High Fusion Inc.

Consolidated Financial Statements

For the three and six months ended

January 31, 2023 and January 31, 2022

(Expressed in Canadian Dollars, unless otherwise noted)

NOTICE TO READER

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

The accompanying unaudited Interim condensed consolidated financial statements of the Company for the interim periods ended January 31, 2023 have been prepared in accordance with IFRS and are the responsibility of the Company’s management.

The Company's independent auditors, BF Borgers CPA PC, Certified Public Accountants have not performed a review of the unaudited Interim condensed consolidated financial statements for the interim period ended January 31, 2023 in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of the interim financial statements by an entity’s auditor.

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

	Notes	January 31, 2023	July 31, 2022
ASSETS			
Current assets			
Cash		**$ 328,391**	$ 757,405
Amounts receivable	4	**1,210,702**	1,158,530
Prepaid expenses		**106,456**	186,591
Inventory	5	**2,211,091**	2,258,669
Biological assets	6	**292,133**	286,546
		4,148,773	4,647,741
Non-current assets			
Property, plant and equipment	7	**7,814,467**	7,978,454
		$ 11,963,240	$ 12,626,195
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities	8, 15	**$ 8,051,315**	$ 5,265,145
Promissory note payable	9	**6,036,761**	5,110,679
Derivative liabilities	11	**4,093**	330
Convertible debentures	11	**5,609,216**	5,273,928
Lease liabilities	10	**1,158,945**	1,155,052
		20,860,330	16,805,133
Non-current liabilities			
Convertible debentures	11	**105,359**	92,406
Excise tax liabilities	8	**-**	916,566
Deferred tax payable		**754,275**	745,274
Lease liabilities	10	**236,045**	469,227
		21,956,009	19,028,607
Shareholders' deficiency			
Share capital	12	**56,459,633**	56,089,757
Shares to be issued		**11,046,722**	10,915,228
Reserve for share based payments	13	**6,181,388**	6,175,168
Reserve for warrants	14	**7,382,874**	7,382,874
Reserve for foreign currency translation		**(437,773)**	(102,717)
Equity component of convertible debenture	11	**851,449**	851,449
Contributed surplus	16	**827,373**	757,696
Accumulated deficit		**(92,280,492)**	(88,659,660)
Attributable to the Parent		**(9,968,826)**	(6,590,205)
Attributable to non-controlling interests	16	**(23,942)**	187,793
		(9,992,769)	(6,402,412)
		$ 11,963,240	$ 12,626,195

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 19)
Subsequent events (Note 24)

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.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
Three months and Six months ended January 31, 2023 and January 31, 2022
(Expressed in Canadian Dollars)

	Notes	Three Months January 31, 2023	Three Months January 31, 2022 (Note 2, 22)	Six months January 31, 2023	Six months January 31, 2022 (Note 2, 22)
Sales		**$ 2,250,522**	$ 2,061,849	**$ 4,319,141**	$ 3,373,610
Cost of goods sold	5	**(1,786,109)**	(1,691,775)	**(3,127,660)**	(2,578,133)
Gross margin		**464,413**	370,074	**1,191,481**	795,477
Operating expenses:					
Salaries, benefits and consulting fees	15	**701,988**	1,531,342	**1,631,441**	1,877,093
Professional fees	15	**123,664**	95,157	**351,854**	250,108
General and administrative	20	**276,941**	639,825	**1,141,486**	1,221,955
Acquisition and project evaluation costs		**-**	4,817	**-**	423,168
Share based payments	13	**66,250**	614,110	**66,250**	614,110
Sales, marketing and promotion		**-**	-	**-**	0
Depreciation and amortization	7	**189,459**	325,786	**505,651**	662,072
Total operating expenses		**1,358,302**	3,211,037	**3,696,682**	5,048,506
Other (income)/expenses:					
Foreign exchange loss (gain)		**(16,930)**	(148,036)	**67,360**	(71,549)
Interest income		**-**	-	**-**	-
Finance costs		**931,847**	76,311	**1,906,474**	452,383
Other loss (income)		**222**	(433,041)	**1,091**	(433,041)
Loss on FVTPL investments		**-**	(386,585)	**-**	(175,648)
(Gain) loss on sale of investments		**-**	42,261	**-**	201,011
Change in fair value of derivative liability	11	**(20,059)**	(348,928)	**3,762**	(1,026,879)
(Gain) loss on debt settlement		**-**	23,645	**-**	-
Loss (gain) on extinguishment of debt	11,12	**-**		**(568,497)**	-
Total other (income)/expenses		**895,080**	(1,174,373)	**1,410,190**	(1,053,723)
Loss before income taxes		**(1,788,969)**	(1,666,590)	**(3,915,391)**	(3,199,306)
Income tax expense (recovery)					
Current		**-**	15,062	**-**	30,062
		-	15,062	**-**	30,062

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

High Fusion Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
Three months and Six months ended January 31, 2023 and January 31, 2022
(Expressed in Canadian Dollars)

	Note				
Net loss before discontinued operations		**(1,788,969)**	(1,681,652)	**(3,915,391)**	(3,229,368)
Loss from discontinued operations	22	**-**	(213,784)	**-**	(350,562)
	.	**(1,788,969)**	(1,895,436)	**(3,915,391)**	(3,579,930)
Other comprehensive (gain) loss					
Exchange differences on translating foreign operations		**(26,924)**	266,834	**(335,056)**	51,718
Net loss and comprehensive loss		**$ (1,762,045)**	$ (2,162,270)	**$ (3,580,335)**	$ (3,631,648)
Net loss attributable to:					
Non controlling interest	16	**(88,855)**	$ -	**(294,559)**	$ -
Parent company		**(1,700,114)**	(1,895,436)	**(3,620,832)**	(3,579,930)
		(1,788,969)	$ (1,895,436)	**$ (3,915,391)**	$ (3,579,930)
Net loss and comprehensive loss attributable to:					
Non controlling interest	16	**(294,559)**	-	**(294,559)**	$ -
Parent company		**(1,467,486)**	(2,162,270)	**(3,285,776)**	(3,631,648)
		(1,762,045)	$ (2,162,270)	**$ (3,580,335)**	$ (3,631,648)
Weighted average number of common shares outstanding					
Basic & Diluted		**145,971,129**	53,959,483	**143,409,288**	53,237,120
Net loss per share before discontinued operations					
Basic & Diluted		**$ (0.012)**	$ (0.031)	**$ (0.027)**	$ (0.061)
Net loss per share of discontinued operations					
Basic & Diluted		**$ -**	$ (0.004)	**$ -**	$ (0.007)

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

High Fusion Inc.

Condensed Interim Consolidated Statements of Cash Flow

Three months and Six months ended January 31, 2023 and January 31, 2022

(Expressed in Canadian Dollars)

	Notes	Six Months	
		January 31, 2023	**January 31, 2022**
Cash (used in)			
Operating activities:			
Net loss		**(3,915,391)**	(3,229,368)
Items not affecting cash:			
Amortization of capital assets and intangible assets	7	**505,651**	681,779
Foreign Exchange		**67,360**	249,160
Share issued for services		**66,250**	614,110
Unrealized (gain) loss on investments			(175,648)
Change in fair value of derivative liabilities	11	**3,762**	(1,026,879)
Accretion and finance costs		**1,906,474**	633,879
Loss/(gain) on extinguishment of debt	11	**(568,497)**	(381,000)
Acquisition costs		**1,091**	423,168
Fees related to going public NT	16	**75,000**	-
Realized Loss on sale of investments		**-**	201,011
Amounts receivable		**(4,588)**	35,675
Prepaid		**85,133**	152,636
Inventory		**341,250**	(123,190)
Biological assets		**6,186**	966,745
Investments		**-**	78,270
Income taxes payable		**-**	13,282
Accounts payable and accrued liabilities		**1,269,777**	141,542
Excise tax payable		**-**	
Net cash used in operating activities		**(160,542)**	(744,828)

High Fusion Inc.

Condensed Interim Consolidated Statements of Cash Flow

Three months and Six months ended January 31, 2023 and January 31, 2022

(Expressed in Canadian Dollars)

Investing activities:			
Proceeds from sale of investments		**-**	1,066,214
Cash acquired from acquisition of assets of Outco business	3	**-**	192,144
Net cash provided by investing activities		**-**	1,258,358
Financing activities:			
Lease payments	10	**(352,260)**	(349,470)
Interest paid on promissory note	11	**(22,500)**	-
Cash received on promisory note	11	**74,000**	-
Proceeds from shares issued	11	**135,000**	-
Proceeds from shares of subsidiary issued and sold to non-controlling interests, net	16	**82,000**	-
Net cash provided by (used in) financing activities		**(83,760)**	(349,470)
Net change in cash		**(244,302)**	164,060
Effects of exchange rate changes on cash		**(184,712)**	13,142
Cash at beginning of year		**757,405**	21,268
Cash at end of year		**328,391**	198,470

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

Supplementary cash flow information (Note 23)

High Fusion Inc.

Condensed Interim 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, 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)**
Shares issued for purchase of company	364,525	10,009,128	-	531,441	-	-	-	-	10,905,094	-	10,905,094
Equity component of ASC Debenture	-	-	-	-	-	8,504	-	-	8,504	-	8,504
Equity component of Gainor Debenture	-	-	-	-	-	69,483	-	-	69,483	-	69,483
Shares issued for AP settlement	119,471	-	-	-	-	-	-	-	119,471	-	119,471
Shares issued for convertible interest	143,966	-	-	-	-	-	-	-	143,966	-	143,966
Share-based payments	-	-	614,110	-	-	-	-	-	614,110	-	614,110
Foreign exchange translation	-	-	-	-	(262,954)	-	-	-	(262,954)	-	(262,954)
Net loss for the period	-	-	-	-	-	-	-	(3,579,931)	(3,579,931)	-	(3,579,931)
Balance as at January 31, 2022	**$ 51,294,766**	**$ 10,094,129**	**$ 6,145,168**	**$ 7,108,843**	**$ (355,327)**	**$ 851,449**	**$ -**	**$ (73,269,155)**	**$ 1,869,873**	**$ (14,750)**	**$ 1,855,123**

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, 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)**
Shares issued for convertible debt interest	122,583	-	-	-	-	-	-	-	122,583	-	122,583
Shares issued for AP debt settlement	33,757	-	-	-	-	-	-	-	33,757	-	33,757
Change in ownership interest of subsidiary	-	-	-	-	-	-	69,677	-	69,677	82,822	152,499
Conversion of debentures	150,000	-	-	-	-	-	-	-	150,000	-	150,000
MVS issued	-	135,000	-	-	-	-	-	-	135,000	-	135,000
Shares issued for MVS exercised	3,506	(3,506)	-	-	-	-	-	-	-	-	-
RSUs issued	-	-	66,250	-	-	-	-	-	66,250	-	66,250
Shares issued for RSUs exercised	60,030	-	(60,030)	-	-	-	-	-	-	-	-
Foreign exchange translation	-	-	-	-	(335,056)	-	-	-	(335,056)	-	(335,056)
Net loss for the year	-	-	-	-	-	-	-	(3,620,832)	(3,620,832)	(294,559)	(3,915,391)
Balance as at January 31, 2023	**$ 56,459,633**	**$ 11,046,722**	**$ 6,181,388**	**$ 7,382,874**	**$ (437,773)**	**$ 851,449**	**$ 827,373**	**$ (92,280,492)**	**$ (9,968,826)**	**$ (23,943)**	**$ (9,992,768)**

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 ("**CBCA**"). 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 has two classes of common shares issued and outstanding - subordinated voting shares ("**SVS**"), which entitle the holders thereof to one vote per SVS; and multiple voting shares ("**MVS**") which entitle the holders thereof to ten votes per MVS. SVS have been listed on the Canadian Securities Exchange ("**CSE**") under the trading symbol "**FUZN**" since March 23, 2015 and have been quoted on the OTC Pink since April 29, 2015 under the symbol "**SPLIF**". MVS are not listed for trading or quoted on any stock exchange. 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 recreational 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 six months ended January 31, 2023 were approved by the Board of Directors on March 24, 2023.

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 ("**SVS Consolidation**"). All references to SVS in this document are on post-SVS Consolidation basis.

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 January 31, 2023, the Company had working capital deficit of $16,711,557 (July 31, 2022– $12,157,392), spent $160,542 (January 31, 2022 - $744,828) of cash for operating activities, had not yet achieved profitable operations, had accumulated losses of $92,280,492 (July 31, 2022 - $88,659,660), had shareholders' deficit of $9,992,769(July 31, 2022 -Shareholders' deficit - $6,402,412) 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.

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 condensed interim consolidated statements of loss and comprehensive loss and condensed interim consolidated statements of cash flow have been reclassified to conform with the current year presentation for

the six months ended January 31, 2023.

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Standards Committee ("IFRIC") in effect for the three months ended January 31, 2023.

The condensed interim consolidated statements of loss and comprehensive loss and the condensed interim consolidated statements of cash flow have been reclassified to account for disposal of a subsidiary, East Hill Wellness Inc.

2.2 Basis of measurement

The consolidated financial statements have been prepared using the accrual basis of accounting except for certain financial instruments and acquisition-related contingent consideration, which are measured at fair value (see Note 18 – Financial Instruments). All figures are presented in Canadian dollars unless otherwise noted.

2.3 Basis of consolidation

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, 51% owned subsidiary, Eglinton Medicinal Advisory Ltd, 46% owned subsidiary, Neural Therapeutics Inc., 46% owned subsidiary, Kruzo LLC, 0% owned subsidiaries from the acquisition of the business of OutCo Labs Inc. **("OutCo")**, Downwind 27, Inc. and San Diego Naturals, Inc. 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:

Subsidiary/Affiliate	Ownership Interest January 31, 2023	Ownership Interest July 31, 2022	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 Properties (Nevada) LLC (“NPNL”)	100%	100%	Consolidation
Eastgate Property Holding LLC (“EPHC”)	100%	100%	Consolidation
NH Bellingham Property Holdings LLC (“NHBH”)	100%	100%	Consolidation
Pasa Verde, LLC (“Pasa Verde”)	100%	100%	Consolidation
Eglinton Medicinal Advisory Ltd. (“EMAL”)	51%	51%	Consolidation
Neural Therapeutics Inc. ("NT")[(4)]	46%	46%	Consolidation
Kruzo LLC ("Kruzo")[(4)]	46%	46%	Consolidation
Palo Verde LLC ("Palo Verde")	100%	100%	Consolidation
Nutritional High LLC ("NH LLC")[(1),(2)]	100%	100%	Consolidation
East Hill Wellness LLC ("EHW")[(3)]	0%	0%	Consolidation
San Diego Natural Inc. ("SDN")[(1),(2)]	0%	0%	Consolidation
Downwind 27 LLC (DW27")[(1),(2)]	0%	0%	Consolidation

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

(2) 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.

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

(4) On February 3, 2022 and August 4, 2022, the Company has reduced its ownership of NT as a result of completing on a private placement for Neural Shares as settlement of payables with new and existing Neural Shares. As of January 31, 2023 NT is still controlled by the Company as a result of Neural Shares owned by the CEO and CFO of the Company, which results in greater than 50% control and therefore, remains consolidated.

2.4 Functional and presentation currency

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

2.5 Significant accounting policies

Business combinations 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. Collectability 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.

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

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

Please see Note 19 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 18 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.

2.6 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.

2.7 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 October 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

2.8 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 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, 2023. 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 with no impact to the Company's consolidated financial statements.

3. Business and asset acquisitions and disposal

OutCo Labs Inc. ("OutCo")

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 ("**OutCo Acquisition**")

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) MVS of the Company. Each MVS carries 10 votes and may, at the option of the holder, be exchanged, for no additional consideration, for ten (10) SVS.
2. 2,033,333 Class A Share purchase warrants ("**Class A Warrants**") each entitling the holder to acquire one SVS at any time on or before the 24-month anniversary of the closing of the OutCo Acquisition at an exercise price of $0.60 per SVS. The expiry date of the Class A Warrants will be accelerated if the volume weighted average price of the SVS 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 per SVS. 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 SVS at any time on or before the 24-month anniversary of the closing of the OutCo Acquisition at an exercise price of $1.00 per SVS. The expiry date of the Class B Warrants will be accelerated if the volume weighted average price of the SVS 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 OutCo 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 ("**East Hill Note**") over the land acquired located at 2500 East Hill Road, Willits, California ("**Willits Property**"),
    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 ("**Gainor Debenture**") has a term of 2 years and has an interest rate of 10% per annum. The debenture is convertible into SVS at any time at the option of the holder at a conversion price equal to $0.36 per SVS.

ii. Includes $280,000 promissory note due to Elan Capital and $50,000 due to Quilkey (see Note 9)

In addition to the above assumed debt, the Company also has assumed control over the operating entities SDI, 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, SVS or MVS 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 MVS to OutCo. (see Note 12)

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 SVS. (see Note 15)

The chart below summarizes the acquisition, cost, and evaluation of those assets for the OutCo Acquisition:

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**

For the year ended July 31, 2022, the Company has determined that the goodwill should be written down by $6,834,699 ($5,417,056 USD) as the OutCo business acquired had poor performance in both its retail and wholesale business. In addition, the Company had also terminated the management service agreement with EHW (see Note 22).

4. Amounts receivable

The breakdown of the amounts receivable balance is as follows:

	January 31, 2023	July 31, 2022
	$	$
Trade accounts receivable, gross [(i)]	**121,196**	85,198
Allowance for doubtful accounts	**(75,052)** -	72,224
Other amounts receivable [(iii)] [(ii)]	**1,164,558**	1,145,556
Promissory note receivable [(i)]		-
Total	**1,210,702**	**1,158,530**

(i) During the six months ended January 31, 2023, the Company recorded a provision for trade accounts receivable of $75,052 (July 31, 2022 - $72,224). The provision is mainly related to stale receivables in Downwind 27 Inc. ("**DW27**") , which is a part of the OutCo business.

(ii) Includes HST which for the period and prior period returns has been filed, accepted and refunded in the six months ended January 31, 2023 and for the year ended July 31, 2022.

(iii) The disposal of East Hill Wellness (see Note 22) has given rise to an advance of $1,052,459 (July 31, 2022 - $1,026,509) representing advances made to this entity while it was controlled by the Company. For the six months ending January 31, 2023, the increase is mainly due to the increase in the USD/CAD from 1.2824 to 1.335.

5. Inventory

The breakdown of inventory is as follows:

	January 31, 2023	July 31, 2022
	$	$
Raw materials	**-**	3,794
Work-in-process	**1,478,990**	1,427,172
Finished goods	**732,101**	827,703
Total	**2,211,091**	2,258,669

Inventory recognized as cost of goods sold during the six months ended January 31, 2023 was $3,127,660 (January 31, 2022 - $2,578,133).

6. Biological assets

Biological assets are comprised of:

	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**

	Capitalized Cost	Fair Value Adjustment	Balance
	$	$	$
Balance at July 31, 2022	**134,769**	**151,778**	**286,546**
Fair value adjustment on growth of biological assets	-	(44,234)	(44,234)
Production cost capitalized	1,075,435	1,877,907	2,953,343
Transferred to inventory upon harvest	(1,057,294)	(1,846,229)	(2,903,523)
Balance at January 31, 2023	**152,910**	**139,222**	**292,133**

On August 31, 2021, the Company had acquired the assets related to the OutCo business, which included their biological assets. As at the six months ended January 31, 2023 and year ended 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.

			January 31, 2023	July 31, 2022
	January 31, 2023	July 31, 2022	Effect of 10% Change	Effect of 10% Change
Selling Price (per gram)	$ 6.02	$ 4.11	$ 103,000	$ 70,000
Stage of Growth	38%	31%	2,000	2,000
Yield by plant (gram)	63	64	30,000	43,000
Wastage	28%	26%	28,000	18,000
Post Harvest Cost	$ 0.72	$ 0.90	$ 12,000	$ 15,000

Selling price for the six months ended January 31, 2023 has increased due a higher portion of the sales from the Company's retail dispensaries compared to the year ended July 31, 2022.

Indoor biological assets are in 3 cultivation rooms which have staggered grow cycles. The average stage of growth as at January 31, 2023 was 38% complete (July 31, 2022 - 31%).

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 that is recorded in cost of sales. As of January 31, 2023, it is expected that the Company's indoor biological assets will yield approximately 63 grams (July 31, 2022 – 64 grams) per plant.

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.

7. Property, plant and equipment

As at January 31, 2023, Right-of-use assets totaling $792,755 (July 31, 2022 - $1,032,086) were comprised of leased equipment, mainly from the OutCo Acquisition(see Note 3).

Cost	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Total
	$	**$**	**$**	**$**	**$**	**$**
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	-
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**	**2,120,849**	**10,578,711**
Additions	-	-	-	12,830	-	12,830
Reclassification of capital assets	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Effect of movement in exchange rates	158,992	53,359	150,371	101,390	86,990	551,103
Balance, January 31, 2023	**4,035,262**	**1,354,265**	**2,063,833**	**1,481,446**	**2,207,839**	**11,142,645**

Accumulated Depreciation	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Total
	$	**$**	**$**	**$**	**$**	**$**
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**
Additions	-	20,525	127,750	73,387	283,989	505,651
Reclassification	-	-	-	-	-	-
Reclassification of Investment property	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Effect of movement in exchange rates	-	12,581	102,034	65,322	42,333	222,270
Balance, January 31, 2023	**-**	**339,721**	**957,244**	**616,127**	**1,415,085**	**3,328,178**

Net Book Value	Land	Building	Leasehold Improvement	Computer and Mfg. Equipment	Right Of Use Assets	Total
	$	**$**	**$**	**$**	**$**	**$**
Balance, July 31, 2021	**360,420**	**1,011,131**	**751,917**	**303,168**	**262,979**	**2,689,615**
Balance, July 31, 2022	**3,876,270**	**994,291**	**1,186,001**	**889,807**	**1,032,086**	**7,978,454**
Balance, January 31, 2023	**4,035,262**	**1,014,544**	**1,106,589**	**865,318**	**792,755**	**7,814,467**

8. Accounts payable and accrued liabilities

The breakdown of the accounts payable is as follows:

	January 31, 2023	July 31, 2022
	$	$
Trade payables and accrued liabilities (i),(iii)	**6,533,406**	4,783,958
Excise tax payable (ii)	**1,517,910**	481,187
Total	**8,051,315**	5,265,145

(i) The trade payables and accrued liabilities includes related party payables of $810,488 (July 31 2022 - $529,245) (see Note 15).

(ii) The excise tax payable relates to Q2 2021, Q3 2021, Q4 2021, Q1 2022 , Q2 2022, Q3 2022, Q4 2022 are due by D27 which is controlled through a management services agreement.

(iii) For the six months ended January 31, 2023, the Company had settled AP debt of $84,392 (see Note 12) in exchange for 1,687,841 SVS and recognized a gain on debt settlement of $50,635 a corresponding decrease in

account payable of $84,392.

(iv) For the six months ended January 31, 2023, the Company accrued interest of $252,995 related to the extension of the 2018 convertible debenture (see Note 11).

9. 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 is due on March 1, 2022. Subsequent to January 31, 2023 the Company agreed to a payment plan in satisfaction of the obligation to Elan Capital (see note 24).

The Company continues to make monthly payments of US $2,800 representing interest payments on the note obligation. During the six months ended January 31, 2023 and year ended July 31, 2022, the Company has paid interest of $22,500 (US$16,800) (January 31, 2022 – $21,368 (US$16,800)) and $39,119 (US$30,800), respectively.

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 licensed 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 January 31, 2023 and July 31, 2022, the balance outstanding is $310,552 (US $232,623) and $272,668 (US$212,622), respectively. There was also a foreign exchange loss of $37,884 (July 31, 2022 – 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 an unrealized foreign exchange of loss of $1,803.

For the six months ended January 31, 2023, the Company accrued interest of $6,113 (US $8,185) (January 31, 2022 - $Nil (US $Nil)

As of January 31, 2023, the balance outstanding under the Quilkey Loan is $134,984 (US $101,112) and an unrealized foreign exchange of loss of $4,971.

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 a property located at 2500 East Hill Road, Willits, California a portion of which was under license to operate, cultivate and harvest cannabis to East Hill Wellness Inc.. The note 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.

For the six months ended January 31, 2023, the Company has accrued interest of $120,537 (US$90,000)(January 31, 2021 $Nil (US$ Nil)). The Company has not repaid any interest or principal on this note for the six months ended January 31, 2023, and the year ended July 31, 2022.

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 19)

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.

As at January 31, 2023, the balance outstanding is $3,798,075 (US $2,845,000). There was also an unrealized foreign exchange loss on the balance of $144,526.

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, for the initial four-month period in the amount of US$22,500, was deducted from the proceeds at closing. As the first two tranches were not repaid within four months of closing, an additional interest change of US$17,250 is due at maturity. 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 to the date of maturity. The First Loan Facility calculates interest based on a combination of discount rate and on 4 and 12 month time periods. The equivalent interest rate at maturity is 26% per annum. The First Loan facility matures at the earlier of one year and completion of the sale of SDN.

As part of the First Loan Facility, the lenders were granted 2,250,000 SVS purchase warrants (each a "Warrant"). Each Warrant entitles the holder to purchase one SVS of the Company at a price of $0.075 per SVS and for a period of two years.

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) 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.

During the six months ended January 31, 2023, the Company accrued interest of $162,511 (US$123,482) (January 31, 2022 - $Nil ($US Nil). As at January 31, 2023, the outstanding balance is $874,466 (US$655,031) with an unrealized foreign exchange loss of $30,297.

Subsequent to January 31, 2023 the First Loan Facility was amended. (see Note 24).

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 15). The Second Loan Facility 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 SVS purchase warrants (each a "Warrant") subject to CSE approval. Each Warrant will entitle the holder to purchase one SVS at a price of $0.05 per SVS 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.

During the six months ended January 31, 2023, the Company accrued interest of $80,440 (US$65,636) (January 31, 2022 - $Nil ($US Nil). As at January 31, 2023, the outstanding balance is $597,056 (US$447,234) with an unrealized foreign exchange loss of $48,321.

December 2022 Investment
On December 28, 2022 the Company announced that it has secured two investments if approximately US$250,000. The first investment of US$100,000 ($135,000) represented a purchase of 1,350,000 multiple voting shares of the Company at a price of $.10 per share.

The second investment represents a contribution of US$150,000 ($202,500) of inventory to D27 in exchange for an unsecured note payable which is expected to be settled with the issuance of approximately 2,025,000 MVS of the Company at a price of $.10 per share. As of the date hereof the note payable has not been converted.

FMICA Loan
On January 27, 2023 the Company entered into a loan agreement with FMICA in the amount of $74,000 ("FMICA Loan"). The FMICA Loan shall be repaid the earlier of: the Company receiving a refund with respect to FMICA harmonized sales tax (HST) payable by Canada Revenue Agency; or the Borrower raising further capital, either by way of equity or subscription or debt.

For the six months ended January 31, 2023 and the year ended July 31, 2022, the breakdown of promissory notes payable is as follows

	January 31, 2023	July 31, 2022
	$	**$**
Loan facilities	**1,471,523**	1,170,046
Issued Promissory note to vendor	**321,629**	13,125
Promissory notes acquired through the Outco business	**4,243,609**	3,927,508
Ending balance	**6,036,761**	5,110,679

10. 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 8).

The Company is in litigation with the leasing company regarding the outstanding balance due under this lease. (see Note 19)

As at January 31, 2023, outstanding lease payments including interest and legal expenses amounted to $481,947 (US$361,009) were recorded in accounts payable and accrued liabilities (see Note 8).

Sale and leaseback arrangement

On August 1, 2018, the Company entered into an equipment sale leaseback line of credit agreement (the "Sale-Leaseback") 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-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 respectively, and the issuance of a $50,464 3-year convertible debenture which is convertible into SVS at any time at the option of ASC at a conversion price equal to $0.35 per SVS. The debenture shall bear interest at 12% per annum payable upon maturity.

For the six months ended January 31, 2023, the outstanding lease balance is $504,829. As at January 31, 2023, the deferred gain on sale leaseback amount to $nil (US $nil) (July 31, 2022 - $25,192 (US$20,343)). During the year ended July 31, 2022, the Company has paid $Nil ($68,400) in interest expense associated with delinquent lease payments.

The Company has returned a portion of the equipment associated with the Sale-Leaseback and is in discussions with Veterans to settle the amounts outstanding.

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 ("**El Cajon Lease**”). The building is approximately 15,000 square feet and operates a cannabis dispensary, 3 cultivation rooms, an extraction lab and packaging.

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

For the six months ended January 31, 2023, the outstanding lease balance is $689,279 ($US 516,134).

Escondido Lease

On August 31, 2021, as part of the acquisition of OutCo, the Company also acquired control of a 2,500 square foot facility lease ("**Escondido Lease**") of 8530 Nelson Way Escondido, California ("Escondido Premises"). The lease term 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.

For the six months ended January 31, 2023, the outstanding lease balance is 200,880 ($US 150,472).

The breakdown of lease liabilities is as follows:

	$
Balance, July 31, 2021	**698,541**
Additions	1,469,740
Accretion	214,409
Cash Paid	(672,017)
Lease asset	(78,293)
Settlement of lease with convertible debt	(50,465)
Gain on settlement of lease	(15,141)
Effect of movement on exchange rates	57,506
Balance, July 31, 2022	**1,624,280**
Accretion	112,763
Cash Paid	(352,260)
Effect of movement on exchange rates	10,207
Balance, January 31, 2023	**1,394,990**
Current portion	**1,158,945**
Long-Term Portion	**236,045**

Future minimum lease payment payables are as follows:

	January 31, 2023	July 31, 2022
	$	$
Less than 1 year	**1,511,815**	1,398,742
1 - 5 years	**318,521**	660,883
More than 5 years	**-**	-
Total future minimum lease payments	**1,830,336**	2,059,625
Less: amount representing interest	**(435,345)**	(435,345)
Present value of minimum lease payments	**1,394,990**	1,624,280
Less: current portion	**(1,158,945)**	(1,155,053)
Non-current portion	**236,045**	469,227

11. Convertible Debentures

August 2018 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 SVS at a conversion price of $12.00 per SVS. 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 share purchase warrants of the Company. Each warrant is exercisable to acquire one SVS for a period of 36 months following Closing at an exercise price of $16.00 per SVS.

The interest is payable in cash or by issuing SVS against the amount due at the sole option of the Company. If the Company elects to issue the subordinated voting shares as interest payment, the price per SVS 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 SVS of less than $9.00 per SVS 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 SVS trade at a VWAP under $5.00 per SVS for a period of 50 consecutive trading days while the convertible debentures are outstanding, the conversion price shall be reduced to $6.00 per SVS. 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 volatility of SVS 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 SVS 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.

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

In June 2022, the holders of the August 2018 Debentures agreed to amend the terms of the debentures to consent to enter into the Second Loan Facility to a maximum amount of US$400,000. (see Note 9).

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 8).

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) SVS and the transfer of 2,000,000 common shares in the capital of Neural (“**Neural 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.

On August 4, 2022, the holders of the August 2018 Debentures agreed to amend the terms of the debentures as follows: (i) Extend the term of the August 2018 Debentures to February 3, 2023; and (ii) increase the interest due to 24% per annum, one half of which, shall be added to the principal amount increasing the principal outstanding balance from $4,205,073.25 to $4,458,068. The remaining half of the interest due to maturity, representing $252,995 shall be payable, prior to maturity, in SVS a price equal to the 20-day volume weighted average price as approved by

the CSE. In the event that the CSE does not approve such issuance of such SVS prior to maturity, the Company shall pay interest in cash at maturity. Subsequent to the end of the second quarter the Company paid the interest $252,995 in the form of SVS (See Note 24).

As at January 31, 2023 the Company has recorded the present value of the debentures of $3,595,216 and a gain on settlement debt of $517,861. Additional interest expense of $252,995 was recorded with a corresponding increase in accounts payables (see Note 8).

For the six months ended January 31, 2023, the Company had accretion expense on the August 2018 Debentures of $890,373 (January 31, 2022 - $317,151) and recorded a fair value loss on the change of the derivative liability of $3,763 (January 31, 2022 - $1,026,879 loss).

During the six months ended January 31, 2023, the August 2018 Debentures holders have converted or repaid a combined total of $150,000 (January 31, 2022 - $425,042) principal amount of convertible debentures resulting in the issuance of 3,000,000 SVS (January 31, 2022 – 1,895,935).

At January 31, 2023, the outstanding balance of the August 2018 Convertible Debentures was $3,956,496 and the derivative liability related to this convertible debenture was $4,093. On conversions, the Company reduced the present value of the liability by $150,000 (January 31, 2023 - $125,069) and derecognized $152 (July 31, 2022 – $17,898) of the corresponding derivative liability.

Subsequent to the end of the second quarter the Company announced an extension of the maturity and additional amendments to the terms of the August 2018 Debentures. (See Note 24).

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 SVS at a conversion price of $4.00 per SVS. The interest is payable in cash or by issuing SVS against the amount due at the sole option of the Company. If the Company elects to issue the SVS as interest payment, the price per SVS shall equal the 20-day 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 SVS purchase warrants of the Company. Each warrant is exercisable to acquire one SVS for a period of 36 months following Closing at an exercise price of $4.80 per SVS.

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 SVS and one warrant of the Company with exercise of $4.00 per Finder Unit for a period of 24 months from the date of issuance. Each warrant is exercisable into a SVS at a price of $4.80 per SVS 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 1,036,105 SVS for the December 2021 semi-annual interest payments of $81,983.

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 $0.06 per SVS. The total SVS issued on the conversion was 30,465,690 SVS.

For the six months ended January 31, 2023, the Company recorded accretion expense on the convertible debentures of $Nil (January 31, 2022- $146,211) which was included within finance costs of which $Nil (January 31, 2021 - $13,812) was outstanding in accounts payable and accrued liabilities (see Note 8).

As at January 31, 2023, the outstanding balance of the August 2019 Convertible Debenture was $nil (January 31 , 2022 - $1,624,970).

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 holders of the 2020 Debentures, the debentures are convertible into SVS at a price of $1.00 per SVS 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 14). Each warrant is exercisable into SVS at a price of $1.00 per SVS 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.

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 8).

For the six months ended January 31, 2023, the Company issued 2,936,580 SVS for the June 2022 semi-annual interest payments on the 2020 Debentures of $60,975 and 9,353,356 SVS for the December 2022 semi-annual interest payment on the 2020 Debentures of $61,608.

For the six months ended January 31, 2023, the Company recorded accretion expense on the convertible debentures of $156,072 (January 31, 2022 - $111,743) which was included within finance costs of which $6,983 (January 31, 2022 - $6,983) was outstanding in accounts payable and accrued liabilities (see Note 8).

As at January 31, 2023, the outstanding balance of the 2020 Secured Convertible Debentures was $1,088,198 (July 31, 2022 - $974,026).

Subsequent to the end of the second quarter, the 2020 Debenture was repaid from the proceeds of the sale of the Colorado Property. (see Note 24).

High Pita Debenture (March 2021)

On March 11, 2021, the Company closed the purchase agreement of Palo Verde LLC in exchange for outstanding debts. Pursuant to the closing of the acquisition, on March 19, 2021, the Company executed an assignment agreement with a third party lender, High Pita whereby, the Company assumed all indebtedness due from Palo Verde to High Pita in the aggregate amount of US$1,884,355 together with accrued interest ("**PV Debt**"). Such PV Debt was settled with the issuance of: 100,000 SVS; 200,000 warrants of the Company entitling the holder thereof to acquire one SVS at any time on or before the third anniversary of its issuance at an exercise price of $1.00 per SVS; and a convertible debenture in the amount of $250,000 which bears interest at 12% and is convertible into SVS at $1.00 per SVS. ("**High Pita Debenture**").

For accounting purposes, the High Pita debenture is 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 High Pita debenture 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 High Pita 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.

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.

For the six months ended January 31, 2023, the Company recorded accretion expense on the convertible debentures of $11,213 (January 31, 2022 - $15,942) which was included within finance costs of which $11,112 (January 31, 2022 - $25,890) was outstanding in accounts payable and accrued liabilities (see Note 8).

As at January 31, 2023, the outstanding balance of the High Pita Debenture was $185,428 (July 31, 2022 - $186,114). The Company is currently in discussions to extend the term of the High Pita Debentures.

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 SVS at a conversion price of $0.36 per SVS.

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 8).

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 SVS. The balance as of July 31, 2022, of the convertible debenture is $78,400 plus unpaid interest to July 31, 2022 of $6,272.

For the six months ended January 31, 2023, the Company recorded accretion expense on the convertible debentures of $14,009 (January 31, 2022 - $11,676), of which $3,952 (January 31, 2022 - $11,251) was included in accounts payable and accrued liabilities. The cumulative accretion expense included in accounts payable and accrued liabilities is $20,600 (July 31, 2022 - $16,648) (see Note 8).

As at January 31, 2023, the outstanding balance of the Gainor Debenture was $63,672 (July 31, 2022 - 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 11). The ASC 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 SVS at a conversion price of $0.35 per SVS.

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 ASC 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 SVS at maturity.

For the six months ended January 31, 2023, the Company recorded accretion expense on the convertible debentures of $2,948 (January 31, 2022- $2,348) which was included within finance costs. The cumulative accretion expense included in accounts payable and accrued liabilities is $8,478 (July 31, 2022 - $5,425) (see Note 8).

As at January 31, 2023, the outstanding balance of the ASC Debenture of $41,687 (July 31, 2022 - $41,791).

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

	January 31, 2023	July 31, 2022
	$	$
Balance, beginning of year	**5,366,334**	6,625,337
Issuance of convertible debentures	**344,991**	318,864
Conversion of principal debenture	**(150,000)**	(2,328,659)
Unamortized present value discount and transaction costs	**(862,852)**	(77,986)
Discount amortized	**1,016,101**	828,778
Balance, end of period	**5,714,575**	5,366,334
Less: Current portion	**5,609,216**	5,273,928
Non-current portion	**105,359**	92,406

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

	January 31, 2023	July 31, 2022
	$	$
Opening balance	**330**	1,245,645
Estimated fair value changes of derivative liabilities during the year	**3,763**	(1,245,315)
Ending balance	**4,093**	330

The Company used the Black-Scholes valuation model to estimate the fair value of the derivative liabilities upon the initial measurement and for the six months ended January 31, 2023 and the year ended July 31, 2022 using the following assumptions:

	January 31, 2023	July 31, 2022
Risk-free interest rate	**3.74%**	2.98%
Expected dividend yield	**0%**	0%
Expected stock price volatility	**357%**	191%
Expected life of debentures	**< 1 year**	< 1 year
Forfeiture rate	**0%**	0%

12. Share capital

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

On September 29, 2021, the Company obtained approval from its shareholders to establish MVS and to change the common shares of the Corporation to SVS. The new class of MVS were created for the purpose of completing the OutCo Acquisition 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) SVS 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 ("MVS")

The new class of MVS were issued as follows:

(i) On August 31, 2021, as consideration for the OutCo Acquisition, the Company issued 3,623,243 MVS.
(ii) On November 24, 2021, the earnout portion of the OutCo Acquisition 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 MVS to be released as of August 31, 2022, and 735,730 MVS to be released as of February 28, 2023; and 424,125 MVS to be released to a brokerage account for disposition, the proceeds of which are to be used for satisfaction of an Outco Labs Inc. 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. As of the date hereof the above MVS released on August 31, 2022 and February 28, 2023 have not been distributed.

	Number of Shares	$
Shares released as of the close of the transaction	735,730	1,471,459
Shares released as of February 28, 2022	735,730	1,471,459
Shares 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 released to a Creditor	113,867	227,733
Shares released to a Creditor	101,667	203,333
Shares released to a Creditor	40,667	81,333
Shares released for Earnout	2,684,318	3,777,150
MVS issued for the acquisition of the business of Outco	**6,307,561**	**11,023,636**
Shares issued to an Investor	1,350,000	135,000
High Fusion multiple voting shares converted into SVS issued	(112,483)	(196,585)
Fractional shares that were not distributed	(187)	(327)
Total multiple voting shares as of January 31, 2023	**7,544,891**	**10,961,724**

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

On December 27, 2022, as consideration for $135,000 investment from an investor, the Company issued 1,350,000 MVS.

Subordinated Voting Shares ("Shares")

	Number of Shares	Amount
Balance, July 31, 2021	**51,345,882**	**50,666,804**
Shares issued for transaction costs for acquisition of Outco [(ix)]	1,822,627	255,168
Share issued for settlement of accounts payable debt [(x)]	544,242	73,473
Shares issued on interest paid on convertible debentures [(xi)]	1,895,935	150,026
Shares issued on full settlement of 2019 convertible debentures [(xii)]	30,465,690	1,827,941
Shares issued on settlement of accounts payable debt [(xiii)]	32,710,087	2,126,156
Shares issued on exercise of Multiple voting shares from the Outco acquisition[(xiv)]	1,104,790	193,083
Shares issued on partial settlement of Gainor convertible debenture [(xv)]	2,923,077	190,000
Shares issued on partial settlement of 2018 convertible debenture [(xvi),(xviii), (xix)]	5,250,850	275,042
Shares issued on settlement of accounts payable debt [(xvii)]	8,301,637	332,064
Balance, July 31, 2022	**136,364,817**	**56,089,757**
Shares issued of interest paid on convertible debentures [(iii),(vii)]	12,290,196	122,583
Shares issued on partial settlement of 2018 convertible debenture [(i), (iv), (v)]	3,000,000	150,000
Shares issued on settlement of accounts payable debt [(ii)]	1,687,841	33,757
Shares issued on settlement of restricted stock units [(viii)]	504,000	60,030
Shares issued on exercise of Multiple voting shares from the Outco acquisition[(vi)]	20,060	3,506
Balance, January 31, 2023	**153,866,914**	**56,459,633**

Six months ended January 31, 2023

(i) On August 16, 2022, the Company issued 1,000,000 SVS in partial conversion of the 2018 convertible debenture (see note 11);
(ii) On August 29, 2022, the Company issued 1,687,841 SVS in settlement of accounts payable debt (see note 8);
(iii) On August 30, 2022, the Company issued 2,936,581 SVS for interest related to the 2020 converitble debentures (see note 11);
(iv) On September 13, 2022, the Company issued 1,000,000 SVS in partial conversion of 2018 convertible debenture (see note 11).
(v) On November 3, 2022, the Company issued 1,000,000 SVS in partial settlement of the 2018 convertible debentures (see note 11);
(vi) On December 9, 2022, the Company issued 20,060 SVS as a result of an exercise of MVS from an investor;
(vii) On January 12, 2023, the Company issued 9,353,615 SVS for interest related to the 2020 converitble debentures (see note 11); and
(viii) On January 18, 2023, a Director of the Company exercised 504,000 restricted stock units (RSU) (see note 13).

Year ended July 31, 2022

(ix) On August 31, 2021, as consideration for a fee associated with the acquisition of the assets of OutCo, the Company issued 1,822,627 SVS (see Note 13 and Note 15);
(x) 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;
(xi) Interest on convertible debentures (see Note 11);
(xii) On February 16, 2022, 30,465,690 SVS were issued for full settlement of the August 2019 Debentures (see Note 11);
(xiii) On February 16, 2022, 32,710,087 SVS were issued to settle accounts payable debt;
(xiv) MVS exercised into SVS in the 2022 fiscal year from the shareholders related to the acquisition of the Outco business;
(xv) On February 1, 2022, the Company issued 2,923,077 SVS in partial settlement of $190,000 in Gainor Debentures (see note 11);
(xvi) On March 2, 2022, the Company issued 1,250,850 SVS in partial settlement of the August 2018 Debenture (see Note 11)
(xvii) On April 28, 2022, the Company issued 8,301,637 SVS to settle accounts payable debtof $434,525
(xviii) On May 24, 2022, the Company issued 2,000,000 SVS in partial conversion of the August 2018 Debenture (see Note 11); and
(xix) On June 10, 2022, the Company issued 2,000,000 SVS in partial conversion of the August 2018 Debenture (see Note 11).

For the six months ended January 31, 2023and the year ended July 31, 2022, the following debt conversions were issued for SVS:

Debt settled for Subordinated voting shares (SVS)	# of issued SVS	Fair value of shares issued	Carry value of debt settled	Gain (loss) recognized
Accounts payable debt settlement - August 2022	1,687,841	33,757	84,392	50,635
For the six months ended January 31, 2023	**1,687,841**	**33,757**	**84,392**	**50,635**
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
For the year ended July 31, 2022	**72,021,656**	**4,359,635**	**4,160,907**	**(198,728)**

Earnings (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 SVS for the six months ended January 31, 2023, and the year ended July 31, 2022:

	January 31, 2023	July 31, 2022
Shares to be issued	75,448,912	61,968,950
Convertible debentures	87,834,038	87,830,033
Options	275,000	275,000
Warrants	8,828,011	9,293,261
Restricted stock units	17,731,500	11,819,832
Total	**190,117,462**	**171,187,076**

13. Reserve for share-based payments

	Amount
Balance, July 31, 2021	**$5,531,058**
RSUs granted	644,110
Balance, July 31, 2022	**$6,175,168**
RSUs granted	66,250
RSUs exercised	(60,030)
RSUs expired	-
Balance, January 31, 2023	**$6,181,388**

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

For the six months ended January 31, 2023, the Company issued 6,625,000 RSUs at a grant price of $0.01 per unit.

For the six months ended January 31, 2023, a former Director of the Company has exercised 504,000 RSUs for $60,030.

Options

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

The following is a summary of outstanding stock options for the six months ended January 31, 2023 and year ended July 31, 2022:

	Number of Options
Balance, July 31, 2021	**495,000**
Options expired	(220,000)
Balance, July 31, 2022	**275,000**
Balance, January 31, 2023	**275,000**

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

There were no options granted in the six months ended January 31, 2023, and the year ended July 31, 2022.

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 January 31, 2023, 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 January 31, 2023, the weighted average exercise price of options exercisable and outstanding was $5.16 (July 31, 2022 - $5.30) and the weighted average remaining contractual life of stock options was 0.90 years (July 31, 2022 - 1.40 years).

For the six months January 31, 2023, and the year ended July 31, 2022, the weighted average exercise price of stock options exercised was $Nil and $Nil, respectively.

Restricted Share Units

On July 11, 2018, the Board adopted 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 SVS upon vesting and redeemable in SVS 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 SVS 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.

The following is a summary of the RSUs outstanding for the six months ended January 31, 2023 and the year ended July 31, 2022:

	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**
RSUs granted	6,625,000	$ 0.01
RSUs exercised	(504,000)	$ 0.12
RSUs expired	(209,332)	$ 0.12
Balance, January 31, 2023	**17,731,500**	**$ 0.13**

14. Reserve for warrants

The following table reflects the continuity of warrants:

	Number of Warrants	Amount
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**
Warrants expired	(465,250)	-
Balance, January 31, 2023	**8,828,011**	**7,382,874**

There were no warrants issued for the six months ended January 31, 2023.

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 acquisition of the Outco business and was determined using the Black-Scholes option pricing model with the following assumptions:

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

As at January 31, 2023, the following warrants were outstanding and exercisable:

Expiry Date	Exercise Price	Number of Warrants Outstanding and Exercisable
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
		8,828,011

As at January 31, 2023, the weighted average exercise price of the warrants was $0.46 (July 31, 2022 - $0.66) and the weighted average remaining contractual life of the warrants was 1.02 years (July 31, 2022 – 1.40 years).

During the six months ended January 31, 2023, the weighted average exercise price of the warrants exercised was $Nil (July 31, 2022 - $Nil).

15. 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 three months ended January 31, 2023 and year ended July 31, 2022:

a. Incurred professional fees of $0 (2022 - $21,000) from Branson Corporate Services ("**BCS**"). BCS is a company in which Adam Szweras and his spouse hold a 39% ownership interest. As at October 31, 2022, $Nil (July 31, 2022 - $0) was due to BCS. On February 16, 2022, the Company settled the full amount of the outstanding balance, $94,673, with BSC and has discontinued its contract with this vendor.

b. Incurred fees of $30,000 (2022 - $522,908) from 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 SVS. As at January 31, 2023, $90,600 (July 31, 2022 - $90,550) was due to FMICA.

   Included in the fees of $522,908 during fiscal 2022 is advisory fee of $255,168 in connection with the acquisition of OutCo which was satisfied on September 10, 2021 through the issuance of 1,822,627 SVS.

   On December 17, 2021, the Company entered into a financial advisory agreement with FMICA related to services provided to Neural ("**NT-FMICA Agreement**"), which was at the time a wholly-owned subsidiary of the Company's.

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 NT-FMICA Agreement, FMICA shall earn equity in Neural upon completion of a financing plus an additional equity interest upon completion of the listing of Neural Shares on an exchange. ("**Equity Fee**").

On December 17, 2021, the Company entered into a financing engagement agreement with Foundation Markets Inc. ("**FMI Agreement**"), a company an entity of which Adam Szweras is a director and chairman, related to services provided to Neural. This agreement provides for a finder's fees associated with the NT financing ("**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. Upon closing of the NT Financing, FMICA received: $56,500 for payment of outstanding Work Fees and 1,833,333 Neural Shares representing the first portion of the Equity Fee plus $17,875 from the proceeds of the NT Financing representing HST on the Equity Fee.

As part of a subsequent 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 $0.075 for a period of 24 months from the date of issuance.

On January 27, 2023 the Company entered into a loan agreement with FMICA in the amount of $74,000 ("FMICA Loan"). The FMICA Loan shall be repaid the earlier of: the Company receiving a refund with respect to FMICA harmonized sales tax (HST) payable by Canada Revenue Agency; or the Borrower raising further capital, either by way of equity subscription or debt.

c. Incurred marketing expenses of $Nil (2022 - $Nil) 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 January 31, 2023, $Nil (October 31, 2021 - $Nil) was due to Plexus.

d. Incurred expenses of $225 (2022 - $1,563) from Unite Communications Ltd. ("**Unite**"), a company in which a director, Brian Presement, has a 100% ownership interest. As at January 31, 2023, $6,380 (July 31, 2022 - $6,013) was due to Unite.

e. Incurred professional fees of $39,469 (2022 - $192,434) from Fogler, Rubinoff, LLP ("**Foglers"**), a law firm in which a director, Adam Szweras, is counsel. As at January 31, 2023, $187,539 (July 31, 2022 - $121,275) was due from Foglers which includes billed and unbilled amounts.

f. Included in professional fees of US$3,802 (2022 – USD $5,247) fees charged from Johnson, Rovella, Retterer, Rosenthal & Gilles LLP ("**JRG**"), a law firm in which a director, Aaron Johnson, is a partner. As at January 31, 2023, USD $9,101 (July 31, 2022 – USD $5,299) was due to JRG.

g. During the six months ended January 31, 2023, incurred management compensation to key management and directors of $283,458 (2022 - $847,412). Please see below for the RSUs issued to the key management and directors.

As at January 31, 2023, $481,067 (July 31, 2022 - $397,662) 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 SVS.

*Note: Included in the above is compensation paid to Robert Wilson for his services as CFO under a management services agreement with the Company's subsidiary NT. As of January 31, 2023, $21,625 was due under this agreement. In addition, as part of this agreement with the CFO, NT is obliged to issue 366,667 restricted share units ("**RSUs**").*

h. During the six months ended January 31, 2023, the Company incurred and as at October 31, 2022 maintained liabilities due to Adam Szweras and his holding company (2674775 Ontario Limited), as follows:

i. Incurred salary expenses of $0 (2022 - $0). As of October 31, 2022 salary payable was $35,823 (July 31, 2022 - $35,823) (see note i below);

ii. Received loan payments of $0 (2021 - $0). As of January 31, 2023 loans payable of $12,000 (July 31, 2022 - $12,000) plus interest due of $5,207 at a rate of 12% per annum;

iii. Received advances of $nil in the quarter ended January 31, 2023 (2022 - 27,301). As of January 31, 2023, $5,207 was outstanding. (2021 - $182,128). (see note below)

iv. August 2019 Debenture holdings of $250,000 were converted on February 16, 2022 with the issuance of 4,214,954 SVS. (see item u. below)

v. 2020 Debenture holdings of $670,000 (2021 - $670,000). Subsequent to January 31, 2023 the Company repaid the balance due under the 2020 Debenture. (see subsequent events note)

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 below).

vii. March 2018 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 SVS.

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 SVS.

j. Included in March 2018 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 SVS.

k. On September 30, 2020, John Durfy, CEO and Robert Wilson, CFO, through their respective holding companies, together with non-related parties entered into an agreement with a creditor to the Company to purchase US$48,374.26 in debt from the creditor. Such agreement transfers all obligations due by the Company from the creditor to the related parties listed above. 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 SVS.

l. Included in August 2019 Debentures are $250,000 and $100,000 of convertible debentures issued to Adam Szweras and Brian Presement, respectively. On February 16, 2022, the Company converted the full amount of the August 2019 Debentures into SVS.

l. On August 17, 2020, the Company closed the acquisition of Neural. A director of the Company, Tom Kruesopon, was a partial owner of Neural. 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 $26,250 USD (2022 - $15,000) for the advisory services of Billy Morrison. As at October 31, 2022, $32,250 USD (July 31, 2022 - $6,000) was due to Billy Morrison.

n. Included in 2020 Debentures were:

ii. $670,678 received from Adam Szweras;
iii. $25,000 received from a company in which the adult children of Adam Szweras have an interest;
iv. $50,000 received from Brian Presement:
v. $79,000 received from John Durfy, CEO;
vi. $13,000 conversion of amount payable to John Durfy; and
vii. $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 SVS and one common share purchase warrant with each warrant entitling the holder to acquire one

SVS at any time on or before December 31, 2020 at a price of $1.00 per SVS. Included in these trade creditors were related parties as follows:

i. 140,306 SVS issued to BCS;
ii. 744,679 SVS issued to JRG;
iii. 7,353,965 SVS issued to Plexus;
iv. 14,206 SVS issued to Unite;
v. 7,941 SVS issued to Brian Presement, Director;
vi. 200,000 SVS issued to FMICA;
vii. 382,830 SVS issued to Foglers.

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 RSUs as follows:

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

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 Company issued 9,273,000 RSUs as follows:

i. John Durfy, 2,900,000 RSUs;
ii. Robert Wilson, 2,200,000 RSUs;
iii. Adam Szweras, 1,743,000 RSUs;
iv. Brian Presement, 643,000 RSUs
v. Aaron Johnson, 429,000 RSUs;
vi. Billy Morrison, 429,000 RSUs;
vii. Jason Dyck, 429,000 RSUs; and
viii. Edward Abella, 500,000 RSUs.

r. On January 20, 2023 the Company announced the compensation committee and board of directors of the Company have approved the grant of 6,625,000 RSUs and $214,000 in deferred compensation to officers and directors of the Company. The RSUs issued by the Company were as follows:

John Durfy, 2,837,500 RSUs;
Robert Wilson, 787,500 RSUs;
Lincoln Fish, 1,000,000 RSUs; and
Edward Abella, 2,000,000 RSUs.

The RSUs expire 3 years from the date of issue and are fully vested.

Given that there was insufficient availability under the Company's Option Plan and RSU Plan to settle the deferred director compensation, this obligation has been be settled by way of a transfer of 2,853,333 Neural Shares held by the Company as follows:

vii. 1,120,000 NT Shares to be transferred to Adam Szweras;
viii. 566,667 NT Shares to be transferred to Brian Presement;
ix. 333,333 NT Shares to be transferred to Billy Morrison;
x. 200,000 NT Shares to be transferred to Jason Dyck;
xi. 400,000 NT Shares to be transferred to Aaron Johnson; and
xii. 233,333 NT Shares to be transferred to Rachel Wright.

s. On February 3, 2022, the Company completed the NT Financing (see Note 18 (b). and Note 3). Concurrently with

completion of the equity financing into Neural, the Company has completed an in-kind debt settlement ("**Debt Settlement**"), pursuant to which the Company has transferred 5,600,000 Neural Shares to settle approximately $420,000 of the Company's 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 the Company to such Insiders. Insider debt settlement includes: FMICA received 800,000 Neural Shares to settle $60,000 in work fees; John Durfy, CEO received 1,733,333 Neural Shares to partially settle $130,000 in accrued salary associated with Neural; and Robert Wilson, CFO received 933,333 Neural Shares to partially settle $70,000 in accrued salary associated with Neural. 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 The Company. 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.

On August 3, 2022 Neural completed a second tranche to the NT Financing for gross proceeds of $82,000 by way of a non-brokered private placement of units. Pursuant to this financing, 133,333 units were issued to Robert Wilson, the CFO, representing a $10,000 contribution to the financing. Pursuant MI 61-101, the share issuance with Insiders constituted a "related party transaction" as certain transferees were considered to be related parties to the Company. 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.

t. On February 16, 2022, 22,433,569 SVS 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 conversion of August 2019 Debenture. Further 5,900,936 SVS were be issued to certain Insiders to settle $354,056 of High Fusion debenture principal and interest to such Insiders. Pursuant to MI 61-101, the Debt Settlement with Insiders constituted a "related party transaction" as certain transferees were considered to be related parties to the Company. 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.

u. As part of the Second Loan Facility completed on June 13, 2022, Adam Szweras participated in the amount of US$50,000. Adam Szweras was issued a promissory note for US$50,000 representing a cash contribution of US$26,115.78 and US$23,884.22 representing settlement of debt obligations of High Fusion to Adam Szweras. In addition, 250,000 Warrants have agreed to be issued to Adam Szweras once the Company's blackout period has ended. Pursuant to MI 61-101, the above transactions with Adam Szweras 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.

v. AB FinWright LLP, a firm which is 50% owned by Rachel Wright, a director of the Company was engaged by the Company. During the three months ended January 31, 2023 the Company incurred $30,690 in fees to AB FinWright LLP US$17,050 in 2022). As at January 31, 2023, $36,240 was due to AB Wright ($0 at July 31, 2022)

w. Lincoln Fish, a director of the Company up to January 20, 2023 was also the CEO of OutCo up to DATE. OutCo entered into an asset sale agreement with the Company dated August 31, 2021 and Mr. Fish continues to manage the affairs of OutCo as well as acting as the CEO of the business that the Company acquired pursuant to the OutCo Acquisition up to January 20, 2023. During the three months ended January 31, 2023, Mr. Fish received a salary in

the amount US$29,468.

Austin Birch a director of the Company as of January 20, 2023 an officer of OutCo which entered into an asset sale agreement with the Company dated August 31, 2021. Mr. Birch manages the affairs of OutCo as well as acting as an officer of and named license-holder of Downwind 27, a business that the Company manages pursuant to the OutCo Acquisition. During the three months ended January 31, 2023, Mr. Birch received a salary in the amount US$14,720.

In Connection with OutCo Acquisition, OutCo received 3,367,043 MVS. Further, as a result of the satisfaction of a condition of the purchase agreement an additional 2,684,318 MVS to OutCo. During the fiscal year ended July 31, 2022, 4,155,591 MVS were distributed to the shareholders of OutCo and 187 MVS were eliminated due to rounding of fractional shares. As of January 31, 2023, OutCo held 1,895,397 MVS of the Company.

As part of the purchase of the assets of OutCo, Mr. Fish assumed a US$250,000 note which was settled on closing for 101,667 MVS of the Company.

Mr. Fish has also provided unsecured funds to the Company for working capital purposes in the amount of US$55,679 for the three months ended January 31, 2023 (US$192,123.49 from the date of the closing OutCo Acquisition on August 31, 2021 to July 31, 2022.) As at January 31, 2022 US$12,934.85 was due from the Company to Mr. Fish (US$6,364 July 31, 2022).

x. On March 9, 2023 the Company closed the sale of the Company's property in Pueblo Colorado. With the closing of the sale, funds were directed to the collateral agent for repayment of the Company's 2020 Debentures. A portion of the 2020 Debentures are held by management and directors which will result in principal repayments as follows:
   i) Adam Szweras: $670,000
   ii) John Durfy; $92,000
   iii) FMICA: $89,000
   iv) Unite: $50,000
   v) Robert Wilson: $10,000

y. On March 24, 2023 the Company settled obligations to the directors with the transfer of 2,853,333 Neural Therapeutic Inc. shares held by the Company to the following directors as compensation for board services:
   - 1,120,000 NT shares to Adam Szweras;
   - 566,667 NT shares to Brian Presement;
   - 333,333 NT shares to Billy Morrison;
   - 200,000 NT shares to Jason Dyck;
   - 400,000 NT shares to Aaron Johnson; and
   - 233,333 NT shares to Rachel Wright

16. 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 the six months ended January 31, 2023 and year ended July 31, 2022:

	January 31, 2023	July 31, 2022
	$	$
Current assets	**-**	-
Non-currrent assets	**-**	-
Current liabilities	**22,449**	(22,449)
Non-current liabilities	**-**	-
Net assets	**22,449**	(22,449)

For the six months ended January 31, 2022, the Company recorded $nil (January 31, 2022 - $Nil) of the net loss and comprehensive loss related to Eglinton Medicinal Advisory Ltd. The Company was not operational during the six months ended January 31, 2023 and the year ended July 31, 2022.

ii) Neural Therapeutics Inc.

The Company's 46% interest in Neural Therapeutics 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. In addition, the Company CEO is a Board Member for Neural Therapeutics Inc.

The 54% 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 January 31, 2023 and July 31, 2022:

	January 31, 2023	July 31, 2022
	$	$
Current assets	**158,915**	454,570
Non-currrent assets	**-**	-
Current liabilities	**(558,245)**	(464,035)
Non-current liabilities	**-**	-
Net assets	**(399,330)**	(9,465)

The following table summarizes Neural Therapeutics' consolidated net loss for the six months ended January 31, 2023and the six months ended January 31, 2022:

	January 31, 2023	October 31, 2021
	$	$
Revenue	**-**	-
Operating expenses	**541,917**	48,648
Other expense	**448**	559
Net loss	**542,366**	49,207

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.

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.

Neural Therapeutics Financing

On February 2, 2022, the Company completed an equity financing into NT for gross proceeds of $750,000 by way of a non-brokered private placement (the "**NT Financing**") of units. Pursuant to the NT Financing, Neural issued 9,999,990 units at a price of $0.075 per unit. Each unit is comprised of one Neural Share and one-half of one common share purchase warrant (each whole warrant, a "**Neural Warrant**"), with each Neural 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 from issuance; and (ii) 24 months following the time Neural Therapeutics completes a going public transaction.

Upon closing of the NT Financing, Foundation Markets Inc. received: $43,710 from the proceeds of the financing and 575,800 broker warrants of Neural, each exercisable into one Neural Share for a period of 2 years from the issuance at a price of at $0.075). Upon closing of the NT Financing, FMICA received: $56,500 for payment of outstanding work fees and 1,833,333 Neural Share representing the equity fee plus $17,875 from the proceeds of the NT Financing representing HST on the Equity Fee, as per the terms of the agreement entered into between Neural and FMICA. Foundation Markets Inc. and FMICA are considered related parties to the Company. Please see Note 15 "*Related Party Transactions*".

Concurrently with completion of the NT Financing, Neural issued 1,250,000 Neural Share 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 NT common share 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. Please see Note 15 "*Related Party Transactions*".

On August 3, 2022 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. Pursuant to this private placement, Neural Therapeutics issued 1,093,333 units at a price of $0.075 per unit. Each unit is comprised of one Neural Share and one-half of one common share purchase warrant, with each whole 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; 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. (see Note 15 "*Related Party Transactions*")

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 $.075 for a period of 24 months from the date of issuance. Please see Note 15 "*Related Party Transactions*".

Neural Therapeutics Bonus Shares

In accordance with the terms of the NT Financing completed in February 2022, if Neural had not completed a going public transaction within 6 months of the closing, Neural is required to issue additional shares representing 10% of total shares issued in NT Financing. Consequently, because Neural did not complete a going public transaction, on August 3, 2022 the Company issued an additional 1,000,000 Neural Shares to the purchasers of the NT Financing on a, one-Neural 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. In the three months ending October 31, 2022, the Company recorded an expense of $75,000 reflecting the Neural bonus shares.

For the six months ended January 31, 2023, the Company recorded the equity attributable to non-controlling interest related to the NT bonus shares and the financing that occurred on August 3, 2022. The Company recorded equity attributable to non-controlling interest of $82,823 and also recorded its portion of the equity of $69,677.

For the six months ended January 31, 2023, the Company recorded net loss attributable to this non-controlling interest of $294,558 (2021 - $Nil). As at January 31, 2023, the equity attributable to non-controlling interest was $23,942 (July

31, 2022 - $202,543).

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

	January 31, 2023	July 31, 2022
	$	**$**
Eglinton Medicinal Advisory Ltd.	**(14,750)**	(14,750)
Neural Therapeutics Inc.	**38,692**	202,543
Non-controlling interest by entity	**23,942**	187,793

17. Management of capital

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company, in order to support the development of its planned business activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the six months ended January 31, 2022 and 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, contributed surplus, non-controlling interest, and deficit, which as at January 31, 2023, totaled a deficiency of $9,992,769 (July 31, 2022 – Shareholders deficit - $6,402,412).

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.

18. 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	
		January 31, 2023	July 31, 2022
Financial Assets			
Cash	Amortized Cost	**328,391**	757,405
Accounts Receivable	Amortized Cost	**1,210,702**	1,158,530
Financial Liabilities			
Accounts Payable & accrued liabilities	Amortized Cost	**8,051,315**	5,265,145
Excise tax liabilities	Amortized Cost	**-**	916,566
Promissory Note payable	Amortized Cost	**6,036,761**	5,110,679
Lease Liabilities	Amortized Cost	**1,394,990**	1,624,279
Derivative Liabilities	FVTPL	**4,093**	330
Convertible Debenture	Amortized Cost	**5,714,575**	5,366,334
Total		**(19,662,641)**	(16,367,398)

Other than convertible debentures (see Note 11) and lease liabilities (see Note 10), the carrying values of all the financial assets and liabilities measured at amortized cost approximate their values as at January 31, 2023 and July 31, 2022.

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 derivative liabilities (Note 11) have been classified as Level 3 in the fair value hierarchy as at January 31, 2023 and the year ended July 31, 2022. The unrealized gains (losses) for the six months ended January 31, 2023 were a loss of $3,762 (January 31, 2021- $1,026,879 gain).

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

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to trade receivable. The Company has no other significant concentration of credit risk arising from operations. Cash are held with a reputable bank 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 six months ended January 31, 2023:

	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)	6,533,405	-	-	-	6,533,405
Lease obligations	1,158,945	236,045	-	-	1,394,990
Derivative liability - convertible debentures	4,093	-	-	-	4,093
Convertible debentures	5,609,216	105,359	-	-	5,714,575
Promissory note payables	6,036,761	-	-	-	6,036,761
Excise taxes	1,517,910	-	-	-	1,517,910
Total	**20,860,330**	**341,404**	**-**	**-**	**21,201,734**

As at January 31, 2023, the Company had working capital deficit of $16,711,557 (July 31, 2022- $12,157,392 Deficit), current assets of $4,148,773 (July 31, 2022 - $4,647,741) and current liabilities of $20,860,330 (July 31, 2022 - $16,805,133).

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 $430,693 (July 31, 2022 - $2,112,000) as a result of the Company's exposure to currency exchange rate fluctuations.

Interest rate risk

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

Concentration risk

During the six months ended January 31, 2023 and January 31, 2022, there were no significant concentration risk from any single supplier or customer.

19. Commitments and other contingencies

The Company had the following undiscounted lease commitments as at January 31, 2023:

	Up to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
	$	$	$	$	$
Lease obligations [(1)]	1,511,815	318,521	-	-	1,830,336
Total	1,511,815	318,521	-	-	1,830,336

(1) Lease obligations (see Note 10) relate to $376,603USD with Veterans 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.

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 SVS. 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 Note 3). 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 and Note 9). The conditions of settlement and release of security are the full repayment of US$300,000 on or before March 1, 2022 and the ongoing payment of $2,800 per month. The conditional settlement and general release provide for the repayment of the obligation in the form of cannabis product.

As of January 31, 2023, the Company has made cash and product repayments of US$114,176.90 which have reduced the principal balance due to Elan to $212,000.

Subsequent to the end of the second quarter; on February 10, 2023, the Company has agreed to settle the obligation to Elan Capital with a payment of US$20,000 plus monthly payments of US$20,000 over 11 months commencing on March 1, 2023.

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 Neural, dated September 16, 2021, subject to the achievement of certain milestones, Neural is obliged to issue Neural Shares representing up to 3.5% of the issued and outstanding capital of Neural as constituted at the closing of the seed financing. Further, subject to the achievement of certain milestones, Neural is obliged to issue options for common shares representing up to 2% of the issued and outstanding capital of Neural 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 Neural.

In accordance with the terms of an advisory agreement with NT, NT is obliged to issue 366,667 RSUs. (see Note 15)

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 Neural Shares on a recognized Canadian exchange and a concurrent financing, Neural is obliged to issue common shares representing up to 5% of the issued and outstanding capital of the Neural.

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 t 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.

20. General and administrative

	Six months ended January 31, 2023	Six months ended January 31, 2022
	$	**$**
Bank charges	**44,620**	18,723
Insurance	**123,931**	183,881
Listing and investor relations	**176,446**	77,678
Office and administrative	**85,475**	57,733
Marketing	**83,788**	141,308
Permit and licenses	**28,781**	106,243
Property taxes and penalties on excise taxes	**256,708**	360,551
Repairs and maintenance	**62,678**	36,746
Security	**179,013**	172,895
Supplies, maintenance and utilities	**81,140**	38,302
Transportation	**11,702**	9,027
Travel	**7,204**	18,868
Total	**1,141,486**	1,221,955

21. Segmented information

For the six months ended January 31, 2023, the Company recognized sales of $4,319,141 (January 31, 2022 - $3,373,610) of which approximately 99% (January 31, 2022 – 99%) were derived from the Company's operation in California.

As a result of abandonment of the East Hill Wellness business (see Note 22), the table below does not include the

results from East Hill Wellness business for the six months ended January 31, 2023 and January 31, 2022:

	Palo Verde (Colorado)	Outco (California)	Oregon	Colorado	Nevada	Total
	$	$	$	$	$	$
For the six months ended January 31, 2023						
Total sales	28,829	4,290,311	-	-	-	4,319,141
Cost of goods sold	(77,838)	(3,049,823)	-	-	-	(3,127,660)
Gross profit (loss)	**(49,008)**	**1,240,489**	**-**	**-**	**-**	**1,191,481**
For the six months ended January 31, 2022						
Total sales	39,786	3,333,824	-	-	-	3,373,610
Cost of goods sold	(76,283)	(2,501,850)	-	-	-	(2,578,133)
Gross profit (loss)	**(36,497)**	**831,974**	**-**	**-**	**-**	**795,477**

	Palo Verde (Colorado)	Outco (California)	Oregon	Colorado	Nevada	Total
	$	$	$	$	$	$
As at January 31, 2023						
Property, plant and equipment	-	5,564,622	933,293	1,273,410	43,141	7,814,467
As at July 31, 2022						
Property, plant and equipment	-	5,692,089	923,530	1,315,814	47,021	7,978,454

22. Discontinued Operations

i) 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 six months ended January 31, 2022, the Company had cancelled its management contract and does not have a management agreement in place to operate East Hill Wellness. Therefore, there are no revenues earned or expenses incurred during the six months ended January 31, 2023.

The following table summarizes the operating results of East Hill Wellness, which have been aggregated and presented as discontinued operations for the six months ended January 31, 2023, and January 31, 2022:

	Six months ended January 31, 2023	Six months ended January 31, 2022
	$	$
Revenue	-	17,987
Cost and expenses		
Cost of Sales	-	122,871
General and administrative	-	150,174
Finance costs	-	75,797
Depreciation and amortization	-	19,707
	-	368,549
Earnings (losses) before taxes	-	(350,562)
Current income taxes	-	-
Total	-	(350,562)

The breakdown of cashflows from discontinued operations is as follows:

	Six months ended January 31, 2023	Six months ended January 31, 2022
	$	$
Net cash used in operating activities	-	94,152
Net cash used in investing activities	-	-
Net cash used in financing activities	-	-
Effect of FX on cash	-	(93,777)
Change in cash during the year	-	375

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

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)

23. Supplementary cash flow information

Additional supplementary cash flow information related to non-cash investing and financing activities for the six

months ended January 31, 2023 and January 31, 2022 are as follows:

	For the six months ended January 31, 2023	For the six months ended January 31, 2022
Shares issued for account payables settlement	$ 33,757	$ 364,525
Shares issued for for interest payment	122,583	150,026
Special warrants issued for acquisition of the business of Outco	-	6,231,979
Parent warrants issued for the acquisition of the business of Outco	-	531,441
Convertible debenture issued for ASC Lease liability	-	50,465
Convertible debenture issued for acquisition of the business of Outco	-	268,400

24. Subsequent events

Neural Therapeutics Arrangement Agreement

On March 7, 2023 the Company announced that the Arrangement Agreement was amended effective February 24, 2023. Pursuant to the amended Agreement, the Company agreed to distribute 4,716,667 Neural Shares to the shareholders of the Company, which represents approximately 12% of Neural Shares issued and outstanding as of the date hereof. The Neural Shares will be distributed to all the holders of High Fusion SVS and High Fusion MVS on a pro-rata basis, based on the number of votes held by each of the SVS and MVS holders. Closing of the transaction is subject to several conditions, including: (i) shareholder approval which High Fusion intends to obtain at an annual and special meeting of shareholder ("**Meeting**"); (ii) court approval of the transaction pursuant to the amended Agreement; and (iii) certain other customary conditions set out in the amended Agreement.

The amended Agreement also provides for a few changes, briefly summarized below:

- In connection with the transaction, High Fusion intends to change its name to "Vertical Peak Holdings Inc." or such other name as High Fusion may determine ("**Name Change**").
- In connection with the transaction, it is anticipated that High Fusion will continue (the "**Continuance**") from the Canada Business Corporations Act to the British Columbia Business Corporations Act ("**BCBCA**") prior to the Plan of Arrangement being effective. The Continuance requires the affirmative vote of at least 66⅔% of the votes cast at the Meeting as well as a simple majority of the votes cast by High Fusion shareholders, excluding any persons required to be excluded in accordance with Multilateral Instrument 61-101. It is anticipated that High Fusion Shares representing approximately 16.0% of the votes attaching to the issued and outstanding High Fusion Shares will be excluded from this vote.
- The Plan of Arrangement will occur under the provisions of BCBCA, whereby holders of SVS and MVS will receive an aggregate of 4,716,667 Neural Shares via a share exchange mechanism ("**Share Exchange**"). The Agreement provides for adjustments of the Share Exchange ratio if the High Fusion share structure changes between the date of this Agreement and the effective date of the Transaction.

August 2018 Debenture Amendments

On February 7, 2023 the Company announced an extension of the term of the August 2018 Debentures from February 3, 2023 to March 3, 2023.

On February 23, 2023 the Company announced that it has agreed with the holders of the August 2018 Debentures to amend certain terms and to issue SVS for outstanding interest due. The amendments include: (i) extension of the maturity to August 3, 2024; (ii) reduction in interest rate from 24% back to the original semi-annual interest payments at 10% per annum in cash or 12% per annum payable in the form of shares of the Company as calculated based on the 20 day VWAP on each payment date of December 31 and June 30; (iii) issuance of 25,299,564 subordinated voting shares representing interest due to the holders of the Debentures; (iv) waiver of the conversion price adjustment provision for issuances of up to 10,125,050 multiple voting shares including 6,750,000 multiple voting shares to be issued to MJ Direct; and (v) an amendment to the restated subordination and postponement agreement with the holders of the Debentures to provide security against the Oregon property owned by the Company to support vendor and creditor obligations.

MJ Direct Licencing Agreement

On February 23, 2023, the Company announced that it has entered into an agreement with MJ Direct Inc to license a software application for direct delivery of cannabis in California ("Licensing Agreement"). The Licencing Agreement pertains to the The MJ Direct web site mjdirect.com as well as the MJDirect application has been specifically developed for direct consumer delivery. The application is available on the Apple App Store and the Google Play Store. Through the Licensing Agreement, High Fusion will have the exclusive right to the MJ Direct software and intellectual property for two years which will allow the Company to enter the rapidly growing direct delivery market in California.

The terms of the Licensing Agreement provide for the exclusive use of software and intellectual property by the Company for two years and a one-time licensing fee of US$500,000 (Canadian $675,000) the payment for which will be satisfied through the issuance of multiple voting shares of the Company at a price of $0.10 per share resulting in the issuance of 6,750,000 multiple voting shares. The Licensing Agreement also provides the Company with an exclusive option to purchase 100% of MJ Direct for US$1.5 million. Such option may be exercised at any date during the 2 year term of the Licencing Agreement and is payable in multiple voting shares at a price of $.50.

Settlement of Elan Capital Note

Subsequent to the end of the second quarter; on February 10, 2023, the Company has agreed to settle the obligation to Elan Capital with a payment of US$20,000 plus monthly payments of US$20,000 over 11 months commencing on March 1, 2023.

Amendment to the First Loan agreements

On March 15, 2023 the Company announced that it has agreed to an amendment to the Company's First Loan agreements to provide for one-year extensions of the maturities and a reduction in interest rate to 12% per annum payable at the new maturity dates of February 10, 2024, February 23, 2024 and March 13, 2024.

The principal balance plus accrued interest will be increased by 10% to US$626,725 and the amendment will provide for interim payments of principal as follows: US$35,000 on May 1, 2023; US$20,000 on May 11, 2023; US$10,000 on May 24, 2023; US$20,000 on July 10, 2023; US$10,000 on July 23, 2023: and US$50,000 on August 31, 2023.

As part of the amendments described above, the lenders will be issued 3,900,000 share purchase warrants each of which entitle the holder to purchase one SVS at a price of $0.05 per SVS and for a period of two years maturing as follows: 600,000 Warrants on February 10, 2025; 300,000 Warrants on February 23, 2025 and 3,000,000 Warrants on March 13, 2025.

Sale of Colorado Property and repayment of 2020 Debentures

On March 9, 2023 the Company closed the sale of the Company's property in Pueblo Colorado. Under the terms of a purchase agreement the purchase price of US$1.175 million was paid in cash with US$850,000 directed to the collateral agent for the Company's 2020 Debentures, which will be used to repay the debentures in full. Outstanding interest due to the date of repayment will be paid in SVS of the company subject to CSE approval.

A portion of the proceeds will be directed for purposes of settlement of outstanding property taxes, commissions and transaction costs. After the settlement of the above obligation and repayment of 2020 Debentures the Company will use the remaining proceeds to satisfy current and pending obligations.

Settlement of Directors Compensation

On March 24, 2023 the Company settled obligations to the directors with the transfer of 2,853,333 Neural Therapeutic Inc. shares held by the Company to the following directors as compensation for board services:

- 1,120,000 NT shares to Adam Szweras;
- 566,667 NT shares to Brian Presement;
- 333,333 NT shares to Billy Morrison;
- 200,000 NT shares to Jason Dyck;
- 400,000 NT shares to Aaron Johnson; and
- 233,333 NT shares to Rachel Wright