69,689,224)**	**$ (6,147,870)**	**$ (14,750)**	**$ (6,162,620)**
Consideration for purchase of the business of Outco	-	11,023,310	-	643,908	-	-	-	-	11,667,218	-	11,667,218
Equity component of ASC Debenture	-	-	-	-	-	8,504	-	-	8,504	-	8,504
Equity component of Gainor Debenture	-	-	-	-	-	69,483	-	-	69,483	-	69,483
Warrants issued on Bridge Loans	-	-	-	161,564	-	-	-	-	161,564	-	161,564
Change in ownership interest of subsidiary	-	-	-	-	-	-	757,696	-	757,696	435,389	1,193,085
Shares issued for AP debt settlement	2,786,859	-	-	-	-	-	-	-	2,786,859	-	2,786,859
Shares issued for convertible debt interest	150,026	-	-	-	-	-	-	-	150,026	-	150,026
Share based payments	-	-	644,110	-	-	-	-	-	644,110	-	644,110
Conversion of debentures	2,292,985		-	-	-	-	-	-	2,292,985	-	2,292,985
Conversion of multiple voting shares	193,083	(193,083)	-	-	-	-	-	-	-	-	-
Foreign exchange translation	-	-	-	-	(10,344)	-	-	-	(10,344)	-	(10,344)
Net loss for the year	-	-	-	-	-	-	-	(18,970,436)	(18,970,436)	(232,846)	(19,203,282)
Balance as at July 31, 2022	**$ 56,089,757**	**$ 10,915,228**	**$ 6,175,168**	**$ 7,382,874**	**$ (102,717)**	**$ 851,449**	**$ 757,696**	**$ (88,659,660)**	**$ (6,590,205)**	**$ 187,793**	**$ (6,402,412)**

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

1. Nature of operations` and going concern

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

The consolidated financial statements for the year ended July 31, 2022 were approved by the Board of Directors on November 30, 2022.

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

The Company has been incurring operating losses and cash flow deficits since its inception, as it executes on its business plan to capitalize on the opportunity that is emerging in the United States in the cannabis sector, a sector that has been legalized by certain U.S. states but remains federally illegal and is subject to legislative uncertainty. The Company’s operations are not yet self-sustaining. As such, the Company has been depleting its invested capital and is dependent upon obtaining necessary financing from time to time to finance its on-going and planned activities and to cover administrative costs. There is no assurance that any prospective project in the medical cannabis industry will be successfully initiated or completed. Further, regulatory evolution and uncertainty may require the Company to alter its business plan and make further investments to react to regulatory changes. As at July 31, 2022, the Company had working capital deficit of $12,157,392 (July 31, 2021– $5,103,172), spent $1,746,503 (July 31, 2021 - $2,405,027) of cash for operating activities, had not yet achieved profitable operations, had accumulated losses of $88,659,660\(July 31, 2021 - $69,689,224), had shareholders' deficit of $6,402,412 (July 31, 2021 -Shareholders’ deficit - $6,162,620) and expects to incur further losses in the development of its business, all of which describe the material uncertainties that cast significant doubt upon the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on its ability to obtain further funding, cash flows, restructure borrowings and continue to realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the consolidated financial statements. These consolidated financial statements do not include adjustments relating to the recoverability and classification of recorded assets or to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern which could be material.

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

In addition, there was an adjustment to the consolidated statement of financial position for the year ended July 31, 2021, as a result of the sale of Calyx (see Note 24).

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

2. Basis of preparation

Certain balances in the consolidated statements of cash flow have been reclassified to conform with the current year presentation.

2.1 Statement of compliance

2.2 These consolidated financial statements have been prepared in accordance with International Accounting

Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Standards Committee (“IFRIC”) in effect for the year ended July 31, 2022.

2.3 Basis of measurement

The consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information, and on historical cost basis, except for certain financial instruments and acquisition-related contingent consideration, which are measured at fair value (see Note 20 – Financial Instruments). All figures are presented in Canadian dollars unless otherwise noted.

2.4 Basis of consolidation

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, formerly 100% owned subsidiary, Calyx Brands, 51% owned subsidiary, Eglinton Medicinal Advisory Ltd, 0% owned subsidiaries from the acquisition of the business of Outco Labs Inc. **(“OutCo”)**, Downwind 27, Inc. El Cajon and San Diego Naturals, LLC which are controlled through management service agreements and majority control of the Board of Directors by the Company.

Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

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

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

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

(Expressed in Canadian Dollars)

Subsidiary/Affiliate	Ownership Interest July 31, 2022	July 31, 2021	Accounting method
NHII Holdings Ltd. ("NHHL")	100%	100%	Consolidation
NHC IP Holdings Corp. ("NHCIP")	100%	100%	Consolidation
Nutritional High (Colorado) Inc. ("NHCI")	100%	100%	Consolidation
NH Properties Inc. ("NHPI")	100%	100%	Consolidation
NHC Edibles LLC ("NHC")	100%	100%	Consolidation
Nutritional High (Oregon) LLC ("NHOL")	100%	100%	Consolidation
Nutritional Traditions Inc. ("NTI")	100%	100%	Consolidation
Nutritional IP Holdings LLC ("NIPH")	100%	100%	Consolidation
NH (Oregon) Properties LLC ("NHOP")	100%	100%	Consolidation
NH Processing (Nevada) Inc. ("NHPN")	100%	100%	Consolidation
NH Operations LLC ("NHOC")	100%	100%	Consolidation
NH Nevada LLC ("NHNC")	100%	100%	Consolidation
NH (Pennsylvania) LLC ("NHPL") (5)	0%	100%	Consolidation
NH Properties (Nevada) LLC ("NPNL")	100%	100%	Consolidation
Eastgate Property Holding LLC ("EPHC")	100%	100%	Consolidation
NH Processing (California) LLC ("NHPC") (5)	0%	100%	Consolidation
NH Bellingham Property Holdings LLC ("NHBH")	100%	100%	Consolidation
Pasa Verde, LLC ("Pasa Verde")	100%	100%	Consolidation
Nutritional High Group, LLC ("NHG")(5)	0%	100%	Consolidation
Eglinton Medicinal Advisory Ltd. ("EMAL")	51%	51%	Consolidation
NH Medicinal Holdings LLC ("NHMH")(5)	0%	100%	Consolidation
Neural Therapeutics Inc. ("NT")((2),(9)	49%	100%	Consolidation
Kruzo LLC ("Kruzo")(3)	49%	100%	Consolidation
Palo Verde LLC ("Palo Verde")(4)	100%	100%	Consolidation
Nutri tional High LLC ("NH LLC")(6)	100%	100%	Consolidation
East Hill Wellness LLC ("EHW")(7),(8)	0%	0%	Consolidation
San Diego Natural Inc. ("SDN")(7)	0%	0%	Consolidation
Downwind 27 LLC (DW27")(7)	0%	0%	Consolidation
NH Distribution California LLC ("NHDC")(1)	0%	0%	Consolidation
Calyx Brands Inc. ("Calyx") (1)	0%	0%	Consolidation

(1) *The Company sold its 100% interest in Calyx and NH Distribution LLC to a third party (Note 24).*
(2) *The Company purchased Neural Therapeutics Inc. ("NT ") (formerly Psychedelic Sciences Corp) on August 6th, 2020 (Note 3).*
(3) *Kruzo LLC ("Kruzo") is a wholly-owned subsidiary of NT.*
(4) *The Company purchased Palo Verde LLC on March 12, 2021 (Note 3).*
(5) *NH Medicinal Holdings LLC, NH (Pennsylvania) LLC, NH Processing (California) and Nutritional High Group LLC have been dissolved.*
(6) *The Company purchased the Outco business (Note 3) on August 31, 2021, which included control of EHW, SDN and DW27 through management service agreements.*
(7) As part of the acquisition of the business of Outco, NH LLC, a holding company, has been established to acquire the assets of Outco including the assumption of management services agreements with EHW, SDN and DW27 under which fees are paid to NH LLC.
(8) On March 22, 2022, the Company has terminated the management service agreement with EHW and is reported as a

discontinued operation.

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

2.5 Functional and presentation currency

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

2.6 Significant accounting policies

Business combinations and asset acquisitions

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

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

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

The Company identifies and recognizes the individual identifiable assets acquired and liabilities assumed. Consideration paid is allocated to the identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Asset acquisitions do not give rise to goodwill but rather the Company records any excess of the purchase consideration over its share of in the net fair value of the acquiree's identifiable assets, liabilities, and contingent liabilities are recognized as intangible assets.

IFRS 3 – Business Combinations, requires the entity determine whether assets acquired and any liabilities assumed constitute a business. If the assets and liabilities are not considered to be a business, then the transaction should be accounted for as an asset acquisition.
In order for the Company to assess that the acquiree is defined as a business, consideration needs to be taken with including the assessment of the assets acquired, its related outputs, and determination of acquired processes are substantive in nature.

Discontinued operations

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

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

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

Assets held for sale

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

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

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.

Revenue from the sale of cannabis is recognized when control has been transferred.

For wholesale customers, this occurs when products have been delivered to the location specified in the sales contract and accepted by the customer and collectability is reasonably assured. Revenue is measured based on the consideration specified in the contract, considering any variation that may result from rights of return or price concessions.

For retail customers, revenue is recognized when the product is sold to the customers at the Company's dispensary locations. Collectibility is reasonably assured as cash is exchanged for cannabis or cannabis-infused products at point of sale.

Inventory

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

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

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

Biological assets

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

Investment property

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

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

Interests in equity accounted investees and joint ventures

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

In accordance with IFRS 10, Consolidated Financial Statements, associates are those in which the Company has significant influence, but not control or joint control over the financial and accounting policies. In accordance with IFRS 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.

Property, plant and equipment

Property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. 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:

Proprietary data	5 years
Customer relationships	5 years

Licenses and management agreements and tradenames and IP and proprietary data and development in progress all are assessed by management to have indefinite lives and are not amortized but are reviewed on an annual basis for impairment.

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 at the year ended July 31, 2022 did result in the recognition of an impairment loss (see Note 8).

Leases

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

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

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

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

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

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

Lease liabilities are remeasured in the following circumstances:

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

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

Compound financial instruments

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

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

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

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

Valuation of equity units issued

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

Share-based payments

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

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

Restricted Share Units ("RSUs")

RSUs are recognized at fair value at the time of the grant date with an equity settlement feature . The corresponding amount is recorded to the share-based payment reserve. Upon the exercise of RSUs, the related share-based payment reserve is transferred to share capital.

Earnings (loss) per share

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

Related party transactions

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

Taxation

Current income tax

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

Deferred income tax

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

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

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

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

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

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

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

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

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

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

US Taxation (280E)

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

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

Please see Note 21 for further details regarding the Company's assessment of its contingent liability for taxation with respect to the acquisition of the business of Outco.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities at Fair value through profit or loss (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 20 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 profit (loss) and other comprehensive income (loss). Transaction costs are expensed as incurred.

2.7 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.

2.8 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 profit (loss) and other 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 profit (loss) and other 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 profit (loss) and other comprehensive income (loss). Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(v) Embedded derivatives

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

Impairment

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the date of statement of financial position. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its accounts receivable using the ECL model, and no difference was noted. As a result, no impairment loss has been recognized at July 31, 2022.

Assets carried at amortized cost

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

Provisions

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

Foreign currency translation

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

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

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

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

exchange translation.

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

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

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

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

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimated fail rate and compare the inventory cost to estimated net realizable value (see Note 6 – Biological Assets). All these factors are used to determine the fair value adjustment on the growth of biological assets that are recorded in the cost of sales of the statements of loss and comprehensive loss.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventory. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

Business combination and asset acquisitions

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

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

Share-based payments and warrants

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

Fair value of financial instruments

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

Recoverability of long-lived assets

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

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

Convertible debentures

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

Derivative liability on convertible debentures

The valuation of the derivative liability involves using the Black Scholes model and inputting the volatility of the underlying share price, a risk free interest rate for the option, the expected option price, current share price of the underlying stock and the expected life of the option.

The derivative liability is valued at FVPL at each reporting date.

Deferred tax

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

Significant judgments

Going concern

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

Business combinations and asset acquisitions

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

Review of new or amended pronouncements

The Company has reviewed the following new or amended IFRS standards.

As at the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee had issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after January 1, 2022. Many are not applicable or do not have a significant impact to the Company, have been excluded.

The Company had assessed that no material impact is expected upon the adoption of the following amendments on its consolidated financial statements:

Amendments to IAS 1:

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management's expectation about events after the date of the statement of financial position; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity. The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on the Company's financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted. The Company did not early adopt these amendments and no material impact is expected on the consolidated financial statements. The Company will adopt the amendment for the year ended July 31, 2023.

Amendments to IAS 12:

Deferred Tax related to Assets and Liabilities arising from a Single Transaction The amendment narrowed the scope of certain recognition exemptions so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred tax for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted. The Company did not early adopt these amendments and no material impact is expected on the consolidated financial statements. The Company will adopt the amendment for the year ended July 31, 2023.

Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")

In May 2020, the IASB issued amendments to update IAS 37. The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. Effective January 1, 2022, the Company adopted the amendment to IAS 37 wth no impact to the Company's consolidated financial statements.

3. Business and asset acquisitions and disposals

Calyx Brands Inc.

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

(Expressed in Canadian Dollars)

With the completion of the Calyx Sale, the Company experienced losses associated with loans extended to the business. Offsetting these losses were gains from the elimination of debt representing $10,852,857 (see Note 24). The net gain on the Calyx Sale of $9,771,214 was categorized as discontinued operation in the financial statements for the year ended July 31, 2021.

Pursuant to the Calyx Sale, the Company agreed with the purchaser to cooperate in negotiating and obtaining a settlement and release of all amounts due and owing under the lease agreement with respect to the facility in Chatsworth, California ("Lease Settlement"), wherein the Company is guarantor on the lease. In connection with the Lease Settlement, the Company may be liable to reimburse the buyer for up to US$50,000 of the amounts paid by DB12 in respect of the Lease Settlement, of which US$25,000 may be settled by cash payment and the remaining US$25,000 may be settled by issuance of common shares (see Note 21).

Neural Therapeutics Inc. (formerly Psychedelic Sciences Corp.)

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

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

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

On initial recognition, the Company used the Black Scholes model to value the warrants. The following were the assumptions used to value the warrants:

	At acquisition
Risk-free interest rate	**1.13%**
Expected dividend yield	**0%**
Expected stock price volatility	**159%**
Expected life of warrants	**2 years**

NT Financing

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

Pursuant to the NT Financing, Neural Therapeutics compensated certain finders under the Offering by the issuance of 575,800 broker warrants, with each broker warrant being exercisable for one Neural Share at a price of $0.075 per Neural Share and paid aggregate finders' fees equal to $43,710 to such finders. (see note 17)

Upon closing of the NT Financing, 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) (see Note 17(b)). 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 Equity Fee plus $17,875 from the proceeds of the NT Financing representing HST on the Equity Fee (see Note 17(b)). Foundation Markets Inc. and FMICA are considered related parties to the Company (see Note 17).

Concurrently with completion of the NT Financing, Neural Therapeutics issued 1,250,000 shares in settlement of $93,750 in obligations to third parties. In addition, concurrently with completion of the NT Financing, High Fusion transferred 5,600,000 Neural Shares to settle approximately $420,000 of High Fusion. Of these, 2,666,667 Neural Shares were issued to certain non-arm's length parties ("**Insiders**") to settle debt obligations of High Fusion to such Insiders. (see note 17).

On January 28, 2022 Neural Therapeutics undertook a share consolidation whereby each 5.83136 shares of Neural Therapeutics were exchanged for one common share resulting in 23,583,334 common shares outstanding.

Palo Verde LLC.

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

Consideration for the acquisition included a nominal cash payment and the assumption of debt due to High Pita Corporation ("High Pita") .

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

a) US$1,384,355 line of credit plus US$300,000 promissory note was settled upon the purchase of Palo Verde by the issuance of 100,000 shares and 200,000 warrants (see Notes 14, 16)
b) US$200,000 revolving line of credit was settled upon the purchase of Palo Verde by the issuance of a debenture ("High Pita Debenture") see Note 13.

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

(Expressed in Canadian Dollars)

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

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

On initial recognition, the Company used the Black Scholes model to value the warrants. The following were the assumptions used to value the warrants:

	At acquisition
Risk-free interest rate	**0.32%**
Expected dividend yield	**0%**
Expected stock price volatility	**222%**
Expected life of warrants	**3 years**

As of March 12, 2022, the Company assessed the value of the intangible assets identified, as part of the acquisition of the Paolo Verde business and determined there was no value. Therefore, the Company wrote off approximately $2,861,493 ($2,265,094 USD) (see Note 8).

Outco Labs Inc.

On August 31, 2021, the Company acquired the business of Outco through the purchase of substantially all the assets of Outco including, control and management of all licenced entities, intellectual property, equipment, land, and buildings through management service agreements from Outco Labs Inc.

Management has deemed the acquisition of Outco to be a business combination in accordance with IFRS 3 – Business Combinations, as Outco possessed a workforce, assets, along with systems and processes in place to produce outputs.

Total consideration was as follows:

1. 3,623,243 special warrants. Each special warrant entitles the holder to acquire, for no additional consideration, one (1) multiple voting share (a “Multiple Voting Share”) of the Company. Each Multiple Voting Share carries 10 votes and may, at the option of the holder, be exchanged, for no additional consideration, for ten (10) Shares in the capital of the Company.

2. 2,033,333 Class A Share purchase warrants ("Class A Warrants") each entitling the holder to acquire one Share at any time on or before the 24-month anniversary of the closing of the Acquisition at an exercise price of Cdn$0.60. The expiry date of the Class A Warrants will be accelerated if the volume weighted average price of the Shares for the 10 consecutive trading days ending on the date that is 90 days following the one-year anniversary of the closing date of the Acquisition (the "Class A VWAP Date") is equal to or greater than $0.96. In such case the accelerated expiry date will be the date that is 60 days following the Class A VWAP Date.
3. 1,220,000 Class B Share purchase warrants ("Class B Warrants") each entitling the holder to acquire one Share at any time on or before the 24-month anniversary of the closing of the Acquisition at an exercise price of Cdn$1.00. The expiry date of the Class B Warrants will be accelerated if the volume weighted average price of the Shares for the 10 consecutive trading days ending on the date that is 90 days following the 18-month anniversary of the closing date of the Acquisition (the "Class B VWAP Date") is equal to or greater than $1.60. In such case the accelerated expiry date will be the date that is 60 days following the Class B VWAP Date.
4. Assumption of debt of approximately US$3.25 million including:
   a. Assumption US$2.65 million mortgage over the land acquired in Mendocino California,
   b. Assumption of US$375,500 in obligations due to creditors of Outco.(ii)
   c. Settlement of Outco debt through the issuance of a US$220,000 convertible debenture(i) of the Company.

      i. The convertible debenture has a term of 2 years and has an interest rate of 10% per annum. The debenture is convertible into Common Shares at any time at the option of the holder at a conversion price equal to $0.36.
      ii. Includes $280,000 promissory note due to Elan Capital and $50,000 due to Quilkey (see Note 13)

   In addition to the above assumed debt, the Company also has assumed control over the operating entities SDN, D27 and EHW and therefore has consolidated the working capital of these entities. In addition, there are income and excise tax liabilities due by the operating entities which have been consolidated in the Company's financial statements.
5. Up to US$3 million earnout based on both of Outco's retail facilities obtaining recreational cannabis licenses within 18 months of closing with such amount to be satisfied through the issuance of Special Warrants, Multiple Voting Shares or Shares at a price on when such securities become issuable ("Earnout").

   On November 24, 2021, recreational licenses for both retail facilities were achieved resulting in the satisfaction of the Earnout. The Earnout calculation resulted in the Company issuing 2,684,318 Multiple Voting Shares to Outco. (see Note 14).

FMI Capital Advisory Inc., a financial advisory firm of which Adam Szweras (a director of the Company) is a Chairman, received an advisory fee in connection with the acquisition of Outco business which was satisfied through the issuance of 1,822,627 common shares in the capital of the Company. (see Note 17)

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

(Expressed in Canadian Dollars)

Total purchase price consideration	**$**
Special Warrants issued	11,023,636
Parent Warrants issued	643,908
Debt assumed	4,085,673
	15,753,217
Identified tangible assets and liabilities assumed	
Cash	192,414
Accounts Receivable	1,079,081
Inventory	3,329,715
Biological assets	1,034,890
Fixed Assets	6,670,574
Accounts payable and accrued liabilities	(1,194,687)
Income tax payable	(709,640)
Finance leases	(1,483,829)
Identified intangible assets assumed	
Goodwill	6,834,699
	15,753,217

On initial recognition, the Company used the Black Scholes model to value the warrants. The following were the assumptions used to value the warrants:

	At acquisition
Risk-free interest rate	**0.43%**
Expected dividend yield	**0%**
Expected stock price volatility	**315%**
Expected life of warrants	**2 years**

The Company has determined that the goodwill should be written down by $6,834,699 ($5,417,056USD) (see Note 8) as the Outco business acquired had poor performance in both its retail and wholesale business and the Company had also terminated the management service agreement with EHW (see Note 24). The retail operations, which is the significant part of the business has struggled to maintain last year levels of revenue mainly due to a very competitive market in California.

(Expressed in Canadian Dollars)

4. Amounts receivable

The breakdown of the amounts receivable balance is as follows:

	July 31, 2022	July 31, 2021
	$	$
Trade accounts receivable	**85,198**	39,039
Allowance for doubtful accounts reserve on trade accounts receivable	**(72,224)**	(32,976)
Harmonized Sales Tax (HST) recoverable(ii)	**119,047**	56,443
Advances (iii),(iv)	**1,026,509**	15,548
Total	**1,158,530**	**78,054**

(i) During the year ended July 31, 2022, the Company recorded a provision for trade accounts receivable of $72,226 (2021 - $Nil). The provision is mainly related to stale receivables in Downwind 27 wholesale operations and Palo Verde operations.

(ii) HST has been filed for the period and prior period returns have been accepted and refunded in the year ended July 31, 2022.

(iii) The disposal of East Hill Wellness (see Note 24) has given rise to an advance of $1,026,509 representing advances made to this entity while it was controlled by the Company.

(iv) The Company had advances of $128,820 representing advances to a company related to the Outco business, WiNG Crossen LLC, that the Company has forgiven. The company has recognized a loss of debt settlement of $128,820 and a decrease in amounts receivable.

5. Inventory

The breakdown of inventory is as follows:

	July 31, 2022	July 31, 2021
	$	$
Raw materials	**3,794**	62,306
Work-in-process	**1,427,172**	-
Packaging	**-**	53,379
Finished goods	**827,703**	86,804
Total	**2,258,669**	202,488

Inventory recognized as cost of goods sold during the year ended July 31, 2022 was $5,001,783 (July 31, 2021 - $75,723). For the year ended July 31, 2022, a slow-moving inventory provision was recorded in cost of sales of $202,134.

6. Biological assets

Biological assets are comprised of:

(Expressed in Canadian Dollars)

	Capitalized Cost	Fair Value Adjustment	Balance
	$	$	$
Balance at July 31, 2021	**-**	**-**	**-**
Additions in the year	404,868	630,022	1,034,890
Fair value adjusment on growth of biological assets	-	(137,107)	(137,107)
Production cost capitalized	2,662,797	3,363,128	6,025,926
Transferred to inventory upon harvest	(2,932,897)	(3,704,266)	(6,637,162)
Balance at July 31, 2022	**134,769**	**151,778**	**286,546**

On August 31, 2021, the Company had acquired the assets related to the Outco business, which included their biological assets. As at July 31, 2022, the carrying value of biological assets consisted entirely of live cannabis plants.

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

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

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

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

(Expressed in Canadian Dollars)

	July 31, 2022	August 31, 2021	July 31, 2022 Effect of 10% Change	August 31, 2021 Effect of 10% Change
Selling Price (per gram)	$ 4.11	$ 3.99	$ 70,000	$ 67,000
Stage of Growth	31%	44%	2,000	3,000
Yield by plant (gram)	64	78	43,000	67,000
Wastage	26%	10%	19,000	7,000
Post Harvest Cost	$ 0.90	$ 0.13	$ 15,000	$ 2,000

Indoor biological assets are in 3 cultivation rooms which have staggered grow cycles. The average stage of growth as at July 31, 2022 was 31% complete.

As an indoor plant matures the likelihood of wastage usually declines. However, wastage estimates were slightly above August 31, 2021 due to interruptions in the indoor grow activity resulting from maintenance and painting. The Company's estimates the harvest yields for the plants at various stages of growth which, by their nature, are subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assts in future periods. As of July 31, 2022, it is expected that the Company's indoor biological assets will yield approximately 64 grams per plant.

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

	July 31, 2022	August 31, 2021	July 31, 2022 Effect of 10% Change	August 31, 2021 Effect of 10% Change
Selling Price	$ 1.57	$ 1.88	87,000	111,000
Stage of Growth	0%	53%	-	59,000
Yield by plant (gram)	274	386	87,000	111,000
Wastage	82%	10%	712,000	11,000
Post Harvest Cost	0.03	0.04	2,000	2,000

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

An outdoor plant is more susceptible to wastage depending on a variety of factors including weather conditions. During the year ended July 31, 2022, the Company experience significant crop damage due to excessive rains in California during October 2021. As a result, wastage estimates were higher than expected.

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

Effective on March 22, 2022, the Company has cancelled its management contract with East Hill Wellness associated with the Mendicino property and, as such, will not be recording the outdoor biological assets going forward. As of July 31, 2022, the Company cultivates indoor biological assets exclusively, and does not have any outdoor biological assets.

(Expressed in Canadian Dollars)

7. Investments

The Company's investments are comprised of the following:

	July 31, 2022	July 31, 2021
Pharmadrug Inc.		
Nil shares (2021 - 436,606 shares)	-	26,196
Australis inc.		
Nil shares (2021 -4,595,617 shares)	-	1,178,125
Balance	-	1,204,321

Pharmadrug Inc. ("Pharmadrug")

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

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

On October 20, 2021, the Company received the remaining 436,606 Pharmadrug shares from escrow which were sold on October 26, 2021, for net proceeds of $19,323, recognizing a loss on disposal of $6,874 during the year ended July 31, 2022.

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

Australis Inc.

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

Of the net holdings of 7,474,617 of AUSA Shares, 937,500 were sold via private sale and 1,941,500 shares were exchange traded for total net consideration to the Company of $849,081 during the year ended July 31, 2021.
The Company received 1,792,724 additional shares on October 5, 2021, which were valued at $358,545. For the year ended July 31, 2022, these shares were recorded as gain on settlement of fair value profit to loss investment of $358,545.

During the year ended July 31, 2022, the Company sold 6,388,341 shares of AUSA for net proceeds of $1,155,198 and a loss on fair value profit and loss on investment of $479,780 and a net gain on disposal of $112,446 and a realized foreign exchange loss of $14,138. As of July 31, 2022, the Company held Nil AUSA shares.

(Expressed in Canadian Dollars)

8. Intangible assets and goodwill

Cost	Licenses, Management agreement	Trade name and IP	Proprietary data and development in progress	Customer relationships	Total intangible assets	Goodwill	Total of intangible assets and Goodwill
	$	$	$	$	$	$	$
Balance, July 31, 2020	-	-	-	-	-	-	-
Additions	693,000	520,000	5,628,006	612,000	7,453,006	648,519	8,101,525
Impairment	-	-	(5,628,006)	-	(5,628,006)	-	(5,628,006)
Effect of movement in exchange rate	175,260	131,510	-	154,770	461,540	-	461,540
Balance, July 31, 2021	**868,260**	**651,510**	**-**	**766,770**	**2,286,540**	**648,519**	**2,935,059**
Additions	-	-	-	-	-	6,834,699	6,834,699
Impairment	(879,556)	(659,984)	-	(776,750)	(2,316,290)	(7,534,105)	(9,850,395)
Effect of movement in exchange rate	11,296	8,474	-	9,980	29,750	50,887	80,637
Balance, July 31, 2022	-	-	-	-	-	-	-

Accumulated Amortization	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total intangible assets	Goodwill	Total of Intangible assets and Goodwill
	$	$	$	$	$	$	$
Balance, July 31, 2020	-	-	-	-	-	-	-
Additions	-	-	-	46,920	46,920	-	46,920
Impairment	-	-	-	-	-	-	-
Effect of movement in exchange rate	-	-	-	11,864	11,864	-	11,864
Balance, July 31, 2021	**-**	**-**	**-**	**58,784**	**58,784**	**-**	**58,784**
Additions	-	-	-	77,179	77,179	-	77,179
Impairment	-	-	-	(134,224)	(134,224)	-	(134,224)
Effect of movement in exchange rate	-	-	-	- 1,739	(1,739)	-	(1,739)
Balance, July 31, 2022	-	-	-	-	-	-	-

Net Book Value	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total intangible assets	Goodwill	Total of intangible assets and Goodwill
	$	$	$	$	$	$	$
Balance, July 31, 2020	-	-	-	-	-	-	-
Balance, July 31, 2021	**868,260**	**651,510**	**-**	**707,986**	**2,227,756**	**648,519**	**2,876,275**
Balance, July 31, 2022	-	-	-	-	-	-	-

For the year ended July 31, 2022, the Company has impaired goodwill of $7,534,105 and other intangible assets of $2,182,066.

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

Palo Verde
During the year ended July 31, 2022, management assessed the value of the intangible assets at $nil, and consequently has written off goodwill due to the unsuccessful ramp up of commercial activities and lack of working capital to support the business. At the time of the acquisition on March 12, 2021, goodwill was assessed at $648,519 (see Note 3).

(Expressed in Canadian Dollars)

Outco Business

As part of the acquisition of the Outco business, the Company had recognized goodwill of $6,834,699 as of August 31, 2021. There has been significant reduction in revenues in the year reflecting decreased activity in the wholesale business and termination of the management contract with East Hill Wellness business. (see Note 24). The Company has impaired goodwill by $6,834,699 during the year as a result.

9. Property, plant and equipment

With the acquisition of Palo Verde, which is a wholly owned subsidiary, the Company no longer charges rent for the Pueblo property and, as a result, the investment property has been moved to property, plant and equipment.

As at July 31, 2022, ROU assets totaling $1,032,086 (July 31 2021 - $262,979) were comprised of leased equipment with the additions arising from the Outco asset acquisition.

During the year ended July 31, 2022, the Company has sold manufacturing equipment for proceeds of $78,393 and a gain on disposal of $30,186 and cost of disposal of $48,207. In addition, the Company has abandoned the East Hill Wellness Inc. business (see Note 24) and has disposed of property, plant and equipment with a cost of $57,166 and a loss on disposal of $57,166 which included in the income (loss) of discontinued operations.

Cost	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Vehicles	Total
	$	$	$	$	$	$	$
Balance, July 31, 2020	**218,041**	**341,039**	**681,561**	**515,301**	**1,011,302**	**238,440**	**3,005,684**
Additions	-	-	-	62,480	-	-	62,480
Reclassification of Investment property	156,199	949,696	462,793	-	-	-	1,568,688
Disposals				(61,455)	-	(228,881)	(290,336)
Effect of movement in exchange rates	(13,820)	(19,755)	(42,205)	(30,951)	(70,785)	(9,559)	(187,075)
Balance, July 31, 2021	**360,420**	**1,270,980**	**1,102,149**	**485,375**	**940,517**	**-**	**4,159,441**
Additions	3,464,151	-	752,238	1,016,009	1,438,177	-	6,670,574
Reclassification of capital assets	-	-	-	(73,430)	73,430	-	0
Disposals	-	-	-	(126,660)	(376,969)	-	(503,629)
Effect of movement in exchange rates	51,699	29,926	59,075	65,931	45,694	-	252,325
Balance, July 31, 2022	**3,876,270**	**1,300,906**	**1,913,462**	**1,367,225**	**2,120,848**	**-**	**10,578,711**

Accumulated Depreciation	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Vehicles	Total
	$	$	$	$	$	$	$
Balance, July 31, 2020	**-**	**24,153**	**110,284**	**148,710**	**453,708**	**-**	**736,855**
Additions	-	11,835	50,277	51,440	258,347	-	371,899
Reclassification of Investment property	-	217,748	185,656	-	-	-	403,404
Disposals	-	-	-	(7,414)	-	-	(7,414)
Effect of movement in exchange rates	-	6,113	4,015	(10,529)	(34,517)	-	(34,918)
Balance, July 31, 2021	**-**	**259,849**	**350,232**	**182,207**	**677,538**	**-**	**1,469,826**
Additions	-	40,214	329,253	352,404	723,319	-	1,445,189
Reclassification of Investment property	-	-	-	-	-	-	-
Disposals	-	-	- -	66,383	(331,873)	-	(398,256)
Effect of movement in exchange rates	-	6,551	47,976	9,191	19,779	-	83,497
Balance, July 31, 2022	**-**	**306,615**	**727,461**	**477,418**	**1,088,763**	**-**	**2,600,257**

Net Book Value	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Vehicles	Total
	$	$	$	$	$	$	$
Balance, July 31, 2020	**218,041**	**316,886**	**571,277**	**366,591**	**557,594**	**238,440**	**2,268,829**
Balance, July 31, 2021	**360,420**	**1,011,131**	**751,917**	**303,168**	**262,979**	**0**	**2,689,614**
Balance, July 31, 2022	**3,876,270**	**994,291**	**1,186,001**	**889,807**	**1,032,086**	**-**	**7,978,454**

(Expressed in Canadian Dollars)

10. Accounts payable and accrued liabilities

The breakdown of the accounts payable is as follows:

	July 31, 2022	July 31, 2021
	$	$
Trade payables and accrued liabilities (i),(iii),(iv)	**4,783,958**	4,684,388
Excise tax payable (ii)	**481,187**	10,824
Total	**5,265,145**	4,695,212

(i) The trade payables and accrued liabilities includes related party payables of $529,245 and $2,036,156 for the year ended July 31, 2022 and July 31,2021, respectively (see Note 17).

(ii) The excise tax payable relates to Q2 2021, Q3 2021, Q4 2021, Q1 2022 , Q2 2022, Q3 2022 and Q4 2022 and relate to the Outco business which was acquired on August 31, 2021. There is an agreed payment plan with the California department of Tax and Fee Administration (CDTFA) to pay $33,000 USD monthly until the liability is paid off. There is a portion that is considered a long-term liability of $916,566 ($714,727 USD).

(iii) During the year ended July 31, 2022, the Company had its debt forgiven of $374,847 (US $296,757) and recognized a realized gain on debt settlement of $374,847 with a corresponding decrease in accounts payable of $374,847.

(iv) In the year ended July 31, 2022, the Company had settled an invoice of $255,166 with FMICA for broker fees related to the acquisition of the business of Outco (see Note 17b) in exchange of 1,822,727 subordinated voting shares and recognized a gain on debt settlement of $109,359 and a corresponding decrease in account payable of $364,525.

11. Promissory note payable

Elan Capital

On August 31, 2021, as part of the acquisition of assets from Outco (Note 3), the Company agreed to assume a $378,510 (US $300,000) note payable from Elan Capital plus legal fees. During the year ended, July 31, 2022, the Company has accrued additional interest of $34,038 (US $26,800).

The note payable was due on March 1, 2022, and the Company is currently in discussions with Elan to extend the term of its note payable.

The Company continues to make monthly payments of US $2,800 representing interest payments on the note obligation. During the year ended July 31, 2022, the Company has paid interest of $39,119 (US$30,800).

During the year ended July 31, 2022, the Company has partially repaid the principal balance in cash payments and payments in the form of product to California licenced entities associated with Elan. During the year ended July 31, 2022, the Company has paid in cash $57,154 (US$45,000) and paid in product $87,863 (US $69,178).

As of July 31, 2022, the balance outstanding is $272,668 (US $212,622). There was also a foreign exchange gain on the balance of $5,137.

Quilkey Loan

On August 31, 2021, as part of the acquisition of assets from Outco (Note 3), the Company agreed to assume a $95,258 (US $75,500) note payable from Paul Quilkey plus accumulated penalties to the date of acquisition. The note payable was due on March 31, 2020 and the Company is currently in discussions to extend the term of its note payable.

There was an additional interest accrued of $24,767 (US $19,500) and no principal and interest payments were made during the year ended July 31, 2022.

As of July 31, 2022, the balance outstanding under the Quilkey Loan is $121,828 (US $95,000) and a unrealized foreign exchange of loss of $1,803.

East Hill Financial Note

On August 31, 2021, as part of the acquisition of assets from Outco (Note 3), the Company agreed to assume a $3,343,505 (US $2,650,000) note associated with 2500 East Hill Road, Willits, California. The note is considered non-interest bearing and was due January 1, 2022.

As a result of not settling the note as at January 1, 2022, the Company has accrued interest of $133,361 (US $105,000) during the year ended July 31, 2022. The Company has not repaid any interest or principal on this note for the year ended July 31, 2022.

The Willitis California property includes 60-acres of land including a 10,000 square foot portion of which is licenced to operate, cultivate and harvest cannabis held by East Hill Wellness Inc.

As part of the acquisition of the business of OutCo, the Company assumed a management services agreement with East Hill Wellness. On March 22, 2022 the Company terminated its management services agreement for East Hill Wellness.

The Company is in litigation with East Hill Financial with respect to the note and with respect to the management services agreement. (see Litigation Note 21)

As of July 31, 2022, the balance outstanding is $3,533,012 (US $2,755,000). There was also an unrealized foreign exchange loss on the balance of $56,146.

Loan Facilities

On March 14, 2022, the Company closed a one-year, secured, loan facility in the principal amount of US$472,500 (“First Loan Facility”).

The First 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 First Loan Facility is due and payable upon an asset sale by the Company.

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

(Expressed in Canadian Dollars)

The First Loan Facility loan has been recorded at a present value of $456,138 (US$357,121) with residual equity component (warrants) of $118,632 (US$92,878) (see Note 16) that is allocated over the life of the loan. During the year ended July 31, 2022, the Company accrued interest expense of $221,797 (US $174,428).

As of July 31, 2022, the balance outstanding is $680,687 (US $531,549). There was also a foreign exchange loss on the balance of $3,724.

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. Of the principal amount, US$326,115 has been advanced to the Company and the remaining US$73,884 represents settlement of other obligations. Such other obligations include US$50,000 portion of a debenture and US$23,884 in expense reimbursement to an insider (see Related Party Note 17). The Second Loan Facility will accrue interest at 26% per annum and matures at the earlier of one year and completion of the sale of SDN.

As part of the Second Loan Facility, the lenders were granted 2,000,000 subordinate voting share purchase warrants (each a "Warrant") subject to CSE approval. 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.

The Second Loan Facility loan has been recorded at a present value of $448,982 (US$365,839) with residual equity component (warrants) of $42,933 (US$33,802) that is allocated over the life of the loan.

During the year ended July 31, 2022, the Company accrued interest of $19,314 (US$15,758).
As at July 31, 2022, the outstanding balance is $489,360 (US$381,597) with an unrealized foreign exchange loss of $21,064.

	July 31, 2022	July 31, 2021
	$	**$**
Loan facilities	**1,170,047**	-
Issued Promissory note to vendor	**13,125**	-
Promissory notes acquired through the Outco business	**3,927,508**	-
Ending balance	**5,110,679**	-

12. Lease liabilities

Equipment lease

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

As at July 31, 2022, outstanding lease payments including interest and legal expenses amounting to $452,308 (US$361,009) were recorded in accounts payable and accrued liabilities (see Note 21).

The Company is in litigation with the leasing company regarding the outstanding balance due under this lease. (see Note 21)

Sale and leaseback arrangement

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

At the inception of the respective leases under the sale and leaseback arrangement, the Company sold equipment with a total carrying value of US$1,395,482 and drew down a total of US$1,550,104 from the equipment line of credit. The deferred gain is amortized over the term of the respective leases. As at July 31, 2021, the deferred gain on sale leaseback amount to $25,192 (US$20,343) (2021 - $25,487 (US$20,343)). During the year ended July 31, 2022, the deferred gain on sale leaseback was written down to $Nil.

On July 16, 2021, the Company entered into a settlement agreement with ASC which resulted the outstanding balance of US$103,036 being settled as follows; two US$25,000 payments made on July 31, 2021 and August 31, 2021 and the issuance of a $50,464 3-year convertible debenture which is convertible into common shares at any time at the option of ASC at a conversion price equal to $.35 per share, the debenture shall bear interest at 12% per annum payable upon maturity.

After the settlement with ASC, and after the repayment of $78,293 (US $61,975) from the sale of equipment, the outstanding obligation to Veterans is $484,938 (2021- $646,845) representing lease payments due as at July 31, 2022. During the year ended July 31, 2022, the Company has paid $Nil ($68,400) in interest expense associated with delinquent lease payments. The Company is in discussions with Veterans to settle the amounts outstanding.

Since the inception of the sales leaseback agreement, the Company issued a total of 27,680 common share purchase warrants to the lender. Each warrant entitles the lender to purchase one common share at a price of $14 per share for a period of 24 months from the date of issuance. These warrants were issued on Novevmber 2, 2018 and all such warrants have expired.

Facility Lease

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

Downwind 27 Facility Lease

On August 31, 2021, as part of the acquisition of Outco, the Company acquired control of the facility lease of 8157 Wing Avenue, El Cajon, located in the County of San Diego, California. The building is approximately 15,000 square feet and operates a cannabis dispensary, 3 cultivation rooms, an extraction lab and packaging. On April 17,2014, the term of the lease started on May 1, 2014 and will end April 30, 2024.

The base rent under the lease is approximately US$35,000 per month up to April 30, 2024.

SDN Facility Lease

On August 31, 2021, as part of the acquisition of Outco, the Company also acquired control of the facility lease of 8530 Nelson Way Escondido, California. The building is approximately 2,500 square feet. The original lease was dated January 1, 2018 and ended on December 31, 2021.

On December 1, 2020, the lease was extended until December 31, 2023.

The lease is for base rent of approximately US$8,000 per month for the 2021 year, US$9,000 per month for the 2022 year and US$10,000 for the 2023 year.

(Expressed in Canadian Dollars)

The breakdown of lease liabilities is as follows:

	$
Balance, July 31, 2020	**1,950,706**
Lease liability written off	(31,918)
Gain on settlement of lease	(499,095)
Lease asset sold	(562,134)
Cash Paid	(31,323)
Effect of movement on exchange rates	(127,695)
Balance, July 31, 2021	**698,541**
Additions	1,469,740
Accretion	214,409
Cash Paid	(672,017)
Lease asset sold	(78,293)
Settlement of leases wwith convertible debenture	(50,465)
Gain on settlement of lease	(15,141)
Effect of movement on exchange rates	57,505
Balance, July 31, 2022	**1,624,280**
Current portion	**1,155,052**
Long-Term Portion	**469,227**

Future minimum lease payment payables are as follows:

	July 31, 2022	July 31, 2021
	$	$
Less than 1 year	**1,398,742**	698,541
1 - 5 years	**660,883**	-
More than 5 years	**-**	-
Total future minimum lease payments	**2,059,625**	698,541
Less: amount representing interest	**(435,345)**	-
Present value of minimum lease payments	**1,624,280**	698,541
Less: current portion	**(1,155,052)**	(698,541)
Non-current portion	**469,227**	-

The breakdown of deferred gain on sale and leaseback for the years ended July 31, 2022 and July 31, 2021 is as follows:

(Expressed in Canadian Dollars)

	$
Balance, July 31, 2020	**96,352**
Amortization	**(63,318)**
Effect of movement in exchange rate	**(7,547)**
Balance, July 31, 2021	**25,487**
Amortization	**(25,819)**
Effect of movement in exchange rate	**332**
Balance, July 31, 2022	**(0)**

13. Convertible Debentures

March 2018 Convertible Debentures (Converted October 2020)

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

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

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

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

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

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

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

As at July 31, 2021, the balance of the March 2018 convertible debenture was $nil.

August 2018 Convertible Debentures

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

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

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

The convertible debentures are secured by the assets of the Company and its subsidiaries, subject to subordination in certain situations.

Under the terms of the August 2018 Debentures, if the Company undertakes an equity financing or financing convertible or exchangeable into equity at a price per common share of less than $9 per common share while the convertible debentures are outstanding, the conversion price of the convertible debentures will be reduced to the new financing price and the warrant exercise price will be reduced to a price that is 20% premium to the new financing price, subject to compliance with applicable securities laws and stock exchange rules.

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

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

On initial recognition, the fair value of the derivative liability component was valued at $2,600,979 and the residual of $1,599,021 was allocated to the non-derivative host debenture. Total transaction costs have been allocated proportionately to the derivative liability and the debenture components. Transaction costs allocated to the derivative liability of $428,183 was immediately expensed in the statement of loss and comprehensive loss.

On November 18, 2020 the Company amended the terms of the August 2018 Debentures to include the following: 1/ the maturity of the convertible debentures was extended by one year to August 3, 2022 ; 2/ All interest owing up to August 3, 2022 was added to the principal amount of the August 2018 Debentures and no further interest will be accrued up to the August 3, 2022 maturity and 3/ Any conversion to common shares will not be permitted to the extent that such conversion would result in a holder of the convertible debentures becoming a shareholder holding more than 9.99% of the issued and outstanding common shares in the capital of the Company.

As a result of the above noted amendment dated November 18, 2020, interest owing up to the new maturity date has been added to the principal amount of the August 2018 Debentures and interest will be accrued and paid on settlement of these debentures.

As at July 31, 2021, the outstanding balance of the August 2018 convertible debentures was $4,112,524 and the derivative liability related to this convertible debenture was $285,573.

During the year ended July 31, 2021, the fair value change in the derivative liability was a gain of $960,072.

In March and June 2022, the holders of the August 2018 Debentures agreed to amend the terms of the debentures to consent to enter into the First Loan Facility and the Second Loan Facility to a maximum amount of US$500,000 and US$400,000 respectively. (see note 13).

Further amendments to the August 2018 Debentures, including an extension to the maturity, were completed subsequent to the year ended July 31, 2022 (See note 27).

For the year ended July 31, 2022, the Company had accretion expense on the August 2018 Debentures of $ 419,420 (2021 - $ 293,019) which were included within finance costs. As at July 31, 2022, there were no interest expense that were recorded in accounts payable and accrued liabilities (see Note 10).

During the year ended July 31, 2022, the August 2018 Debentures holders have converted or repaid a combined total of $ 425,042 (2021 - $100,000) principal amount of convertible debentures resulting in the issuance of 5,250,850 (2021 –100,000) subordinated voting shares and the transfer of 2,000,000 Neural Therapeutics shares (2021 – Nil).

During the year ended July 31, 2022, the fair value change in the derivative liability was a loss of $1,245,315.

At July 31, 2022, the outstanding balance of the August 2018 Convertible Debentures was $4,110,779 and the derivative liability related to this convertible debenture was $330. On conversions, the Company reduced the present value of the liability by $425,042 (2021 - $125,069) and derecognized $2,975 (2021 – $17,898) of the corresponding derivative liability.

August 2019 Convertible Debentures (Converted in February 2022)

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

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

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

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

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

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

The Company issued common shares for the December 2020 semi-annual interest payments of $81,983 (363,081 shares) and for the June 2021 semi-annual interest payments of $81,092 (223,082 shares) (Note 14).

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

As at July 31, 2021, the outstanding balance of the August 2019 Convertible Debenture was $1,478,769.

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

On February 16, 2022, the Company converted all of the August 2019 Secured Convertible Debenture issue representing principal balance of $1,807,000 plus interest of $20,941 The debentures were converted at a revised conversion price of $.06 per share. The total subordinated voting shares issued on the conversion was 30,465,690.

As at July 31, 2022, the outstanding balance of the August 2019 Convertible Debenture was $nil.

2020 Secured Convertible Debentures

On March 23, 2020, the Company closed the first tranche of secured convertible debenture units (“**2020 Debentures”**) by issuing a total of 853 secured convertible debenture units for gross proceeds of $852,678. On May 29, 2020, the Company closed the second tranche of the convertible debenture by issuing a total of 272 secured 2020 Debentures for gross proceeds of $272,000.

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

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

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

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

A total of 852,678 and 272,000 warrants were issued for each of the first and second tranches, respectively (Note 16). Each warrant is exercisable into a common share of the Company at a price of $1 per common share for 36 months from the date of issuance. The warrants expire on March 31 and May 29, 2023. These warrants were accounted for as transaction costs, with its value allocated proportionately to the equity and liability components.

Fair values of $211,507 and $72,669 were assigned to each issuance using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield of 0%, volatility of 132.02%-141.76%, risk-free rate of 0.48%-0.26% and maturity of 3 years.

As at July 31, 2021, the outstanding balance of the 2020 Secured Covnertible Debentures was $780,664.

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

The Company issued common shares for the December 2021 semi-annual interest payments of $61,986 (859,830 shares). Subsequent to the year end, the Company issued 2,936,580 subordinated voting shares for the June 2022 semi-annual interest payments on the 2020 Debentures of $60,975 .

For the year ended July 31, 2022, the Company recorded accretion expense on the convertible debentures of $275,856 (2021 - $40,161) which was included within finance costs of which $48,894 (2021 - $21,700) was outstanding in accounts payable and accrued liabilities (see Note 10).

As at July 31, 2022, the outstanding balance of the 2020 Secured Covnertible Debentures was $974,026.

High Pita Debenture (March 2021)

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

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

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

As at July 31, 2021, the outstanding balance of the HIgh Pita Debenture was $253,390.

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

For the year ended July 31, 2022, the Company recorded accretion expense on the convertible debentures of $37,527 (2021 - $10,172) which was included within finance costs of which $40,767 (2021 - $Nil) was outstanding in accounts payable and accrued liabilities (see Note 10).

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.

As at July 31, 2022, the outstanding balance of the High Pita Debenture was $186,114.

Gainor Debenture

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

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

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

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

For the year ended July 31, 2022, the Company recorded accretion expense on the convertible debentures of $61,353 (2021 - $Nil) which was included within finance costs of which $16,648 (2021 - $Nil) was outstanding in accounts payable and accrued liabilities (see Note 10).

During the year ended July 31, 2022, the Company paid interest to the holder of the Gainor Debenture of US$8,971.

On March 1, 2022 the holder of the Gainor Debenture converted $190,000 of the debenture into 2,923,077 subordinated voting shares. The balance as of July 31, 2022, of the convertible debenture is $78,400 plus unpaid interest to July 31, 2022 of $6,272.

As at July 31, 2022, the outstanding balance of the Gainor Debenture was $53,624.

ASC Debenture (September 2021)

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

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

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

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

This convertible debenture is not secured by the assets of the Company or its subsidiaries. The convertible debenture contains conversion privileges that are equal to ($50,464 / $0.35) 144,183 common shares at maturity.

For the year ended July 31, 2022, the Company recorded accretion expense on the convertible debentures of $5,425 (2021 - $Nil) which was included within finance costs of which $5,425 (2021 - $Nil) was outstanding in accounts payable and accrued liabilities (see Note 10).

As at July 31, 2022, the outstanding balance of the ASC debenture was $41,791.

The following is a summary of the the Company's convertible debenture liability:

(Expressed in Canadian Dollars)

	July 31, 2022	July 31, 2021
	$	$
Balance, beginning of year	**6,625,337**	10,700,626
Issuance of convertible debentures	**318,864**	250,000
Conversion of principal debenture	**(2,328,659)**	(5,673,000)
Unamortized present value discount and transaction costs	**(77,986)**	(671,504)
Discount amortized	**828,777**	1,851,378
Balance, end of year	**5,366,334**	6,625,337
Less: Current portion	**5,273,928**	-
Non-current portion	**92,406**	6,625,337

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

	July 31, 2022	July 31, 2021
	$	$
Opening balance	**1,245,645**	285,573
Estimated fair value changes of derivative liabilities during the year	**(1,245,315)**	960,072
Ending balance	**330**	**1,245,645**

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

	July 31, 2022	**July 31, 2021**
Risk-free interest rate	**2.98%**	0.45% -0.50%
Expected dividend yield	**0%**	0%
Expected stock price volatility	**191%**	117-154%
Expected life of debentures	**< 1 year**	1.2-3 years
Forfeiture rate	**0%**	0%

14. Share capital

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

On September 29, 2021, the Company obtained approval from its shareholders to establish a class of multiple voting shares and to change the Common Shares of the Corporation to subordinate voting shares (SVS). The new class of Multiple Voting Shares (MVS) were created for the purpose of completing the acquisition of the assets of Outco while preserving the Company's status as a Foreign Private Issuer under US securities law. Each MVS carries 10 votes and may, at the option of the holder, be exchanged, for no additional consideration, for ten (10) Shares in the capital of the Company.

On November 16, 2021, the new class of MVS and SVS came into effect. As of the effective date of November 16, 2021, 1,026,918,198 SVS became 51,345,882 with 28 fractional shares eliminated.

Multiple Voting Shares

The new class of Multiple Voting Shares (MVS) were created for the purpose of completing the acquisition of the assets of Outco while preserving the Company's status as a Foreign Private Issuer under the Securities and Exchange Act. Each MVS carries 10 votes and may, at the option of the holder, be exchanged, for no additional consideration, for ten (10) Subordinated Voting Shares of the Company.

(Expressed in Canadian Dollars)

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

A portion of the MVS issued in (i) above are held in escrow as follows: 735,730 to be released as of August 31, 2022, and 735,730 to be released as of February 28, 2023; and 424,125 to be released to a brokerage account for disposition, the proceeds of which are to be used for satisfaction of tax liability. The Company may cancel all of a portion of the March 1, 2023, escrowed shares in accordance with the purchase agreement with Outco.

	Number of Shares	$
Shares to be released as of the close of the transaction	735,730	1,471,459
Shares to be released as of February 28, 2022	735,730	1,471,459
Shares to be released as of August 31, 2022	735,730	1,471,459
Shares to be released as of February 28, 2023	735,730	1,471,459
Shares held by Outco business in satisfaction of tax liability	424,125	848,250
Shares to be released to a Creditor	256,200	512,400
Shares for Eanout	2,684,318	3,777,150
	6,307,561	**11,023,636**
High Fusion multiple voting shares converted into SVS issued in Fiscal year 2022	(110,479)	(193,083)
Fractional shares that were not distributed	(187)	(327)
	6,196,895	**10,830,227**

In March, 2022, the 735,730 MVS were released from escrow. These MVS shares together with the 735,730 unescrowed MVS and 2,684,318 MVS issued from the for Earnout were distributed to the shareholders of OutCo Labs Inc. With this distribution there were 187 SVS eliminated due to the rounding of fractional shares.

As at July 31, 2022 the Company had 6,196,895 MVS outstanding.

(Expressed in Canadian Dollars)

Subordinated Voting Shares ("Shares")

	Number of Shares	Amount
Balance, July 31, 2020	**20,862,305**	**38,421,113**
Shares issued for settlement of accounts payable debt (xiv)	2,212,679	1,098,044
Shares issued on acquisition of Neural Therapeutics (xiii)	6,876,148	4,125,689
Shares issued of interest paid on convertible debentures (xvi)	2,087,250	587,237
Shares issued from conversion of convertible debentures (xvi)	4,875,000	646,721
Shares issued on forced conversion of convertible debentures (xvi)	14,182,500	5,673,000
Shares issued on exercise of RSUs	150,000	75,000
Shares issued for acquisition of Palo Verde (xii)	100,000	40,000
Balance, July 31, 2021	**51,345,882**	**50,666,804**
Shares issued for transaction costs for acquisition of Outco (i)	1,822,627	255,168
Share issued for settlement of accounts payable debt (ii)	544,242	73,473
Shares issued of interest paid on convertible debentures (iii)	1,895,935	150,026
Shares issued on full settlement of 2019 convertible debentures (iv)	30,465,690	1,827,941
Shares issued on settlement of accounts payable debt (v)	32,710,087	2,126,156
Shares issued on exercise of Multiple voting shares from the Outco acquisition(vi)	1,104,790	193,083
Shares issued on partial settlement of Gainor convertible debenture (vii)	2,923,077	190,000
Shares issued on partial settlement of 2018 convertible debenture (viii), (x), (xi)	5,250,850	275,042
Shares issued on settlement of accounts payable debt (ix)	8,301,637	332,064
Balance, July 31, 2022	**136,364,817**	**56,089,757**

<u>Year ended July 31, 2022</u>

(i) On August 31, 2021, as consideration for a fee associated with the acquisition of the assets of Outco, the Company issued 1,822,627 shares (see Note 17.

(ii) On November 25, 2021, the Company entered into settlement agreements with third-party consultants representing $119,471 to convert such amounts owed into 544,242 units at an average conversion price of $0.22 per unit.

(iii) Interest on convertible debentures (see Note 13).

(iv) On February 16, 2022, 30,465,690 SVS were issued for full settlement of the 2019 convertible debentures (see Note 13)

(v) On February 16, 2022, 32,710,087 SVS were issued to settle accounts payable debt

(vi) Multiple voting shares exercised into SVS (see Note 14).

(vii) On February 1, 2022, the Company issued 2,923,077 SVS in partial settlement of $190,000 in Gainor convertible debentures (see Note 13).

(viii) On March 2, 2022, the Company issued 1,250,850 SVS in partial settlement of the 2018 convertible debenture (see Note 13)

(ix) On April 28, 2022, the Company issued 8,301,637 SVS to settle accounts payable debtof $434,525

(x) On May 24, 2022, the Company issued 1,666,666 SVS in partial settlement of the 2018 convertible debentures (see Note 13).

(xi) On June 10, 2022, the Company issued 2,333,333 SVS in partial settlement of the 2018 convertible debentures (see Note 13)

<u>Year ended July 31, 2021</u>

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

(xiii) Neural Therapeutics acquisition (see Note 3).

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

(xv) Convertible debenture conversion and forced conversion (see Note 13).

(Expressed in Canadian Dollars)

(xvi) Interest on convertible debentures (see Note 13).

For the year ended July 31, 2022, the following debt conversion were issued for subordinated voting shares:

Debt settled for Subordinated voting shares (SVS)	# of issued SVS	Fair value of shares issued	Carry value of debt settled	Gain (loss) recognized
August 2018 convertible debenture conversion	5,250,850	275,042	275,042	-
August 2019 convertible debenture conversion	30,465,690	1,827,941	1,644,307	(183,634)
Accounts payable debt settlement - April 2022	8,301,637	332,065	434,524	102,459
Accounts payable debt settlement - February 2022	32,710,087	2,126,156	1,962,605	(163,551)
Accounts payable debt settlement - November 2021	544,242	73,473	119,471	45,998
Total	**72,021,656**	**4,359,635**	**4,160,907**	**(198,728)**

Eanrings (loss) per share

The calculation of basic and diluted income/(loss) per share is based on the income/(loss) for the period attributable to the shareholders divided by the weighted average number of shares in circulation during the period. In calculating the diluted income/(loss) per share, potentially dilutive shares such as shares to be issued, options, RSUs, convertible debt and warrants have not been included as they would have the effect of decreasing the loss per share from continuing operations and they would, therefore, be anti-dilutive.

The following is a summary of the contingently issuable shares for the years ended July 31, 2022, and July 31, 2021:

	July 31,2022	July 31, 2021
Shares to be issued	61,968,950	-
Convertible debentures	87,830,033	6,392,574
Options	275,000	495,000
Warrants	9,293,261	10,673,475
Restricted stock units	11,819,832	2,609,332
Total	**171,187,076**	**20,170,381**

15. Reserve for share-based payments

	Amount
Balance, July 31, 2020	**$4,591,263**
RSUs granted	1,014,795
RSUs exercised	(75,000)
Balance, July 31, 2021	**$5,531,058**
RSUs granted	644,110
Balance, July 31, 2022	**$6,175,168**

During the year ended July 31, 2022, the Company issued ,9,273,000 RSUs at a grant price of $0.07per unit.

Options

(Expressed in Canadian Dollars)

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

The following is a summary of outstanding stock options for the years ended July 31, 2022, and July 31, 2021:

	Number of Options
Balance, July 31, 2020	**729,000**
Options granted	-
Options forfeited	(161,500)
Balance, July 31, 2021	**495,000**
Options expired	(220,000)
Balance, July 31, 2022	**275,000**

In connection to the options granted to employees, directors and consultants during the years ended July 31, 2022 and July 31, 2021, the fair value of services received cannot be estimated reliably, thus the fair value of the options has been measured using the Black-Scholes option pricing model which used the fair value of subordinated voting shares of the Company as a reference on grant date.

There were no options granted in the years ended July 31, 2022, and July 31, 2021.

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

As at July 31, 2022, the following stock options were outstanding and exercisable:

Expiry Date	Exercise Price	Outstanding	Exercisable
May 8, 2023	$7.20	100,000	100,000
August 12, 2024	$4.00	175,000	175,000
		275,000	**275,000**

As at July 31, 2022, the weighted average exercise price of options exercisable was $5.30 (July 31, 2021 - $4.20), the weighted average exercise price of options outstanding was $5.16(July 31, 2021 - $4.20) and the weighted average remaining contractual life of stock options was 1.40 years (July 31, 2021 - 1.29 years). For the year ended July 31, 2022, the weighted average exercise price of stock options exercised was $Nil (2021 - $Nil).

Restricted Share Units

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

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

(Expressed in Canadian Dollars)

The following is a summary of the RSUs outstanding for the years ended Julty 31, 2022, and July 31, 2021:

	Number of RSUs		Grant date fair value
Balance, July 31, 2021	**2,609,332**	**$**	**0.68**
RSUs granted	9,273,000	$	0.07
RSUs cancelled	(62,500)	$	0.04
Balance, July 31, 2022	**11,819,832**	**$**	**0.20**

16. Reserve for warrants

The following table reflects the continuity of warrants:

	Number of Warrants	Amount
Balance, July 31, 2020	**3,501,400**	**$3,382,530**
Warrants issued to Neural Therapeutics shareholders	6,876,148	2,776,860
Broker warrants	150,092	-
AP conversion warrants	2,212,679	344,709
Warrants issued to High Pita Debt holders	200,000	73,303
Warrants expired	(2,266,844)	-
Balance, July 31, 2021	**10,673,475**	**$6,577,402**
Warrants issued to Outco Shareholders	3,253,333	643,908
Warrants issued for Bridge loan financings	4,250,000	161,564
Warrants expired	(8,883,547)	-
Balance, July 31, 2022	**9,293,261**	**$7,382,874**

The estimated fair value of warrants issued during the year ended July 31, 2022 used the fair value method to determine the valuation of the warrants as the warrants were issued as part of the bridge loan financings, and for the year ended July 31, 2021 was determined using the Black-Scholes option pricing model with the following assumptions:

	July 31, 2022	July 31, 2021
Risk-free interest rate	**1.80% - 3.39%**	0.43%
Expected dividend yield	**0%**	0%
Expected stock price volatility	**282% - 299%**	230%
Expected life of warrants	**1.62 years - 1.87 years**	1.29 years

As at July 31, 2022, the following warrants were outstanding and exercisable:

(Expressed in Canadian Dollars)

Expiry Date	Exercise Price	Number of Warrants Outstanding and Exercisable
August 22, 2022	$4.80	465,250
March 31, 2023	$1.00	852,678
May 8, 2023	$1.00	272,000
March 14, 2024	$1.00	200,000
August 31, 2023	$0.60	2,033,333
August 31, 2023	$1.00	1,220,000
March 14, 2024	$0.08	2,250,000
June 17, 2024	$0.05	2,000,000
		9,293,261

As at July 31, 2022, the weighted average exercise price of the warrants was $0.66 (2021 - $0.10) and the weighted average remaining contractual life of the warrants was 1.40 years (2021 – 1.04 years).

During the year ended July 31, 2022, the weighted average exercise price of the warrants exercised was $nil (2021 - $nil).

17. Related parties and key management

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

The following is a summary of the related party transactions, including the key management compensation for the years ended July 31, 2022 and July 31, 2021:

a. Incurred professional fees of $21,000 (2021 - $45,500) from Branson Corporate Services ("BCS"). BCS is a company in which Adam Szweras and his wife have a 39% ownership interest. As at July 31, 2022, $Nil (July 31, 2021 - $78,933) was due to BCS. February 16, 2022, the Company settled the full amount of the outstanding balance, $94,673, with Branson and has discontinued its contract with this vendor.

b. Incurred fees of $522,908 (2021 - $145,560) 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. 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. As at July 31, 2022, $90,550 (July 31, 2021 - $328,380) was due to FMICA. (see note 17(s).)

   In March 2020, FMICA subscribed to the 2020 secured convertible debentures amounting to $89,000 (Note 13).

   Included in the fees of $522,908 is advisory fee of $255,168 in connection with the acquisition of the business 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 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 (‘Finder’s Fee”).

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. 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 17(s))

As part of another financing for NT on August 3, 2022, Foundation Markets was issued 20,800 broker warrants in Neural. Each broker warrant entitled the holder to purchase one Unit in Neural at a price of $.075 for a period of 24 months from the date of issuance (see NT Financing above).

c. Incurred marketing expenses of $Nil (2021 - $14,550) and share-based payments of $Nil (2021 - $Nil) from Plexus Cybermedia Ltd. ("Plexus"), a company in which a director, Brian Presement, has a 33% ownership interest and is director. As at July 31, 2022, $Nil (July 31, 2021 - $Nil) was due to Plexus.

d. Incurred expenses of $1,563 (2021 - $3,051) from Unite Communications Ltd. ("Unite"), a company in which a director, Brian Presement, has a 100% ownership interest. As at July 31, 2022, $6,013 (July 31, 2021 - $4,246) was due to Unite.

e. Incurred professional fees of $192,434 (2021 - $90,384) from Fogler, Rubinoff, LLP ("Fogler"), a law firm in which a director, Adam Szweras, is Counsel. As at July 31, 2022, $121,275 (July 31, 2021 – $43,761) was due to Fogler.

f. Included in professional fees of $5,247 USD (2021 - $53 USD) fees charged from Johnson, Rovella, Retterer, Rosenthal & Gilles LLP ("JRG"), a law firm in which a director, Aaron Johnson, is a partner. As at July 31,2022, $5,299 USD (July 31, 2021 - $53 USD) was due to JRG.

g. Incurred management compensation to key management and directors of $847,412 (2021 - $1,234,000). Please see Note 17 (q) for the RSUs issued to the key management and directors. As at July 31, 2022, $397,662 (July 31, 2021 - $1,311,888) 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 17(s))
Note: Included in the above is compensation paid to the CFO under a management services agreement with the Company's subsidiary NT. As part of the NT consulting agreement with the CFO, NT is obliged to issue 366,667 RSUs.

h. During the year ended July 31, 2022, the Company incurred and as at July 31, 2022 maintained liabilities due to Adam Szweras and his holding company (2674775 Ontario Limited), as follows:
   I. Incurred salary expenses of $0 in the year (2021 $0). As of July 31, 2022 salary payable was $35,823 (2021 $311,388) *(see note i below);*
   II. Received loans payments of $0 (2021 $12,000). In th e year As of July 31, 2022 loans payable of $12,000 (2021 - $12,363) plus interest due of $1,803 at 12%;
   III. Received advances of $27,301 in the year. As of July 31, 2022 $5,207 was outstanding. (2021 - $182,128). *(see note i below)*
   IV. August 2019 Debenture holdings of $250,000 were converted on February 16, 2022 with the issuance of 4,214,954 subordinated voting shares of the Company. (see note 17(s))
   V. 2020 Debenture holdings of $670,000 (2021 $670,000)
   VI. On June 13, 2022, Adam Szweras participated in US$50,000 of the Second Loan Facility which included conversion of payables due from the Company (see note 17(t)).
   VII. March 2018 convertible debentures of $0 as of July 31, 2022 (2021 $0). On October 30, 2020, $16,000 held in the March 2018 Debentures was converted resulting in the issuance of 40,000 subordinated voting shares.

Note i: On February 16, 2022, the Company settled $188,300 of the advances payable and $275,565 of management fee/salary with Adam Szweras and his holding company with the issuance of 7,731,083 subordinated voting shares of the Company. (see note 17(s).

i. Included in March 2018 convertible debentures are $20,000 of convertible debentures issued to Brian Presement, a director of the Company. On October 30, 2020, the Company announced the completion of the conversion of the March 2018 debentures which resulted in Brian Presement receiving 50,000 subordinated voting shares.

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 in debt from the creditor. Such agreement transfers all obligations due by the Company from the creditor to the related parties listed above. In addition, on January 10, 2022, John Durfy, Adam Szweras and Robert Wilson advanced $42,900 in equal parts to the Company to cover certain expenses. On February 16, 2022, the Company settled both the above obligations as well as other outstanding loans payable with the issuance of 4,592,750 subordinated voting shares of the Company. (see note 17 (h) and 17(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 full amount of the 2019 convertible debentures were converted. (sea note 17(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.

m. Incurred expenses of $15,000 USD (2021 - $Nil) for the advisory services of Billy Morrison who is a director of the Company. As at July 31, 2022, $6,000 USD (July 31, 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;
- **iv.** $13,000 conversion of amount payable to John Durfy; and
- **v.** $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. On February 3, 2022, the Company completed the NT Financing (see Note 17 (b). and Note 3). Concurrently with completion of the equity financing into Neural Therapeutics, High Fusion has completed an in-kind debt settlement ("**Debt Settlement**"), pursuant to which High Fusion has transferred 5,600,000 Neural Shares to settle approximately $420,000 of High Fusion liabilities. Pursuant to the Debt Settlement, approximately 2,666,667 Neural Shares were issued to certain non-arm's length parties ("**Insiders**") to settle debt obligations of High Fusion to such Insiders. Insider debt settlement includes: FMICA received 800,000 Neural Therapeutics shares to settle $60,000 in work fees; John Durfy, CEO received 1,733,333 Neural Therapeutics shares to settle $130,000 in accrued salary associated with Neural Therapeutics; and Robert Wilson, CFO received 933,333 Neural Therapeutics shares to settle $70,000 in accrued salary associated with Neural Therapeutics. Pursuant to *Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**"), the Debt Settlement with Insiders constituted a "related party transaction" as certain transferees were considered to be related parties to High Fusion. The Company relied on exemptions from the formal valuation and minority approval requirements of MI 61-101 (pursuant to subsections 5.5(a) and 5.7(a)) as the fair market value of the securities transferred to, and the consideration received from, the Insiders did not exceed 25% of the Company's market capitalization. The Debt Settlement has been approved by all the independent directors of the Company. The Company did not file a material change report 21 days before the completion of the Debt Settlement as the participation of the Insiders had not been confirmed at that time.

s. On February 16, 2022, 22,433,569 subordinate voting shares were issued to certain non-arm's length parties ("Insiders"') 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 completed on June 13, 2022, 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 and US$23,884 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.

(Expressed in Canadian Dollars)

u. AB FinWright LLP, a firm which is 50% owned by a director of the Company was engaged by the company. During the fiscal year ended July 31, 2022 the Company incurred US$17,050 in fees to AB Wright ($0 in 2021). As at July 31, 2022, $0 was due to AB FinWright LLP ($0 at July 31, 2021)

v. Lincoln Fish, a director of the Company is also the CEO of OutCo Labs Inc. which entered into an asset sale agreement with the Company dated August 31, 2021. Mr. Fish continues to manage the affairs of OutCo as well as acting as a director and executive of the Company.

As part of the purchase of the assets of OutCo, OutCo received 3,367,043 multiple voting shares of the Company. Further, as a result of the satisfaction of a condition of the purchase agreement an additional 2,684,318 multiple voting shares of the Company were issued to OutCo. During the fiscal year ended July 31, 2022, 4,155,591 multiple voting shares were distributed to the shareholders of OutCo and 187 multiple voting shares were eliminated due to rounding of fractional shares.

As of July 31, 2022, OutCo held 1,471,460 multiple voting shares of the Company, 735,636 of which were distributed subsequent to the year end and 94 of which were eliminated due to rounding of fractional shares. The remaining 735,730 multiple voting shares are held in escrow until March 1, 2023 and subject to a holdback for working capital in accordance with the purchase agreement.

As part of the purchase of the assets of OutCo, Mr. Fish settled a US$250,000 note payable from OutCo Labs Inc. At closing, the note was converted to 101,667 multiple voting shares of the Company.

Mr. Fish has also provided unsecured funds to the Company for working capital purposes in the amount of US$192,123 from the date of the acquisition of the business on August 31, 2021 to the fiscal year end July 31, 2022. As at July 31, 2022 US$6,364 was due from the Company to Mr. Fish.

18. Non-controlling interest

i) Eglinton Medicinal Advisory Ltd.

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

The following table summarizes the consolidated financial position for Eglinton Medicinal Advisory Ltd as at years ended July 31, 2022 and July 31, 2021:

	July 31, 2022	July 31, 2021
	$	$
Current assets	**-**	-
Non-currrent assets	**-**	-
Current liabilities	**(22,449)**	(22,449)
Non-current liabilities	**-**	-
Net assets	**(22,449)**	(22,449)

(Expressed in Canadian Dollars)

For the year ended July 31, 2022, the Company recorded $nil (2021 - $Nil) of the net loss and comprehensive loss related to Eglinton Medicinal Advisory Ltd. The Company was not operational during the years ended July 31, 2022 and July 31, 2021.

ii) Neural Therapeutics.Inc.

The Company's 49% interest in Neural Theapeutics Inc. is consolidated into the Company's consolidated financial statements. Although the Company's equity interest is below 50%, management has determined that the Company has control through additional interest owned by the Company's CEO and CFO. In addition, the Company CEO is a Board Member for Neural Therapeutics Inc., and the Company's CFO is also the CFO for Neural Therapeutics Inc.

The 51% interest attributable to a minority shareholder is presented as "non-controlling interest" within shareholders' deficiency on the consolidated statements of financial position.

All of the financial information is presented before any intercompany eliminations with its parent company (High Fusion Inc.).

The following table summarizes the consolidated financial position for Neural Therapeutics Inc. as at July 31, 2022 and July 31, 2021:

	July 31, 2022	July 31, 2021
	$	$
Current assets	**454,570**	(18)
Non-currrent assets	**-**	1,229,467
Current liabilities	**(464,035)**	(270,000)
Non-current liabilities	**-**	-
Net assets	**(9,465)**	959,449

The following table summarizes Neural Therapeutics's consolidated net loss for the years ended July 31, 2022 and 2021:

	July 31, 2022	July 31, 2021
	$	$
Revenue	**-**	-
Operating expenses	**743,141**	379,124
Other expense	**1,075,313**	2,917
Net loss	**1,818,454**	382,041

Other changes in non-controlling interest are reported in the consolidated statement of changes in shareholders' equity and reflect any issued shares through private placements made by the Company, or shares issued to consultants or key personnel that work for Neural Therapeutics Inc.

The Company recorded the equity attributable to non-controlling interest related to the private placement of Neural Therapeutics that occurred on February 3, 2022, which resulted in the Company recording equity attributable to non-controlling interest of $435,389. In the same transaction, the Company also recorded its portion of equity attributable to the private placement of Neural Therapeutics of $757,696, which is recorded in contributed surplus.

For the year ended July 31, 2022, the Company recorded net loss attributable to this non-controlling interest of $232,846. As at July 31, 2022, the equity attributable to non-controlling interest was $202,543.

(Expressed in Canadian Dollars)

The non-controlling interest by entity is reconciled in the table below:

	July 31, 2022	July 31, 2021
	$	$
Eglinton Medicinal Advisory Ltd.	**(14,750)**	(14,750)
Neural Therapeutics Inc.	**202,543**	-
Non-controlling interest by entity	**187,793**	(14,750)

19. Management of capital

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company, in order to support the development of its planned business activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended July 31, 2022. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be shareholders' equity surplus/(deficiency), which is comprised of share capital, shares to be issued, reserve for warrants, reserve for share-based payments, reserve for foreign currency translation, equity component of convertible debentures, non-controlling interest, and deficit, which as at July 31, 2022 totaled a deficiency of $6,402,412 (2021 – Shareholders deficit - $6,162,620).

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

(Expressed in Canadian Dollars)

20. Financial instruments

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

	Financial Instrument Classification	Carrying Amounts	
		July 31, 2022	July 31, 2021
Financial Assets			
Cash	Amortized Cost	**757,405**	21,268
Accounts Receivable	Amortized Cost	**1,158,530**	78,054
Investments	FVTPL	**-**	1,204,321
Financial Liabilities			
Accounts Payable & accrued liabilities	Amortized Cost	**5,265,145**	4,695,212
Excise tax liabilities	Amortized Cost	**916,566**	-
Promissory Note payable	Amortized Cost	**5,110,679**	-
Lease Liabilities	Amortized Cost	**1,624,279**	698,541
Derivative Liabilities	FVTPL	**330**	1,245,645
Convertible Debenture	Amortized Cost	**5,366,334**	6,625,337
Total		**(16,367,398)**	(11,961,092)

Other than convertible debentures (see Note 13) and lease liabilities (see Note 12), the carrying values of all the financial assets and liabilities measured at amortized cost approximate their values as at July 31, 2022 and July 31, 2021.

Fair value

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

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

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

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

The Investments (note 7) have been classified as Level 1 in the fair value hierarchy as at July 31, 2022 and the year ended July 31, 2021.

The derivative liabilities (Note 13) have been classified as Level 3 in the fair value hierarchy as at July 31, 2022 and the year ended July 31, 2021. The unrealized gains (losses) for the year ended July 31, 2022 were a gain of $1,245,315 (July 31, 2021- $960,073 loss).

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

Credit risk

(Expressed in Canadian Dollars)

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

Liquidity risk

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

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

The table below summarizes the maturity profile of the Company’s financial liabilities based on contractual undiscounted payments for the year ended July 31, 2022:

	Up to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
	$	$	$	$	$
Accounts payable (net of current portion of excise taxes)	4,783,956	-	-	-	4,783,956
Lease obligations	1,398,742	660,883	-	-	2,059,625
Derivative liability - convertible debentures	330	-	-	-	330
Convertible debentures	5,273,928	92,406	-	-	5,366,334
Promissory note payables	5,110,679	-	-	-	5,110,679
Excise taxes	481,189	916,566	-	-	1,397,755
Total	**17,048,824**	**1,669,855**	**-**	**-**	**18,718,679**

As at July 31, 2022, the Company had working capital deficit of $12,157,392 (July 31, 2021- $5,103,172 Deficit), current assets of $4,647,741 (July 31, 2021 - $1,713,508) and current liabilities of $16,805,133 (July 31, 2021 - $6,816,680).

Foreign currency exchange risk

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

An increase (decrease) of 10% in the currency exchange rate of the Canadian dollar versus US dollar would have impacted the Company net loss by $2,112,000 (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

(Expressed in Canadian Dollars)

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

21. Commitments and other contingencies

The Company had the following undiscounted lease commitments as at July 31, 2022:

	Up to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
	$	$	$	$	$
Lease obligations (1)	1,398,742	660,883	-	-	2,059,625
Total	1,398,742	660,883	-	-	2,059,625

(1) Lease obligations (see Note 12) relate to $376,603USD with Veterans and :Leasing Innovations equipment lease of $,41,260 USD,and the remainder relate to the Downwind 27 Facility lease and SDN Facility lease. The lease obligations related to Veterans are considered current in nature as a result of settlement agreements or pending agreements to settle with the Company's vendors.

Settlement with Plus

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

Chatsworth Lease

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

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

Acquisition of the Outco Business

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

As part of the acquisition of the assets of Outco the Company has assumed various obligations of Outco (see subsequent event note 27). Of the US$375,500 in obligations assumed by the Company is a US$300,000 secured promissory note due from Outco to Elan Capital which was in litigation see part 4. b. of the acquisition of the Outco

Business (see note 3). As part of the acquisition of the assets of Outco, on August 31, 2021, the Company entered into a number of conditional settlement and general release for debt which the Company assumed. Under the conditional settlement and general release the Company has assumed the obligations due to Elan Capital. The conditions of settlement and release of security are the full repayment of US$300,000 on or before March 1, 2022 and the ongoing payment of $2,800 per month. The conditional settlement and general release provide for the repayment of the obligation in the form of cannabis product.

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

As of July 31, 2022, the balance due to Elan Capital is $272,668 (US $212,622)). The Company is in discussions to settle the obligation to Elan Capital.

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

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

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

With the acquisition of the assets of Outco, the Company has consolidated the assets and liabilities of the D27 and SDN which have unrecognized tax liability. This 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.

Neural Therapeutics contingent share issuances

In accordance with the terms of the employment agreement with Ian Campbell, CEO of NT, dated September 16, 2021, subject to the achievement of certain milestones, NT is obliged to issue common shares representing up to 3.5% of the issued and outstanding capital of NT as constituted at the closing of the seed financing. Further, subject to the achievement of certain milestones, NT is obliged to issue options for common shares representing up to 2% of the issued and outstanding capital of NT prior its listing of its common shares on a recognized stock exchange. Such stock options shall be exercisable at a price that is a 20% premium to the last financing price whereby shares of NT were issued immediately prior to Listing, and shall vest in equal amounts, every six (6) months over three (3) years from their date of granting, or as required under applicable securities legislation and regulation, and will be subject to the terms of any stock option plan adopted by NT.

In accordane with the terms of an advisory agreement with NT, NT is obliged to issue 366,667 RSUs. (see note 17 g)

In accordance with the terms of an advisory agreement with FMI Capital Advisory Inc. ("FMICA") dated December 17, 2021, subject to the completion of a listing of its common shares on a recognized Canadian exchange and a concurrent financing, NT is obliged to issue common shares representing up to 5% of the issued and outstanding capital of the Corporation.

Litigation

Pasa Verde Equipment Lease

On May 21, 2021, a legal action was filed against a subsidiary of the Company, Pasa Verde LLC as well as the former owners of Pasa Verde LLC in the Superior Court of California by Leasing Innovations Incorporated for US$435,849 representing past due rent, late fees; in interest minus proceeds from the sale of equipment. On September 2, 2021, a cross complaint was filed against the Company claiming breach of it's indemnification of the former owner of Pasa Verde LLC.

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

East Hill Financial

On July 29, 2022, a legal action was filed against OutCo and its subsidiaries, the Company and a number of its subsidiaries and officers in the Superior Court of California by East Hill Financial Corp. The legal action pertains to the assumption of a note payable in the amount of US$2.75 million as part of the acquisition of the business of OutCo.

The complaint for damages includes: breach of contract for not honouring the terms of the assumption of the East Hill Properties business, fraud for not paying the the sums borrowed by East Hill Properties, not operating East Hill Wellness in a way to maintain its operations and representing that payments would be made. The legal action includes an injunction against sale the property and foreclosure against the property.

The defendants who are associated with the Company under the action have not been served and the Company is currently in settlement discussions with East Hill Financial.

(Expressed in Canadian Dollars)

22. General and administrative

	Year ended July 31, 2022	Year ended July 31, 2021
	$	**$**
Bad Debt	**5,080**	32,350
Bank charges	**111,358**	22,684
Dues and subscriptions	**101,494**	-
Insurance	**262,519**	346,215
Listing and investor relations	**117,556**	134,493
Office and administrative	**177,476**	91,191
Marketing	**179,447**	-
Permit and licenses	**87,319**	-
Rent and property taxes	**587,645**	245,693
Repairs and maintenance	**109,605**	-
Security	**254,596**	1,139
Supplies, maintenance and utilities	**384,280**	33,573
Transportation	**24,974**	1,224
Travel	**40,074**	8,936
Total	**2,443,423**	917,498

23. Segmented information

For the year ended July 31, 2022, the Company recognized sales of $6,248,499 (2021 - $96,067) of which approximately 89% (2021 – 0%) were derived from the Company's operation in California.

As a result of the sale of Calyx on November 6, 2020, the assets and liabilities of Calyx have been presented as discontinued operating results and cash flows have been presented as discontinued operations in the consolidated statements of loss and comprehensive loss and cash flows for the year ended July 31, 2021 (see Note 24).

Therefore, the table below does not include the results from Calyx business for the years ended July 31, 2022 and July 31, 2021.

(Expressed in Canadian Dollars)

	Palo Verde (Colorado)	Outco (California)	Oregon	Colorado	Nevada	Total
	$	$	$	$	$	$
For the year ended July 31, 2022						
Total sales	155,892	6,092,607	-	-	-	6,248,499
Cost of goods sold	(308,655)	(4,691,273)	-	(1,854)	-	(5,001,783)
Gross profit (loss)	**(152,763)**	**1,401,334**	**-**	**(1,854)**	**-**	**1,246,716**
For the year ended July 31, 2021						
Total sales	96,067	-	-	-	-	96,067
Cost of goods sold	(75,723)	-	-	-	-	(75,723)
Gross profit (loss)	**20,344**	**-**	**-**	**-**	**-**	**20,344**

	Palo Verde (Colorado)	Outco (California)	Oregon	Colorado	Nevada	Total
	$	$	$	$	$	$
As at July 31, 2022						
Property, plant and equipment	-	5,692,089	923,530	1,315,814	47,021	7,978,454
As at July 31, 2021						
Property, plant and equipment	-	-	1,130,401	1,500,068	59,145	2,689,614
Intangible assets	2,227,756	-	-	-	-	2,227,756
Goodwill	648,519	-	-	-	-	648,519

24. Discontinued Operations

i) Calyx

On August 7, 2020, the Company entered into a Stock Purchase and Sale Agreement with DB12, LLC ("DB12") to sell 100% of the Company's interest in NHDC and Calyx for no consideration ("Calyx Sale Agreement"). On November 5, 2020, the Stock Purchase and Sale Agreement was amended, and the sale closed on that date. Pursuant to the Calyx Sale Agreement, the Company and DB12 have agreed to cooperate in negotiating and obtaining a settlement and release of all amounts due and owing under the lease agreement with respect to the facility in Chatsworth, California ("Lease Settlement"), wherein the Company is guarantor on the lease. In connection with the Lease Settlement, the Company may be liable to reimburse DB12 for up to US$50,000 of the amounts paid by DB12 in respect of the Lease Settlement, of which US$25,000 may be settled by cash payment and the remaining US$25,000 may be settled by issuance of common shares. (See Note 13)

As a result of the Calyx Disposition, the operating results and cash flows of Calyx have been presented as discontinued operations in the consolidated statements of loss and comprehensive loss and cash flows for the years ended July 31, 2022 and July 31, 2021. As a consequence, certain comparative figures in the consolidated statements of earnings (loss) and cash flows have been reclassified to conform with current period presentation.

The following table summarizes the operating results of Calyx which have been aggregated and presented as discontinued operations for the years ended July 31, 2022 and July 31, 2021:

(Expressed in Canadian Dollars)

	Year Ended July 31, 2022	Year Ended July 31, 2021
	$	$
Revenue	-	1,316,039
Cost and expenses		
Cost of Sales	-	1,106,379
Salaries, benefits and consulting fees	-	570,147
General and administrative	-	358,939
Depreciation and amortization	-	59,797
Gain on disposal of net assets of Calyx	-	(10,582,587)
Other (income) expenses	-	20,971
	-	(8,466,354)
Income	-	9,782,392
Current income taxes	-	11,178
Net income	-	9,771,214

The breakdown of cashflows from discontinued operations is as follows:

	Year ended July 31, 2022	Year ended July 31, 2021
	$	$
Net cash used in operating activities	-	21,885
Net cash used in investing activities	-	-
Net cash used in financing activities	-	-
Effect of foreign exchange on cash	-	(3,691)
Change in cash during the year	-	18,194

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

	$
Net assets disposed:	
Cash	169,752
Accounts receivable, prepaids, deposits	341,901
Inventory	539,533
Property, plant & equipment	158,847
Total assets disposed	1,210,032
Total liabilities disposed:	
Accounts payable and accrued liabilities	(11,240,815)
Current portion of long-term liabilities	(551,805)
Total liabilities disposed	(11,792,620)
Net assets disposed	(10,582,587)
Gain on disposal of net assets in net earnings from discontinued operations of Calyx	9,771,214

(Expressed in Canadian Dollars)

ii) East Hill Wellness

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

During the year ended July 31, 2021, the Company did not have a management agreement in place to operate East Hill Welness. Therefore, there are no revenues earned or expenses incurred during the year ended July 31, 2021.

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

	Year Ended July 31, 2022	Year Ended July 31, 2021
	$	$
Revenue	213,381	-
Cost and expenses		
Cost of Sales	846,093	-
Salaries, benefits and consulting fees	110,802	-
General and administrative	16,140	-
Gain on disposition of EHW business	(874,196)	-
Depreciation and amortization	19,707	-
Other (income) expenses	75,798	-
	194,344	-
Income	19,037	-
Current income taxes	-	-
Net Income	19,037	-

The breakdown of cashflows from discontinued operations is as follows:

	Year ended July 31, 2022	Year ended July 31, 2021
	$	$
Net cash used in operating activities	**(87,963)**	-
Net cash used in investing activities	**108,213**	-
Net cash used in financing activities	**-**	-
Effect of foreign exchange on cash	**(20,620)**	-
Change in cash during the year	**(370)**	-

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

(Expressed in Canadian Dollars)

Net asset of East Hill Wellness Inc. that were abandoned:

	$
Net assets disposed:	
Cash	**605**
Accounts receivable, prepaids, deposits	**176,721**
Property, plant & equipment	**57,166**
Total assets disposed	**234,492**
Total liabilities disposed:	
Accounts payable and accrued liabiltiies	**(1,108,688)**
Total liabilities disposed	**(1,108,688)**
Net assets disposed	**(874,196)**
Gain on East Hill Wellness Inc disposition in net earnings from discontinued operations	**(874,196)**

25. Supplementary cash flow information

Additional supplementary cash flow information related to non-cash investing and financing activities for the years ended July 31, 2022 and July 31, 2021 are as follows:

	July 31, 2022	**July 31, 2021**
Shares issued for account payables settlement	$ 2,531,694	$ 1,098,044
Shares issued for purchase of Neural Therapeutics	-	4,125,689
Warrants issued for purchase of Neural Therapeutics	-	2,776,860
Options issued for purchase of Neural Therapeutics	-	66,947
Shares issued for purchase of Palo Verde LLC	-	40,000
Warrants issued for purchase of Palo Verde LLC	-	73,302
Convertible debenture issued for purchase of Palo Verde LLC	-	250,761
Promissory note payable settled with inventory	87,863	-
Shares issued for conversion of convertible debenture	2,292,983	6,906,959
Special warrants issued for acquisition of the business of Outco	11,023,636	-
Parent warrants issued for the acquisition of the business of Outco	643,908	-
Convertible debenture issued for ASC Lease liability	50,465	-
Convertible debenture issued for acquisition of the business of Outco	268,400	-

(Expressed in Canadian Dollars)

26. Income taxes

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

	For the year ended July 31, 2022	For the year ended July 31, 2021
Loss for the year attributable to the parent	$ (18,970,436)	$ (1,781,802)
Expected income tax (recovery)	$ (5,028,000)	$ (472,000)
Change in statutory, foreign tax, foreign exchange rates and other	(2,833,000)	2,593,000
Permanent differences	5,395,000	(4,501,000)
Share issue cost	(128,000)	-
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	936,000	(140,000)
Change in unrecognized deductible temporary differences	1,658,000	2,599,000
Total income tax expense (recovery) attributable to the parent	**$ -**	**$ 79,000**
Current income tax	**$ -**	**$ 79,000**

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

	For the year ended July 31, 2022	For the year ended July 31, 2021
Deferred tax assets (liabilities)		
Marketable securities	$ -	$ -
Intangible assets	-	-
Debt with accretion	(2,000)	(2,000)
Non-capital losses	(722,556)	2,000
Net deferred tax (liabilities)	**$ (724,556)**	**$ -**

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

	For the year ended July 31, 2022	For the year ended July 31, 2021
Deferred tax assets (liabilities)		
Property and equipment	$ 623,000	$ 520,000
Share issue costs	153,000	218,000
Marketable securities	-	-
Intangible assets	87,000	87,000
Allowable capital losses	1,571,000	3,055,000
Derivative liability		330,000
Non-capital losses available for future period	11,502,556	7,854,000
	13,936,556	12,064,000
Unrecognized deferred tax assets	(13,936,556)	(12,064,000)
Net deferred tax assets	**$ -**	**$ -**

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

	For the year ended July 31, 2022	Expiry Date Range	For the year ended July 31, 2021	Expiry Date Range
Temporary Differences				
Property and equipment	$ 2,392,000	No expiry date	$ 1,986,000	No expiry date
Share issue costs	577,000	2045 to 2045	824,000	2041 to 2044
Marketable securities	-	No expiry date	-	No expiry date
Intangible assets	328,000	No expiry date	328,000	No expiry date
Allowable capital losses	5,927,000	No expiry date	11,530,000	No expiry date
Derivative liability	-	No expiry date	1,246,000	No expiry date
Non-capital losses available for future periods	39,128,000	2036 onwards	30,623,000	2036 onwards
Canada	28,952,000	2036 to 2041	22,751,000	2036 to 2040
USA	10,176,000	2037 onwards	7,872,000	2037 onwards

27. Subsequent events

August 2018 Debenture Amendments
On August 4, 2022, the holders of the August 2018 Debentures agreed to amend the terms of the debentures as follows:
- (i) The term of the Debentures has been extended to February 3, 2023; and
- (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.

On August 17, 2022, September 13, 2022 and November 4, 2022, one of the holders of the August 2018 Debentures converted portions of their holdings representing $150,000. Pursuant to these conversions, High Fusion issued 3,000,000 subordinated voting shares.

Accounts Payable Settlement
On August 30, 2022, the Company settled outstanding payables representing $84,392 in exchange for the conversion into subordinate voting shares of the Company at a price of $.05 per share. Pursuant to the payables conversion, High Fusion issued 1,687,841 subordinate voting shares.

Neural Therapeutics Financing
On August 3, 2022 the Company's subsidiary Neural Therapeutics completed a second tranche to the NT Financing for gross proceeds of $82,000 by way of a non-brokered private placement of of units ("**Units**"). Pursuant to the private placement, Neural Therapeutics issued 1,093,333 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 whole warrant exercisable for one Common Share at an exercise price of $0.10 per Common Share for a period ending on the earlier of: (i) 36 months following the closing; and (ii) 24 months following the time the Company completes a going public transaction. Pursuant to this financing, 133,333 Units were issued to Robert Wilson, the CFO, representing a $10,000 contribution to the financing. Pursuant to *Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**"), the share issuance 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.

As part of this financing, the Company issued 20,800 broker warrants. Each broker warrant entitled the holder to purchase one Unit in the Company at a price of $0.075 for a period of 24 months from the date of issuance.

NT Bonus Shares
In accordance with the terms of the NT Financing completed in February 2022, if NT had not completed a going public transaction within 6 months of the closing, NT is required to issue additional shares representing 10% of total shares issued in NT Financing. Consequently, because NT did not complete a going public transaction, on August 3, 2022 the Company issued an additional 1,000,000 common shares of Neural Therapeutics to the purchasers of the NT Financing on a, one-Common Share per-Unit, basis (10% of 10,000,000 Units). The valuation of these shares is recorded as $0.075 in the capital account of the Company.

NT Payables Settlement
On September 13, 2022, the Company's subsidiary NT, settled outstanding payables representing $37,500 in exchange for the conversion into NT Common shares at a price of $.075 per share. Pursuant to the payables conversion, NT issued 500,000 NT shares.