FORM 5

QUARTERLY LISTING STATEMENT

Name of Listed Issuer: **High Fusion Inc.** (the "Issuer").

Trading Symbol: **CSE: FUZN**

This Quarterly Listing Statement must be posted on or before the day on which the Issuer's unaudited interim financial statements are to be filed under the *Securities* Act, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer's first, second and third fiscal quarters. This statement is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the Exchange website.

General Instructions

(a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.

(b) The term "Issuer" includes the Listed Issuer and any of its subsidiaries.

(c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

SCHEDULE A: FINANCIAL STATEMENTS

Financial statements are required as follows:

For the first, second and third financial quarters interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

The Interim Financial Statements of the Issuer for the three and six months ended January 31, 2023 are attached.

If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

Not applicable.

SCHEDULE B: SUPPLEMENTARY INFORMATION

The supplementary information set out below must be provided when not included in Schedule A.

1. Related party transactions

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

(a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.
(b) A description of the transaction(s), including those for which no amount has been recorded.
(c) The recorded amount of the transactions classified by financial statement category.
(d) The amounts due to or from Related Persons and the terms and conditions relating thereto.
(e) Contractual obligations with Related Persons, separate from other contractual obligations.
(f) Contingencies involving Related Persons, separate from other contingencies.

All related party transactions (if any) have been disclosed in the Issuer's financial statements for the three and six months ended January 31, 2023.

2. Summary of securities issued and options granted during the period.

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

(a) summary of securities issued during the period,

All securities issued (if any) by the Issuer have been disclosed in the Issuer's Notes to the financial statements for the three and six months ended January 31, 2023.

Date of Issue	Type of Security (common shares, convertible debentures, etc.)	Type of Issue (private placement, public offering, exercise of warrants, etc.)	Number	Price	Total Proceeds	Type of Consideration (cash, property, etc.)	Describe relationship of Person with Issuer (indicate if Related Person)	Commission Paid

(b) summary of options granted during the period,

Date	Number	Name of Optionee if Related Person and relationship	Generic description of other Optionees	Exercise Price	Expiry Date	Market Price on date of Grant

All securities issued, and options granted (if any) by the Issuer, have been disclosed in the issuer's Notes to the financial statements for the three and six months ended January 31, 2023.

3. Summary of securities as at the end of the reporting period.

Provide the following information in tabular format as at the end of the reporting period:

(a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,

(b) number and recorded value for shares issued and outstanding,

(c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and

(d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

A summary of securities as at the end of the reporting period has been provided in the financial statements for the three and six months ended January 31, 2023.

4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.

Name of Officer/Director	***Positions Held***
John Durfy	***CEO and Director***
Robert Wilson	***CFO***
Adam Szweras	***Chairman and Director***
Rachel Wright	***Director, Chair of Audit Committee***
Brian Presement	***Director and Compensation Committee***
Billy A. Morrison	***Director and Chief Technology Officer***
Austin Birch	***Director***
Ross Mitgang	***Director and Audit Committee***

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

Provide Interim MD&A if required by applicable securities legislation.

The Management's Discussion and Analysis of the Issuer for the three and six months ended January 31, 2023 is attached.

Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.

2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.

3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).

4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated: March 27, 2023.

Robert Wilson
Name of Director or Senior Officer

/s/ "Robert Wilson"
Signature

Chief Financial Officer
Official Capacity

Issuer Details **High Fusion Inc.**	*For Quarter Ended* **January 31, 2023**	*Date of Report YY/MM/DD* **2023/03/27**
Issuer Address **2905 – 77 King St West**		
City/Province/Postal Code **Toronto, Ontario M5K 1H1**	*Issuer Fax No.* **N/A**	*Issuer Telephone No.* **(888) 262-4646**
Contact Name **Rob Wilson**	*Contact Position* **CFO**	*Contact Telephone No.* **(888) 262-4646**
Contact Email Address **info@nutritionalhigh.co**	*Web Site Address* **www.high-fusion.com**	

SCHEDULE A

INTERIM FINANCIAL STATEMENTS

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		Six months	
		January 31, 2023	January 31, 2022 (Note 2, 22)	January 31, 2023	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)

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)

		Six Months	
	Notes	**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**
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

SCHEDULE B

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JANUARY 31, 2023

March 27, 2023

This management's discussion and analysis ("**MD&A**"), dated March 27, 2023, is management's assessment of the operations and the financial results of High Fusion Inc. ("**High Fusion**", or the "**Company**"). This MD&A should be read in conjunction with the Company's consolidated financial statements and related notes for the three months ended January 31, 2023, prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All figures are in Canadian dollars unless stated otherwise.

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

CAUTIONARY STATEMENTS REGARDING U.S. CANNABIS OPERATIONS

High Fusion Inc. ("High Fusion") currently does, and is expected to continue to, derive its revenues from the cannabis industry in certain states in the United States, which industry is illegal under federal law in the United States. High Fusion is currently directly involved (through its licensed wholly owned subsidiaries) in the medical and/or adult-use cannabis industry in the State of Colorado, as has Material Ancillary Involvement in medical and adult-use cannabis industry in the State of California. See section titled "*Issuers with U.S. Cannabis-Related Assets*" of this MD&A.

Marijuana is currently illegal under United States federal law. The federal government of the United States regulates drugs through the Controlled Substances Act (the ''U.S. CSA''), which places controlled substances on one of five schedules. Currently, marijuana is classified as a Schedule I controlled substance. This means it has a high potential for abuse and currently has no accepted medical use in treatment in the United States. Schedule I substances are subject to production quotas imposed by the United States Drug Enforcement Agency ("DEA"). Thus, the federal government of the United States has specifically reserved the right to enforce federal law in regards to the sale and disbursement of medical or adult-use marijuana even if such sale and disbursement is sanctioned by state law.

Over half of the states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol (''THC''), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under U.S. CSA in the United States and as such, is in violation of federal law in the United States. Despite the current state of the federal law and the U.S. CSA, certain states have legalized the recreational use of cannabis, including Colorado and California, where High Fusion has or may be deemed to have a direct or material ancillary involvement in the U.S. cannabis industry. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.

On January 4, 2018, former United States' Attorney General Jeff Sessions issued a memorandum to United States Attorneys which rescinded previous guidance from the United States Department of Justice specific to marijuana enforcement in the United States, including the Cole Memorandum (as defined herein). With the Cole Memorandum rescinded, United States' federal prosecutors have been given discretion in determining whether to prosecute marijuana related violations of United States federal law, including in jurisdictions in which the production, distribution and use of marijuana is permitted under state law.

There is no guarantee that state laws legalizing and regulating the sale and use of marijuana will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use marijuana (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law. If the federal government begins to enforce federal laws relating to marijuana in states where the cultivation, processing, sale and use; or if such laws are repealed could impact High Fusion and its business, results of operation, financial condition, and prospects in a materially adverse way. See section titled " *Risk Factors*" of this MD&A for additional information on such risk.

Notwithstanding the paramountcy of federal law in the United States, enforcement of such laws may be limited by other means or circumstances, which are further described in this document. See section titled "*Enforcement of United States Federal Laws and United States Enforcement Proceedings*" of this MD&A. Unless and until the United States Congress amends the U.S. CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk

that federal authorities may enforce current federal law, which may adversely affect the current and future operations of High Fusion in the United States. As such, there are a number of significant risks associated with High Fusion's existing and future operations in the United States, and such operations may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, High Fusion may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on High Fusion's ability to operate in the United States or any other jurisdiction. See section titled " *Risk Factors*" of this MD&A.

In light of the political and regulatory uncertainty surrounding the treatment of marijuana-related activities in the United States, including the rescission of the Cole Memorandum discussed above, on February 8, 2018, the Canadian Securities Administrators ("CSA") published Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities ("Staff Notice 51-352") setting out CSA's disclosure expectations for certain risks facing issuers with Cannabis-related activities in the United States. Staff-Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with cannabis-related activities in the United States and includes additional disclosure expectations that apply to all issuers with cannabis-related activities in the United States.

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

Description of Business

High Fusion Inc. ("**High Fusion**", or the "**Company**") is a publicly traded company incorporated in Canada on July 19, 2004, under the *Canada Business Corporations Act*. The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario M5K 1H1. The Company 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. On September 3, 2021 the Company consolidated all issued and outstanding SVS on a twenty (20) for one (1) basis ("**SVS Consolidation**"). All references to SVS in this document are on post-SVS Consolidation basis.

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

As at March 27, 2023, the members of Company's management and Board of Directors consisted of:

Name	Position
John Durfy	Director and Chief Executive Officer
Robert Wilson	Chief Financial Officer
Adam Szweras	Director and Chairman of the Board
Austin Birch	Director
Brian Presement	Director, and Compensation Committee Chair
Billy Morrison	Director and Chief Technology Officer
Rachel Wright	Director, Chair of the Audit Committee
Ross Mitgang	Director, Audit Committee

Key Developments: Second Quarter ended January 31, 2023 to the date hereof

Financial Highlights

High Fusion experienced growth in revenues and gross margin during the three and six month period ended January 31, 2023.

- For the three months ended January 31, 2023, the Company recognized sales of $2.25 million and gross margin of 21% compared with $2.1 million in revenues and gross margin of 18% during the corresponding three-month period of 2022.

- For the six months ended January 31, 2023, the Company recognized sales of $4.3 million with gross margin of 28% compared with $3.4 million in revenues and 24% in gross margin during the corresponding six-month period of 2022.

- The improvement in revenues and in gross margin during the three and six month periods was primarily due to improved production volume and retail sales of cannabis which had been supressed during the comparable periods as a result of maintenance closures. Margins were also lower in the first and second quarter of fiscal 2022 due to losses experienced with the Company's outdoor grow in Mendocino CA.

- Operating costs declined during both the three and six month periods ended January 31, 2023 by 58% and 27% respectively. This reduction was due to lower salaries, consulting fees, general & administrative costs, acquisition costs and share based payments.

- Higher finance costs during the three and six month ended January 31, 2023 and the absence of gains on investments and debt settlements experienced in the comparable period of 2022 caused higher other expenses.

- As a result of the above gains in the corresponding period of 2022, pre tax income during the three and six month period ended January 31, 2023 declined by 7% and 22% respectively. Given that most of the gains in the comparable period were non-cash, and given an increase in payables, the Company experienced improved cash used in operating activities which fell from $744,828 in the six months ended January 31, 2022 to $160,542 in the six months ended January 31, 2023.

- The Balance sheet of the Company has changed very little between July 31, 2022 and January 31, 2023 with total assets of declining only 5% to $11.9 million. Due to maturing debt and excise taxes, the Company's current liabilities increased by $4 million between July 31, 2022 and January 31, 2023 resulting in an increase in working capital deficit during this period from $12.2 million to $16.7 million. This working capital deficit is expected decline with the extension of the August 2018 debentures and the repayment of the 2020 Debentures which occurred subsequent to year end.

Key Developments

Since July 31, 2022, the Company has successfully completed a number of changes to the capital structure and corporate advancements in the business as follows:

Amendment to Senior Secured Convertible Debentures

On August 3, 2022 the Company was granted an extension of the maturity date of the August 2018 senior secure convertible debentures ("**August 2018 Debentures**") to February 3, 2023. In addition, the interest on the debentures increased to 24% per annum, one half of which, was 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 per SVS as approved by the CSE. (This interest was satisfied through the issuance of SVS. See item (iii) below)

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 August 2018 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 August 2018 Debentures to provide security against the Oregon property owned by the Company to support vendor and creditor obligations.

Neural Therapeutics Developments and Spin Out Transaction

On September 12, 2022, the Company announced that its partially-owned subsidiary, Neural Therapeutics Inc. ("**Neural**") has achieved the following milestones:

- In partnership and collaboration with its extraction partners based in Nevada, Neural has developed a new and novel extraction methodology for full spectrum Mescaline and Mescaline isolate from the San Pedro plant. Neural has submitted a provisional patent application on August 26, 2022 to the United States Patent and Trademark Office.
- On August 1, 2022 Neural entered into a service agreement with a Peruvian cultivator, Cactus Knize, who have agreed to grow, harvest and supply Neural with the plant materials to support studies and product development.
- On August 4, 2022 Neural entered into a services agreement with UNIVERSIDAD PERUANA CAYETANO HEREDIA, a private non-profit university located in Lima, Peru; and
- On September 8, 2022, in conjunction with Cayetano University, Neural has submitted an application to SERFOR, which will allow the representatives of Neural and Cayetano University to access and handle San Pedro cacti for research purposes.

On November 4, 2022, the Company announced that it has entered into arrangement agreement ("**Agreement**") with Neural with respect to the distribution of a portion of High Fusion's shareholdings in Neural to High Fusion shareholders. Subject to shareholder approval, the distribution will occur by way of a statutory plan of arrangement under the provisions of Canada Business Corporations Act, whereby the Company's shareholders will receive common shares in the capital of Neural ("**Neural Share**s") via a share exchange. 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 the Neural therapeutics shares owned by High Fusion 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.

Financing Transactions

On December 28, 2022, the Company announced that it has issued 1,350,000 MVS at a price of $0.10 per MVS for gross proceeds of $135,000, as approved by the CSE. In addition, a second investment has been completed in the form of a contribution of US$150,000 of inventory. The second investment was made in exchange for an unsecured note payable in the amount of US$150,000. This note is expected be settled with the issuance of approximately 2,025,000 MVS at a price of $0.10 per MVS as approved by the CSE.

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.

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.

Changes to Board of Directors and Compensation

On January 20, 2023 the Company announced that Lincoln Fish has resigned his position as director and executive of the Company. The board position was replaced by Austin Birch who was a co-founder of OutCo Labs Inc.

On January 31, 2023 Aaron Johnson has resigned his position as director of the Company. The board position was replaced by Ross Mitgang. Ross currently serves as controller of Plaza Capital, a boutique merchant banking and advisory firm and is a director on several public and private companies.

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 restricted share units (RSUs) and $214,000 in deferred compensation to officers and directors of the Company. The RSUs will expire 3 years from the date of issue and are fully vested.

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

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

Colorado Property Sale and 2020 Debenture Repayment

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.

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.

Corporate Strategy

High Fusion is focused on manufacturing high-value products and brands for its cannabis infused edibles and oil extracts product lines sold into the medical and adult recreational markets.

High Fusion's primary focus is the State of California, with the production and sale of branded products through its recent acquisition of the business ("**OutCo Acquisition**") of OutCo Labs Inc. ("**OutCo**"). As part of this focus, a number of High Fusion's non-core assets will be divested to provide funding for debt repayment and working capital. High Fusion also owns assets in the State of Oregon. At times, High Fusion may make strategic investments on opportunistic basis in other companies, one of which is its ownership interest in Neural, and formerly an interest in Australis Capital Inc. and Pharmadrug Inc. (formerly Aura Health Inc.).

Business Operations

High Fusion is focused on manufacturing high-value products and brands for its cannabis infused edibles and oil extracts product lines sold into the medical and adult recreational markets.

High Fusion's primary focus is the State of California, with the production and sale of branded products through its acquisition of the business of OutCo. As part of this focus, it is anticipated that several High Fusion's non-core assets will be divested to provide funding for debt repayment and working capital. High Fusion also owns assets in the State of Oregon. At times, High Fusion may make strategic investments on an opportunistic basis in other companies, one of which is its ownership interest in Neural, and formerly an interest in Australis and Pharmadrug Inc.

Products and Services

State of California: Manufacturing and Retail

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

The California business acquired from OutCo represents a vertically integrated cannabis business through two licensed affiliates specializing in manufacturing and retailing of premium quality cannabis flower and extract products. These products include vape cartridges, tinctures, topicals, capsules and flower products which are sold under in-house brands through wholly owned retail stores and third-party dispensary clients

throughout California. OutCo is an established operator in the California cannabis landscape, led by a team of innovative entrepreneurs and talented extraction and product manufacturing professionals.

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

On November 24, 2021, High Fusion announced receipt of recreational adult use licenses for both the Escondido Premises and El Cajon Property, California dispensaries, thus satisfying the conditions of the earnout, and resulting in the issuance of 2,684,318 High Fusion MVS to the former owners of OutCo.

In connection with closing of the OutCo Acquisition, among other things, High Fusion assumed from OutCo the rights and obligations of certain management services agreements ("MSAs") with the licensed affiliates; Downwind 27 Inc ("D27)" San Diego Natural Inc. ("SDI") and East Hill Wellness Inc ("EHW").

State of California: MJD Licensing Agreement

On February 22, 2023, NHLLC, a wholly owned subsidiary of High Fusion, entered into MJD Licensing Agreement with MJ Direct, pursuant to which MJ Direct agreed to license to High Fusion the rights for the exclusive use of software and intellectual property of MJ Direct's business. MJD Licensing Agreement provides for licensing by High Fusion the intellectual property that underlies MJ Direct's business, which includes, but is not limited to: a) MJDirect.com web site and source code, b) MJDirect Apple App iOS build version 1.0, 1.1 and 2.0 and all future versions of the iOS and Android applications that may be developed. Pursuant to MJD Licensing Agreement, MJ Direct agreed to provide online and telephone support to the NHLLC in connection with the MJ Direct's business on a 7/24 basis. MJD Licensing Agreement covers all adult and medical use cannabis markets in the United States and shall continue in effect for a period of two years from the date of signing.

MJ Direct is an online cannabis marketplace and company that provides safe, legal access via on-demand delivery to adults across California. MJ Direct is committed to creating a diverse and sustainable industry through various initiatives, including business acceleration, social equity partnerships and MJ Direct compassion programs. MJ Direct strives to educate consumers about cannabis products and sensible use while ensuring safe, dependable delivery. MJ Direct does not possess, cultivate, extract, sell, distributed or otherwise handle cannabis products that require a license, but assists in facilitating product sales by Licensed Operators by providing a platform where customers complete validation by providing a proof of identification and the orders are subsequently routed to one of MJ Direct's local, licensed retail partners based on the appropriate ZIP code where such customer resides. MJ Direct works exclusively with licensed and compliant Licensed Operators. All deliveries are made by background-checked employees of MJ Direct's partners who are Licensed Operators, who verify the customer's ID for a second time during delivery.

A key component of MJ Direct's success is its data-driven marketing strategy, which seeks to establish MJ Direct, as a singular access point across major cannabis consumer channels in California to provide consumers universalized access to cannabis products and ancillary products. MJ Direct's marketing strategy consists of several primary components, including: (i) harnessing the power of digital content through search engine optimization, email, social media, and experiential marketing to gain market visibility and

acceptance; (ii) creating customized marketing roadmaps for various consumer segments and geographies across the state to establish name recognition, brand awareness, expertise, trustworthiness, and authority; and (iii) leveraging MJ Direct's industry knowledge and operations experience to capture and retain customers. Management of MJ Direct believes that this marketing strategy will yield increased brand awareness, visits to MJ Direct's proprietary e-commerce platforms, email sign-ups, customer spend, repeat business, brand loyalty and market share, revenue growth, and opportunity to monetize customers and clients across various channels. MJ Direct's intangible assets include the website, Apple App Store application, business know-how and relationships with Licensed Operators in the State of California.

The technology serves as a focal point of MJ Direct's marketing strategy, acting as a centralized portal providing consumers with convenient access to the products of Licensed Operators in the State of California, who do not otherwise have the expertise or the resources to pursue a standalone e-commerce focused channel. MJ Direct's value proposition to the consumers is to facilitate a seamless and user-friendly experience to have similar recognition among its customers to prevailing global brands in more conventional industries, such as food and beverage, ride sharing and restaurant and appointment booking platforms. MJ Direct intends to carry out its marketing strategy by implementing data and technology systems; identifying, installing, and empowering talent; and constantly refining and improving known effective tactics. By developing a comprehensive internal marketing division, MJ Direct intends to achieved cost efficiencies relative to outsourcing marketing efforts to an external agency, focused on the cannabis space in the State of California. Each component of MJ Direct's marketing platform is being designed to be tailored and customized as changes in the cannabis industry, including the market for the ancillary products as the regulations become change and the needs of customers become more complex. As a part of its marketing efforts, MJ Direct is being developed as a platform that can be scaled to accommodate continued organic growth of High Fusion and its Licensed Operators, as well as any future business that High Fusion may acquire and integrate into its operations.

State of Oregon: Manufacturing

Effective October 31, 2022, High Fusion's wholly owned subsidiary, NHOL, forfeited it's a processor license issued by the Oregon Liquor Control Commission.

High Fusion continues to own the facility located in the City of La Pine, Oregon (the "**La Pine Facility**") approximately 30 miles from Bend, Oregon. The La Pine Facility is made up of 0.42 acres of land on which a 4,662 square foot manufacturing and office facility plus 540 square feet of mezzanine storage space is situated.

State of Colorado: Manufacturing

On May 19, 2020, High Fusion announced that it had signed a purchase agreement to acquire a 100% equity interest in Palo Verde, subject to MED and local municipal regulatory approvals. On January 28, 2021, High Fusion announced that MED had provided its conditional approval for High Fusion to complete the acquisition of Palo Verde. In early March 2021, final approvals from the county of Pueblo were received, the RMP License and the MMP License were transferred, and the acquisition of Palo Verde closed on March 12, 2021. However due to a lack of funding, the Palo Verde operation had minimal activity during 2022. On November 16, 2022 the MED license for medical marijuana expired and on March 14, 2023 the MED license for recreational marijuana expired.

As discussed above, on March 9, 2023 the Company closed the sale of the land and buildings located in Pueblo, Colorado ("**Pueblo Property**") which had been used in the Palo Verde business.

Strategic Investments - Neural Therapeutics

On August 14, 2020, High Fusion acquired all the outstanding securities of Neural (then PSC) in exchange for common shares of High Fusion on a one for one basis pursuant to the PSC Acquisition. Shareholders of Neural were issued an aggregate equivalent of 6,876,148 High Fusion SVS and 6,876,148 High Fusion Warrants. As a result of the PSC Acquisition, High Fusion became the sole shareholder of all the outstanding securities of Neural.

Neural is an ethnobotanical drug-discovery and development company focused on developing products and conducting research on the psychoactive cacti plants, the first being the San Pedro cactus. In February 2022 and August 2022, Neural completed the Seed Financing, following which, High Fusion's ownership interest in Neural was reduced to 45.6%.

On November 4, 2022, High Fusion announced that it had entered into the Arrangement Agreement (as amended and restated on February 24, 2023) with Neural. High Fusion's ownership interest in Neural will be reduced as a result of the distribution of shares according to the Arrangement Agreement, from transfer of Neural Share by the Company to satisfy obligations as well as from Neural completing future financings. (see subsequent events note)

Investments, Acquisitions and Divestitures

Neural Therapeutics Acquisition and Financing

On August 14, 2020, the Company acquired all the outstanding Neural Shares in exchange for SVS on a one for one basis. Shareholders of Neural were issued an aggregate of 6,876,148 SVS. As a result of the Transaction, the Company became the sole shareholder of all the outstanding securities of Neural. In addition, an aggregate of 6,876,148 common share purchase warrants of Neural were assumed by the Company on a one-for one basis for SVS purchase warrants of the Company. Each such warrant entitles the holder thereof to acquire one Share at any time on or before the second anniversary of its issuance (with expiry dates ranging from July 16, 2022 to July 23, 2022) at an exercise price of $1.00. In addition, 150,092 compensation options of Neural were assumed on a one-for-one basis for compensation options of the Company. Each compensation option entitles the holder to acquire one unit at an exercise price of $0.60 at any time on or before the second anniversary of its issuance (with such dates ranging from July 16, 2022 to July 23, 2022). Each unit is comprised of one SVS and one warrant.

Palo Verde Acquisition

On March 12, 2021, the Company acquired 100% of the interest in Palo Verde. Consideration for the acquisition included a nominal cash payment and the assumption of third-party debt ("**High Pita Debenture**") due to High Pita Corporation ("**High Pita**"). Pursuant to the closing of the acquisition, on March 19, 2021, the Company executed an assignment agreement with High Pita whereby, the Company assumed all indebtedness due from Palo Verde to High Pita in the aggregate amount of US$1,884,355 together with accrued interest ("**PV Debt**"). Such PV Debt was settled with the issuance of: 2,000,000 SVS; 4,000,000 million 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. ("**High Pita Debenture**")

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

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

OutCo Acquisition

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

Total consideration was as follows:

1. 3,623,243 special warrants. Each special warrant entitles the holder to acquire, for no additional consideration, one MVS, with each MVS carrying 10 votes per MVS 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 Acquisition at an exercise price of Cdn$0.60. The expiry date of the Class A Warrants will be accelerated if the volume weighted average price of the 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. 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 Acquisition at an exercise price of Cdn$1.00. The expiry date of the Class B Warrants will be accelerated if the volume weighted average price of the 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 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;
    c. Settlement of OutCo debt through the issuance of a $268,400 convertible debenture 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. On February 1, 2022 the holder of the Gainor Debenture converted $190,000 of the Gainor Debenture leaving a remaining balance of $78,400
        ii. Certain promissory notes due to third parties

    In connection with OutCo Acquisition, NHLLC assumed OutCo's rights and obligations under MSAs with the licenced entities D27, SDI and EHW. In connection with OutCo Acquisition, High Fusion also assumed certain other current liabilities of the licenced

entities which are included in working capital.

5. Up to US$3 million earnout based on both of OutCo's retail facilities obtaining recreational marijuana licenses within 18 months of closing with such amount to be satisfied through the issuance of Special Warrants, SVS or MVS at a price when such securities become issuable ("**Earnout**").

On November 24, 2021, SDI and DW27 have received adult use licenses for both Escondido Premises and El Cajone Property, thus satisfying the conditions of the Earnout, and resulting in the issuance of 2,684,318 MVS to former owners of OutCo.

Effective on March 22, 2022, the Company has terminated the MSA with EHW and is in discussions to return the Willits Property to East Hill in exchange for the termination of the assumption of the US$2,650,000 note associated with this property. Please see section below titled "*Legal Actions*".

FMI Capital Advisory Inc. ("**FMICA**"), a financial advisory firm of which Adam Szweras (a director of the Company and Chairman of the Board) is a director, received an advisory fee in connection with the OutCo Acquisition which was satisfied through the issuance of 1,822,627 SVS. Please see section below titled "*Related Party Transactions*".

Pharmadrug Inc. (formerly Aura Health Inc.)
The Company made strategic investments into Aura Health Inc., (now Pharmadrug Inc.) ("**Aura**" or "**Pharmadrug**") which previously owned and operated medical cannabis clinics in various US states.

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

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

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

As of January 31, 2023, the Company's ownership interest in Pharmadrug was Nil.

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

Of the net holdings of 7,474,617 of AUSA Shares, 937,500 AUSA Shares were sold via private sale and 1,941,500 AUSA Shares were exchange traded for total net consideration to the Company of $849,081 during the year ended July 31, 2021.

The Company received 1,792,724 additional AUSA Shares on October 5, 2021, which were valued at $358,545. For the year ended July 31, 2022, these AUSA Shares were recorded as gain on settlement of fair value profit to loss investment of $358,545.

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

As of January 31, 2023, the Company held Nil AUSA Shares.

Financing and Capital Markets Activities

Financing and capital market activities which have been completed from the quarter ended January 31, 2022 to January 31, 2023 include the following:

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

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

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.

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

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

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) was (see Note 8).

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

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

On March 1, 2022, the holder of the Gainor Debenture agreed to convert $190,000 into SVS at a revised conversion price of $0.065 representing 2,923,077 SVS, as approved by the CSE. The remaining principal balance of the Gainor Debenture is $78,400.

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) was (see Note 8).

As at January 31, 2023, the outstanding balance of the Gainor Debenture was $63,672 (July 31, 2022 - 53,624).

East Hill Financial Note
On August 31, 2021, in connection with OutCo Acquisition the Company agreed to assume East Hill Note associated with the Willits Property. The East Hill Note has a face value of $3,343,505 (US$2,650,000).

The East Hill Note was due January 1, 2022. The Company is currently a party to a legal dispute with, East Hill Financial Inc., the bearer of the East Hill Note, in connection with the matters relating to East Hill Note and previously terminated EHW MSA. Please see section below titled "*Legal Actions*".

August 2018 Debenture Amendments
In February 2022, the holders of the convertible debentures issued by the Company in August 2018 ("**August 2018 Debentures**") agreed to amend the terms of the debentures as follows: i) Consent for the Company to effect certain transactions (including the NT Financing, as hereinafter defined) which would result in a reduction of interest that High Fusion owns in Neural; ii) Consent to enter into certain loan agreements to a maximum amount of US$500,000, which formed a the First Loan Facility (as hereinafter defined) and Second Loan Facility as hereinafter defined); and iii) provide for a partial repayment of a portion of the August 2018 Debentures from the proceeds from an asset sale by the Company.

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 Neural Shares (2021 – Nil).

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.

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 $ (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 (January 31, 2022 – 1,895,935) SVS and the transfer of nil Neural Shares (January 31, 2022 – Nil).

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 ends of the second quarter the Company announced an extension of the maturity and additional amendments to the terms of the August 2018 Debentures. (See subsequent events note)

Elan Capital Agreement

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.

Conversion of August 2019 Debentures

On February 16, 2022, the Company converted all of the secured convertible debentures issued in August 2019 ("**August 2019 Debentures**") issue representing principal balance of $1,807,000 plus interest of $20,941. August 2019 Debentures were converted into SVS at a revised conversion price of $0.06 per SVS, resulting in the issuance of pursuant to such conversion of 30,465,690 SVS.

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

NT Financing

On February 2, 2022, the Company completed an equity financing into Neural 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 Shares 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 section below titled "*Related Party Transactions*".

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

On August 3, 2022 Neural completed an additional $82,000 financing with the issuance of 1,093,333 units. Each unit was comprised of one Neural Share and one-half of one Neural Warrant. Neural paid aggregate finders' fees equal to $1,560 to such finders and issued 20,800 broker warrants, each being exercisable for one Unit at a price of $0.075. Pursuant to this financing, 133,333 units were issued to Robert Wilson, the CFO, representing a $10,000 contribution to the financing. Please see section below titled "*Related Party Transactions*".

In accordance with the terms of the NT Financing completed in February 2022, if NT had not completed a going public transaction within 6 months of the closing, Neural Therapeutics is required to issue additional shares representing 10% of total shares issued in NT Financing. Consequently, because NT did not complete a going public transaction, on August 3, 2022 an additional 999,990 Neural Shares to the subscribers of the first tranche of NT Financing on the basis of 1 additional Neural Share for each 10 unit issued pursuant to NT Financing (10% of 9,999,900 units issued on February 2, 2022). The valuation of these shares is recorded as $0.075 in the capital account of the Company.

First Loan Facility

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

As part of the First Loan Facility, the lenders were issued 2,250,000 share purchase warrants each of which entitle the holder to purchase one SVS at a price of $0.075 per SVS and for a period of two years.

Subsequent to January 31, 2023 the First Loan Facility was amended. (See enclosed subsequent event note)

Second Loan Facility

On June 13, 2022 the Company closed a one-year, secured, loan facility in the principal amount of US$400,000 ("**Second Loan Facility**"). The Second Loan Facility is comprised of three tranches, representing a total principal amount of US$400,000 which has a term of one year and will accrue interest at 26% per annum.

Of the principal amount, US$326,115 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 the High Pita Debenture and US$23,884 in payables to a related party. Please see section below titled "*Related Party Transactions*".

The Second Loan Facility is due and payable at the earlier of one year or upon an asset sale by the Company.

As part of the Second Loan Facility, the lenders were granted 2,000,000 share purchase warrants each exercisable into one SVS at a price of $0.05 per SVS for a period of two years from the date of issuance.

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 $0.10 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 will be settled with the issuance of approximately 2,025,000 MVS of the Company at a price of $0.10 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 subscription or debt.

Claims and Settlements

Payable Settlements
On November 25, 2021, the Company entered into settlement agreements with trade creditors representing $119,471 to convert such amounts owed to 544,242 SVS in settlement of in these obligations. The Company recorded a gain on settlement of $45,998 associated with this settlement.

On February 16, 2022, the Company settled outstanding loans and payables representing $1,962,605 in exchange for the conversion into SVS. Pursuant to the payables conversion, High Fusion issued 32,710,087 SVS, of which 22,433,569 SVS were issued to certain non-arm's length parties to settle $1,346,014 of obligations (please see section below titled "*Related Party Transactions*"). The Company recorded a loss on settlement of $163,551 associated with this settlement.

On April 29, 2022, the Company settled outstanding loans and payables representing $434,524 in exchange for the conversion into SVS. Pursuant to the payables conversion, High Fusion issued 8,301,637 SVS. The Company recorded a gain on settlement of $102,459 associated with this settlement.

On August 30, 2022, the Company settled outstanding loans and payables representing $84,392 in exchange for 1,687,841 SVS.

On September 13, 2022, the Company's subsidiary Neural Therapeutics settled outstanding payables representing $37,500 in exchange for the issuance of 500,000 NT shares.

August 2019 Debenture Conversion
On February 16, 2022 holders of all the Company's 9% Subordinated Secured Convertible Debentures approved an amendment to the conversion price from $4.00 to $0.06 and in connection therewith agreed to convert such indebtedness into SVS. Pursuant to the above, the Company issued 30,465,690 SVS for settlement of the principal balance of $1,807,000 plus accrued interest to the date of conversion of $20,941.

Neural Debt settlement
Concurrently with completion of the NT Financing, High Fusion completed an in-kind debt settlement pursuant to which High Fusion transferred 5,600,000 Neural Shares to settle approximately $420,000 of High Fusion liabilities. Pursuant to this transfer, approximately 2,666,667 Neural Shares were transferred to certain non-arm's length parties to settle debt obligations of High Fusion to such parties. Please see section below titled "*Related Party Transactions*". In addition, FMICA received advisory fees and fees associated the financing of NT which were satisfied through payment from the proceeds of the NT Financing and the issuance of Neural Shares. Please see section below titled "*Related Party Transactions*".

East Hill Note
On August 31, 2021, in connection with OutCo Acquisition, the Company assumed East Hill Note, which is considered non-interest bearing and was due January 1, 2022.

The Willits Property includes 60-acres of land including a 10,000 square foot portion of which is licensed to operate, cultivate and harvest marijuana held by East Hill. Additionally, in connection with OutCo Acquisition, the Company assumed a OutCo's rights and obligations under EHW MSA, which was terminated on March 22, 2022 by the Company.

The Company is in litigation with East Hill Financial with respect to the matters relating to East Hill Note and the terminated EHW MSA. Please see section below titled "*Legal Actions*".

Legal Actions

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

On September 2, 2021, a cross complaint was filed against the Company claiming breach of it's indemnification of the former owner of Pasa Verde ("**Pasa Verde Cross Action**"). As of the date hereof, each of LLI Action and Pasa Verde Cross Action remain ongoing.

East Hill Note
In connection with OutCo Acquisition, the Company has assumed various obligations of OutCo including the East Hill Note, in exchange for ownership of the Willits Property. 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 Inc. ("**East Hill Action**"), which pertains to the assumption of East Hill Note in connection with the OutCo Acquisition. As of the date hereof, East Hill Action remains ongoing.

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 sums borrowed by East Hill Properties, not operating East Hill 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.

Assumed liability associated with OutCo litigation

In connection with OutCo Acquisition, the Company has assumed various obligations of OutCo including a secured promissory note due issued by OutCo to Elan Capital, which was in litigation. Upon closing of OutCo Acquisition, the Company entered into a conditional settlement and general release with Elan Capital dated August 31, 2021. Under the conditional settlement and general release the Company has assumed the obligations due to Elan Capital which also provides for the repayment of the obligation in the form of cannabis product. The conditions of settlement and release of security are the full repayment of US$300,000 on or before March 1, 2022 and the ongoing payment of $2,800 per month.

As of July 31, 2022, 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.

Selected Annual and Quarterly Information

Summarized selected financial information is as follows:

	Twelve months ended July 31, 2022	Twelve months ended July 31, 2021	Twelve months ended July 31, 2020
Revenue	6,248,499	96,067	11,052
Cost of goods sold	5,001,783	75,723	13,316
Gross Profit / (Deficit)	1,246,716	20,344	(2,764)
Rental income	-	-	26,924
Operating expenses	10,845,709	5,181,375	7,380,556
Other (income)/expenses	9,623,326	6,391,985	3,342,983
Loss before income taxes	(19,222,319)	(11,553,016)	(10,699,379)
Income (loss) from discontinued operations	19,037	9,771,214	(11,323,631)
Net loss and comprehensive loss	(19,213,626)	(1,849,618)	(21,922,661)
Loss per share (basic)	(0.219)	(0.041)	(1.340)
Loss per share (diluted)	(0.219)	(0.041)	(1.340)

Summarized selected quarterly financial information as follows:

	Three months ended January 31, 2023	Three months ended January 31, 2022	Six months ended January 31, 2023	Six months ended January 31, 2022
Revenue	2,250,522	2,061,849	4,319,141	3,373,610
Cost of goods sold	1,786,109	1,691,775	3,127,660	2,578,133
Gross Profit	464,413	370,074	1,191,481	795,477
Operating expenses	1,358,302	3,211,037	3,696,682	5,048,506
Other (income)/expenses	895,080	(1,174,373)	1,410,190	(1,053,723)
Loss before income taxes and discontinued operations	(1,788,969)	(1,895,436)	(3,915,391)	(3,579,930)
Net loss and comprehensive loss	(1,762,045)	(2,162,270)	(3,580,335)	(3,631,648)
Income/(Loss) per share (basic & diluted)	(0.01)	(0.04)	(0.03)	(0.07)

Summarized selected balance sheet items as follows:

	January 31, 2023	July 31, 2022
Current Assets	4,148,773	4,647,741
Total Assets	11,963,240	12,626,195
Total Liabilities	21,956,009	19,028,607
Shareholder's Equity/(Deficit)	(9,992,769)	(6,402,412)

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

Quarter ended	Revenue [2]	Income (loss) before discontinued operations[2]	Net income (loss) and comprehensive income (loss) [2]	Net income (loss) per share (basic) [1]	Net income (loss) per share (diluted) [1]
31-Jan-23	2,250,522	(1,788,969)	(1,762,045)	(0.01)	(0.01)
31-Oct-22	2,068,619	(2,126,422)	(1,818,290)	(0.02)	(0.02)
31-Jul-22	1,580,098	(10,933,407)	(11,198,789)	(0.10)	(0.10)
30-Apr-22	1,294,791	(5,059,544)	(4,383,189)	(0.05)	(0.05)
31-Jan-22	2,061,849	(1,681,652)	(2,162,270)	(0.04)	(0.04)
31-Oct-21	1,311,761	(1,547,716)	(1,469,378)	(0.03)	(0.03)
31-Jul-21	45,314	9,427,262	9,427,262	0.25	0.25
30-Apr-21	50,753	(6,883,139)	(6,883,139)	(0.17)	(0.17)
31-Jan-21	-	(13,107,042)	(2,516,587)	(0.05)	(0.05)

*** Adjusted quarterly data reflecting East Hill Wellness as a discontinued operations

DISCUSSION OF QUARTERLY RESULTS

Sales Revenue and Gross Profit

For the three months ended January 31, 2023, the Company recognized sales of $2.25 million compared with $2.1 million during the corresponding three-month period of 2022. For the six months ended January 31, 2023, the Company recognized sales of $4.3 million compared with $3.4 million during the corresponding six-month period of 2022.

This increase in revenues during the three and six month periods was a result of suppressed volume of cannabis produced during the comparable period of 2022 due to the temporary closure of the grow rooms for maintenance. The lower level of production in the comparable period led to lower retail sales.

For the three and six months ended January 31, 2023, the Company achieved a gross margin of 21% and 28% respectively. This gross margin compares to 18% and 24% in the corresponding three and six month periods of last year. The increase in gross margin during the three and six month periods ended January 31, 2023 is primarily due to improved production of cannabis in the current year and losses experienced in the corresponding period of 2022 associated with the Company's outdoor grow in Mendicino CA. The Company's outdoor grow was discontinued in Q3 2022 with the cancellation of the East Hill Wellness MSA.

Operating Expenses and Other Expenses

Other revenues and expenses for the three and six months ended January 31, 2023 and for the comparable period of fiscal 2022 are as follows:

	Three months ended January 31, 2023	Three months ended January 31, 2022	Six months ended January 31, 2023	Six months ended January 31, 2022
Operating expenses	1,358,302	3,211,037	3,696,682	1,877,093
Income tax expense	-	15,062	-	30,062
Other (income)/expenses	895,080	(1,174,373)	1,410,190	(1,053,723)
Net loss	(1,788,969)	(1,895,436)	(3,915,391)	(3,579,930)
Net comprehensive loss	(1,762,045)	(2,162,270)	(3,580,335)	(3,631,648)
Loss per share (basic & diluted)	(0.01)	(0.04)	(0.03)	(0.07)

Operating expenses during the three months ended January 31, 2023, were $1.4 million compared with $3.2 million during the corresponding period of the prior year. This decline was primarily due to the following:

- $829,354 reduction in salaries, benefits and consulting fees;
- $547,860 reduction in share based payments due to the lower share value of RSU issuances; and
- $362,883 lower general and administrative expenses.

Operating expenses during the six months ended January 31, 2023, were $3.7 million compared with $5 million during the corresponding period of the prior year. This decline was primarily due to the following:

- $547,860 reduction in share based payments due to the lower share value of RSU issuances;
- $423,168 reduction in acquisition related expenses; and
- $245,652 reduction in salaries, benefits and consulting fees

Other expenses during the three months ended January 31, 2023, represented $895,080 compared with income of $1,174,373 during the corresponding period of the previous year. The increase in other expenses was primarily due higher finance costs and gains experienced during the comparable period which were not realized in the current period as follows:

- $855,536 increase in finance costs due to the additional First and Second Loan Facilities, higher interest on the 2018 Debentures and accretion changes associated with the 2018 Debentures;
- $386,585 gain on investments in the corresponding period of 2022;
- $433,041 in other income associated with debt settlement in the corresponding period of 2022; and
- $328,869 higher gain on the fair value of derivative liability in the corresponding period of 2022.

Other expenses during the six months ended January 31, 2023, represented total expenses of $1.4 million compared with total income of $1.1 million during the corresponding period of fiscal 2022. The increase in other expenses was primarily due to:

- $1,454,091 higher finance costs due to the additional First and Second Loan Facilities as well as accretion changes associated with the 2018 Debentures;
- $1,030,641 lower gain in value of the derivative liability compared to the comparable period of fiscal 2022; and
- $434,132 decline other income in the corresponding period of 2022 associated with debt settlement;

The increase in other income/(expenses) during the six month period was partially offset by the following:

- A gain on the extinguishment of debt of $568,497 reflecting the extension of the 2018 convertible debenture under new terms; and

- $201,011 loss on sale of investment in the corresponding period of fiscal 2022:

Breakdown of general and administrative as is as follows:

	Six months ended January 31, 2023	Six months ended January 31, 2022
Bank charges	44,620	18,723
Marketing	83,788	141,308
Insurance	123,931	183,881
Listing and investor relations fees	176,446	77,678
Office and general	85,475	57,732
Supplies, maintenance and utilities	81,140	38,302
Permit and licenses	28,781	106,243
Security	179,013	172,895
Repair and maintenance	62,678	36,746
Property taxes and penalties on excise taxes	256,708	360,551
Transportation	7,204	18,869
Travel	11,702	9,027
Total	**1,141,486**	**1,221,955**

General and administrative expenses during the six months ended January 31, 2023, were $1,141,486 compared with $1,221,955 during the corresponding period of the prior year. This decline was due to lower marketing, insurance, licence costs and property taxes. This was offset by higher IR fees, bank changes, office supplies and maintenance costs.

Liquidity risk

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

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

As at 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).

Cash Flow Operating activities

Net cash used in operating activities during the six months ended January 31, 2023 totaled $160,542 compared to cash used of $744,828 in the six months ending January 31, 2022. This decrease in net cash used in operating activities was primarily due the following:

- $1,269,777 higher accounts payable due to the inclusion of maturing debt obligations and higher excise taxes; and
- $1,272,595 higher finance costs and accretion expenses incurred during the period.

Investing activities

The net cash generated from investing activities totaled $nil the six months ended January 31, 2023, compared to net cash generated of $1,258,358 in the six months ending January 31, 2022. The decline in cash inflow was due primarily to the absence of cash generated in the corresponding period including; proceeds from an investment in AUSA Shares sold in the period of $1,066,214; and cash acquired of $192,414 when the Company acquired the business of OutCo on August 31, 2021.

Financing activities

During the six months ended January 31, 2023, net cash consumed in financing activities totaled $83,760 compared to net cash consumed of $349,470 in the corresponding period in 2022. The decline was primarily due to cash generated from the sale of notes and MVS as well as a private placement by the Company's subsidiary Neural.

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

Related parties and key management.

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

The following is a summary of the related party transactions, including the key management compensation for the six month periods ending January 31, 2023 and for the 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 in 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 October 31, 2022, $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.

i. 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.

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

k. 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:

i. $670,678 received from Adam Szweras;
ii. $25,000 received from a company in which the adult children of Adam Szweras have an interest;

iii. $50,000 received from Brian Presement:
iv. $79,000 received from John Durfy, CEO;
v. $13,000 conversion of amount payable to John Durfy; and
vi. $10,000 conversion of amount payable to Robert Wilson, CFO

o. On August 3, 2020, the Company entered into settlement agreements with trade creditors representing CAD $1,159,936 to convert such amounts owed into 2,212,679 Units at a deemed price of $0.50 per unit. Each unit being comprised of one 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;
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 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 Ml 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. 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

Disclosure of outstanding share data

As at January 31, 2023, the Company had the following securities issued and outstanding:

- 153,866,917 SVS;
- 7,544,891 MVS;
- 275,000 stock options;
- 17,731,500 RSUs;
- Principal amount of August 2018 Debentures - $4,308,068;
- Principal amount of 2020 Debentures - $1,124,678;
- Principal amount of High Pita Debentures - $186,700;
- Principal amount of ASC Debentures - $50,464;
- Principal amount of Gainor Debentures - $78,400; and
- 8,828,011 warrants exercisable into SVS with a weighted average exercise price $0.46 per SVS.

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

- 179,166,481 SVS;
- 14,294,891 MVS;
- 275,000 stock options;
- 17,731,500 RSUs;
- Principal amount of August 2018 Debentures - $4,308,068;
- Principal amount of 2020 Debentures - $1,124,678;
- Principal amount of High Pita Debentures - $186,700;
- Principal amount of ASC Debentures - $50,464l
- Principal amount of Gainor Debentures - $78,400; and
- 8,828,011 warrants exercisable into SVS.

Off-Balance Sheet Arrangements

As of October 31, 2022, the Company is a guarantor under the following contracts which are not included on the consolidated balance sheet:

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

2. On May 23, 2019, the Company entered into a non-binding letter of intent ("**LOI**") with Good Vibes, LLC ("**GV**") and Hannah Ashby ("**Ashby**") to provide a Southern California base of operations for Calyx. At the time, Ashby held a temporary distribution license issued by the Bureau of Cannabis Control to operate a cannabis distribution business at a property located in Chatsworth, California ("**Chatsworth Licensed Premises**") leased by GV. As consideration under the LOI, the Company guaranteed payment under the lease between GV, Ashby and the landlord Starbiz Equity Partners. In addition, the Company has funded a portion the completion of the build-out of the Chatsworth Licensed Premises under the LOI. The LOI had also provided for the parties to enter into services and other ancillary agreements. The terms of the LOI were not fulfilled by GV and Ashby and the Definitive Agreements were not completed. Pursuant to the Calyx Sale Agreement, the Company and DB12 have agreed to cooperate in negotiating and obtaining a settlement and release of all amounts due and owing under the lease agreement with respect to the facility in Chatsworth, California ("**Lease Settlement**"), wherein the Company is guarantor on the lease. In connection with the Lease Settlement, the Company shall reimburse DB12 for up to US$50,000 of the amounts paid by DB12 in respect of the Lease Settlement, of which US$25,000 may be settled by cash payment and the remaining US$25,000 may be settled by issuance of 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 Chatsworth lease.

3. In connection with OutCo Acquisition, the Company has agreed to indemnify OutCo and its officers and directors against any litigation from one of its shareholders up to a limit of US$100,000.

4. As part of the acquisition of the assets of OutCo the Company has assumed various obligations of OutCo (see subsequent event note 26). Included as part 4. b. of the OutCo subsequent event note, included in the US$375,500 in obligations assumed by the Company is a US$300,000 secured promissory note due from OutCo to Elan Capital which was in litigation. As part of the acquisition of the assets of OutCo, the Company entered into a conditional settlement and general release dated August 31, 2021. Under the conditional settlement and general release the Company has assumed the obligations due to Elan Capital. The conditions of settlement and release of security are the full repayment of US$300,000 on or before March 1, 2022 and the ongoing payment of $2,800 per month. As of July 30, 2022, the principal balance due to Elan is $212,000. The Company is in discussions to settle the obligation to Elan Capital.

5. With the acquisition of the assets of OutCo, the Company has consolidated the assets and liabilities of the D27 and SDI which have unrecognized income tax liability under Section 280E of the Internal Revenue Code. This unrecognized tax liability has not been reflected in the financial statements because, based on management assessment, upon ultimate settlement with a tax authority is not likely that any tax liability will result. (see Taxation below)

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: US35,000 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[A1].

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

Significant accounting policies

Business combinations

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

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

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

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

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

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

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

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

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

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

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

Interests in equity accounted investees and joint ventures

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

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

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

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

Capital assets

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

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

Goodwill

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

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

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

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

Leases

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

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

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

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

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

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

Lease liabilities are remeasured in the following circumstances:

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

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

Compound financial instruments

Compound financial instruments issued by the Company comprise of convertible debentures that can be converted to SVS or MVS at the option of the holder, when the number of SVS or MVS 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 SVS and share purchase warrants, the proceeds from the issuance of equity units is allocated between the SVS and common share purchase warrants on a pro-rated basis using the relative fair values of SVS and common share purchase warrants. The fair value of the SVS is determined using the share price at the date of the issuance of the units. The fair value of the share purchase warrants is determined using the Black-Scholes valuation model.

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

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

Restricted Share Units ("RSU")
RSUs are measured at fair value on the date of grant based on the closing price of the SVS on the date prior to the grant and is recognized as share-based compensation expense on a straight-line basis over the vesting period. The corresponding amount is recorded to the share-based payment reserve. Upon the exercise of RSUs, the related share-based payment reserve is transferred to share capital.

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

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

Taxation
Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute

the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

US Taxation (280E)
The Company operates in the legal cannabis industry but is subject to Section 280E of the Internal Revenue Code ("IRC"). Section 280E prohibits businesses engaged in the trafficking of controlled substances (within the meaning of Schedule I and II of the Controlled Substance Act) from deducting normal business expenses associated with the sale of cannabis, such as payroll and rent, from gross income (revenue less cost of goods sold). The application of Section 280E has a significant impact on the retail side of cannabis, but a lesser

impact on cultivation and manufacturing operations. Section 280E was originally intended to penalize criminal market operators, but because cannabis remains a Schedule I controlled substance for U.S. Federal purposes, the Internal Revenue Service ("**IRS**") has subsequently applied Section 280E to state legal cannabis businesses. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable and a higher effective tax rate than most industries. The state of California, which the Company operates, allows for the deduction of all ordinary and necessary operating expenses.

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

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities at FVTPL, are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

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

Refer to Note 20 for the Company's financial instruments and their respective financial instrument classification and carrying values.

(i) FVTPL financial assets

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

(ii) Amortized cost financial assets

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

(iii) Impairment of financial assets

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

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

(iv) Financial liabilities and other financial liabilities

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

(v) Embedded derivatives

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

Impairment

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the date of statement of financial position. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the

impairment of its amount's receivable using the ECL model, and no difference was noted. As a result, no impairment loss has been recognized upon transition and at July 31, 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

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

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

Significant estimates
Useful life of long-lived assets

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

Business combination and asset acquisitions

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

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

Share-based payments and brokers' warrants

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and brokers' warrants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company's future share price, risk free rate,

future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Fair value of financial instruments

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

Recoverability of long-lived assets

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

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

Convertible debentures

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

Deferred tax

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax loss carry-forwards. Changes in these assumptions

could materially affect the recorded amounts, and therefore, do not necessarily provide certainty as to their recorded values.

Significant judgments

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

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

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.

ISSUES WITH U.S. CANNABIS-RELATED ASSETS

General
On February 8, 2018, the CSA issued Staff Notice 51-352, which provides specific disclosure expectations for reporting issuers in Canada that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All reporting issuers with U.S. cannabis-related activities are expected to disclose certain prescribed information clearly and prominently in prospectus filings and other applicable disclosure documents in order to fairly present all material facts, risks and uncertainties about issuers with U.S. cannabis-related activities.
Such disclosure includes, but is not limited to, (i) a description of the nature of a reporting issuer's involvement in the U.S. cannabis industry; (ii) an explanation that cannabis is illegal under U.S. federal law

and that the U.S. enforcement approach is subject to change; (iii) a statement about whether and how the reporting issuer's U.S. cannabis-related activities are conducted in a manner consistent with U.S. federal enforcement priorities; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the U.S. cannabis industry, or deemed to have "ancillary industry involvement", all as further described in Staff Notice 51-352. Public reaction to the notice was generally positive and industry participants welcomed the opportunity to review and provide enhanced disclosure.

In accordance with Staff Notice 51-352, below is a table of concordance that is intended to assist readers in identifying those parts of this Circular that address the disclosure expectations outlined in Staff Notice 51-352.

Industry Involvement	**Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties**	**Circular Cross Reference**
All Issuers with U.S. Marijuana–Related Activities	Describe the nature of the issuer's involvement in the U.S. marijuana industry and include the disclosures indicated for at least one of the direct, indirect and ancillary industry involvement types noted in this table.	*Cover page (disclosure in bold typeface) (page 1)* *Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – Regulatory Overview* *Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – State-Level Overview* *Information Concerning High Fusion – Description of Business* *Information Concerning High Fusion – General Development of Business* *Information Concerning High Fusion – Risk Factors – Risks Specifically Related to the Regulation of Marijuana in the United States*
	Prominently state that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk.	*Cover page (disclosure in bold typeface) (page 1)* *Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – Regulatory Overview* *Information Concerning High Fusion – Risk Factors – Risks Specifically Related to the Regulation of Marijuana in the United States*
	Discuss any statements and other available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana–related activities.	*Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – Regulatory Overview* *Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – State-Level Overview* *Information Concerning High Fusion – Risk Factors –*

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Circular Cross Reference
		Risks Specifically Related to the Regulation of Marijuana in the United States
	Outline related risks including, among others, the risk that third party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S.	*Cover page (disclosure in bold typeface) (page 1)* *Information Concerning High Fusion – Risk Factors – Risks Specifically Related to the Regulation of Marijuana in the United States*
	Given the illegality of marijuana under U.S. federal law, discuss the issuer's ability to access both public and private capital and indicate what financing options are / are not available in order to support continuing operations.	*Information Concerning High Fusion – Risk Factors – Risks Specifically Related to the Regulation of Marijuana in the United States*
	Quantify the issuer's balance sheet and operating statement exposure to U.S. marijuana related activities.	*Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – Summary of balance sheets and operating results with exposure to the U.S. cannabis-related activities*
	Disclose if legal advice has not been obtained, either in the form of a legal opinion or otherwise, regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.	*Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – State-Level Overview – California – Compliance with United States operations – California and San Diego County* *Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – State-Level Overview – Colorado – Compliance with United States operations – Colorado*
U.S. Marijuana Issuers with direct involvement in Cultivation or distribution	Outline the regulations for U.S. states in which the issuer operates and confirm how the issuer complies with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	*Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – State-Level Overview – California – Compliance with United States operations – California and San Diego County* *Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – State-Level Overview – Colorado – Compliance with United States operations – Colorado*
	Discuss the issuer's program for monitoring compliance with U.S. state law on an ongoing basis, outline internal compliance procedures and provide a positive statement indicating	*Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – State-Level Overview – California – Compliance with United States operations – California and San Diego County* *Information Concerning High Fusion - Issuers with*

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Circular Cross Reference
	that the issuer is in compliance with U.S. state law and the related licensing framework. Promptly disclose any non– compliance, citations or notices of violation which may have an impact on the issuer's licence, business activities or operations.	*U.S. Cannabis-Related Assets – State-Level Overview – Colorado – Compliance with United States operations – Colorado and Pueblo County* *Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – Summary of U.S. Cannabis Activities of High Fusion and its Subsidiaries and Affiliates*
U.S. Marijuana Issuers with indirect involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer's investee(s) operate.	*Not applicable – High Fusion has no activities that constitute as "indirect involvement" in U.S Marijuana industry, as such described in the guidance under Staff Notice 51-352.*
	Provide reasonable assurance, through either positive or negative statements, that the investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state. Promptly disclose any non- compliance, citations or notices of violation, of which the issuer is aware, that may have an impact on the investee's licence, business activities or operations.	*Not applicable – High Fusion has no activities that constitute as "indirect involvement" in U.S Marijuana industry, as such described in the guidance under Staff Notice 51-352*
U.S. Marijuana Issuers with material ancillary involvement	Provide reasonable assurance, through either positive or negative statements, that the applicable customer's or investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	*Information Concerning High Fusion - Issuers with U.S. Cannabis-Related Assets – Summary of U.S. Cannabis Activities of High Fusion and its Subsidiaries and Affiliates*

Notes:

(1) *While High Fusion does not hold an interest in DW27 and SDI, due to the nature of the contractual relationship and the fact that each of John Dufy, CEO of High Fusion and Robert Wilson, CFO of High Fusion hold director positions with DW27 and SDI, High Fusion may be deemed to have "direct" involvement as per the guidance of Staff Notice 51-352, due to such relationships, rather than "material ancillary" relationship. In accordance with the IFRS rules and guidance, High Fusion consolidates the financial results for each of DW27 and SDI in its financial statements. Please see section titled "Summary of balance sheets and operating results with exposure to the U.S. cannabis-related activities" below.*

Summary of U.S. Cannabis Activities of High Fusion and its Subsidiaries and Affiliates

Overview of High Fusion's Involvement in U.S. Cannabis Activities

As of the date hereof, approximately 100% of High Fusion's revenue was derived from U.S. marijuana-related activities. Through its 100% ownership of Palo Verde, High Fusion had "Direct" involvement in manufacturing of cannabis products in the State of Colorado until the surrender of its MMP License and RMP License on November 16, 2022 and March 14, 2023 respectively, and "Material Ancillary" involvement in the State of California through DW27 MSA and SDI MSA.

Below is the summary chart of High Fusion's direct, indirect or material ancillary involvement in U.S. marijuana, through its subsidiaries and investments as at the date of hereof. "Direct", "Indirect" and "Material Ancillary" are classification terms as defined in Staff Notice 51-352. While High Fusion does not hold direct or indirect interest in DW27 and SDI, due to the nature of the contractual relationships between NH LLC, a wholly owned subsidiary of High Fusion and each DW27 and SDI, as well as the commonality of members of the Board and management of High Fusion and such Licensed Operators, High Fusion may be deemed to have "direct" involvement as per the guidance of Staff Notice 51-352.

Subsidiary/ Affiliate	% ownership	Classification	Jurisdictions	State and Local Regulators	United States circuit and federal judicial district	Description of Involvement
Palo Verde LLC(4)	100%	Direct	Colorado	MED and Pueblo County	Tenth Circuit – District of Colorado	On March 12, 2021 High Fusion acquired 100% interest in Palo Verde which held an RMP License until its expiry on March 14, 2023.
NH LLC	100%	Material Ancillary	California	N/A	N/A	In connection with the OutCo Acquisition, High Fusion has been assigned East Hill Wellness MSA, DW27 MSA and SDI MSA, of which DW27 MSA and SDI remain in full force an effect as of the date hereof.
NH LLC	100%	Material Ancillary(3)	California	N/A	N/A	NHLLC entered into MJD Licensing Agreement, pursuant to which it has licensed the intellectual property of MJ Direct.
DW27	Nil(1)	Material Ancillary	California	DCC and County of San Diego	Ninth Circuit – Southern District of California	In connection with the OutCo Acquisition, High Fusion has been assigned DW27 MSA, which remains in full force an effect as of the date hereof.
SDI	Nil(2)	Material Ancillary	California	DCC County of San Diego	Ninth Circuit – Southern District of California	In connection with the OutCo Acquisition, High Fusion has been assigned SDI MSA, which remains in full force an effect as of the date hereof.

Notes:

(1) In connection with the OutCo Acquisition, Messrs. Durfy and Wilson, serve members of the board of directors of DW27.

(2) In connection with the OutCo Acquisition, Messrs. Durfy and Wilson, serve members of the board of directors of SDI.

(3) While MJ Direct does not carry out any activities in the cannabis space that require a license pursuant to the applicable laws of the State of California, it may be deemed to have Material Ancillary involvement in the State of California, by virtue of deriving a portion of its revenue from Licensed Operators, in consideration for the services provided by MJ Direct to such Licensed Operators.

(4) RMP License held by Palo Verde expired on March 14, 2023, and High Fusion elected not to renew the license. High Fusion continues to own 100% interest in Palo Verde, which currently does not carry on any commercial activities.

Licenses Held by the Entities Involved U.S. Cannabis Activities

Once an operator obtains local approval, the operator must obtain a license from the appropriate U.S State and local authorities before conducting any commercial marijuana activity. There are multiple license categories that cover all active commercial activity in the State of California conducted by the Licensed Operators which are parties to DW27 MSA and SDI MSA, pursuant to the terms of the various licenses issued by the DCC. The licenses are independently issued for each approved activity for use at the El Cajon Facility for DW27 and for Escondido Premises for SDI. Such licenses are as follows:

Entity Involved	State License and Expiry Date	City/County	Local License and Expiry Date	Type of License
DW27	C-120000091-LIC (June 20, 2023)	El Cajon, CA	MMJ-002 June 23, 2023	Provisional Cannabis Microbusiness License for Medical and Adult Use cannabis distributor, level 1 manufacturer, retailer, and cultivator (under 10,000 sq ft)
SDI	C10-0000052-LIC (May 13, 2023)	Escondido, CA	MMJ-007 March 9, 2023	Provisional Cannabis Retailer for Medical and Adult-Use
Palo Verde	404R-00215 (March 14, 2023)	Pueblo West, CO	404R-00215 (March 14, 2023)	RMP License

Neither High Fusion nor any of its subsidiaries, affiliates or Licensed Operators that High Fusion or any of its subsidiaries has a material relationship with, including the Licensed Operators in the tables above, have received any notices, citations of non-compliance, violation or denial from any applicable local municipal or the U.S. State regulatory authorities. To the best of High Fusion's knowledge, all such Licensed Operators are in compliance with all applicable U.S State and local laws and related licensing framework.

Regulatory Overview

U.S. Federal Law

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

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

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

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

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

There is no guarantee that the current presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with state laws. Additionally, any new U.S. federal government administration that follows could change this policy and decide to enforce the U.S. federal laws vigorously. Any such change in the U.S. federal government's enforcement of current U.S. federal laws could cause adverse financial impact and remain a significant risk to High Fusion's business. On December 16, 2014, President Obama signed the H.R.83 - Consolidated and Further Continuing Appropriations Act, 2015 ("**Omnibus Bill**"), approving spending for certain federal agencies through September 30, 2015. Section 583 of the Omnibus Bill prohibits the United States government from using federal funds to prevent states with medical marijuana laws from implementing state laws that authorize the use, distribution, possession, or cultivation of medical marijuana.

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

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

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

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

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

the CSA by virtue of providing financial support to cannabis companies that service or provide goods to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis, and/or (iii) the barring of its employees, directors, officers, managers and investors who are not United States citizens from entry into the United States for life. The Rohrabacher–Farr amendment (also known as the Rohrabacher– Blumenauer amendment) prohibits the Department of Justice from spending funds to interfere with the implementation of state medical cannabis laws. It first passed the U.S. House of Representatives in May 2014 and became law in December 2014 as part of an omnibus spending bill. The passage of the amendment was the first time either chamber of Congress had voted to protect medical cannabis patients and is viewed as a historic victory for cannabis reform advocates at the federal level. The amendment does not change the legal status of cannabis and must be renewed each fiscal year in order to remain in effect. Since 2015, Congress used a rider provision in the Consolidated Appropriations Acts (currently the Joyce Amendment, but previously called the Rohrabacher- Blumenauer Amendment and before that the Rohrabacher-Farr Amendment) to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against state-compliant actors in jurisdictions that have legalized medical cannabis and cannabis-related activities. The Joyce Amendment was again included in the most recent annual appropriations bill. Additionally, the Blumenauer-McClintock-Norton-Lee amendment had been under consideration. This amendment would have extended the protections of the Joyce Amendment to adult-use businesses. However, the Blumenauer-McClintock-Norton-Lee amendment was not included in the appropriations bill that was passed by Congress on March 10, 2022 and signed by President Biden on March 15, 2022. The Blumenauer-McClintock-Norton-Lee amendment was expected to again be under consideration for inclusion in the next annual appropriations bill.

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

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

On November 21, 2019, the House Judiciary Committee voted 24-10 to pass the Marijuana Opportunity Reinvestment and Expungement Bill of 2019 ("**MORE Act**"). The bill would have effectively put an end to cannabis prohibition in the United States on the federal level by removing it from Schedule 1 of the Controlled Substances Act, and past federal cannabis convictions would be expunged. Additionally, if fully passed, the law would allow the Small Business Administration to issue loans and grants to marijuana-related businesses and provide a green light for physicians in the Veterans Affairs system to prescribe medical cannabis to patients, as long as they abide by state-specific laws.
Although the House of Representatives voted to pass the MORE Act on December 4, 2020, it failed to pass in the Senate prior to the end of the 2020 legislative session. There can be no assurance that it will be passed in its current form or at all.

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

On December 14, 2020, President Trump announced that William Barr resigned from his post as Attorney General, effective December 23, 2020. President-Elect Joseph Biden nominated Merrick Garland to succeed Mr. Barr as the U.S. Attorney General. It is unclear what impact, if any, the new administration will have on U.S. federal government enforcement policy on cannabis. If the DOJ policy shifts to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such policies through pursuing prosecutions, then High Fusion could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, and (ii) the arrest of its employees, directors, officers, managers and investors, who could face charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis. Additionally, as has recently been affirmed by U.S. Customs and Border Protection, employees, directors, officers, managers and investors of High Fusion who are not U.S. citizens face the risk of being barred from entry into the United States for life.
On December 27, 2020, President Donald Trump signed the Consolidated Appropriations Act of 2021, which included the Rohrabacher-Farr Amendment, which prohibits the funding of federal prosecutions with respect to medical cannabis activities that are legal under state law. The Consolidated Appropriations Act of 2021 makes appropriations for the fiscal year ending September 30, 2021. There can be no assurances that the Rohrabacher- Farr Amendment will be included in future appropriations bills or budget resolutions.

On April 19, 2021, the SAFE Banking Act of 2019 (the "**SAFE Banking Act**" or "**SAFE**") again passed the U.S. House of Representatives by a 321 – 101 vote. High Fusion's management believes, based on currently available information, that the likelihood of the SAFE Banking Act's passage is high, however, the particular timing and legislative vehicle is still unknown. The U.S. Senate has declined to bring the SAFE Banking Act up for a vote due to pending comprehensive federal reform legislation from Senate Majority Leader Chuck Schumer (D-NY), Senate Finance Committee Chair Ron Wyden (D-OR) and Senate Judiciary Criminal Justice and Counterterrorism Subcommittee Chair Cory Booker (D-NJ). The provisions of the SAFE were offered by Congressman Earl Perlmutter (D-CO) as an amendment to the House version of the Defense Authorization Act (NDAA/HR 4350), which passed the House on September 23, 2021. However, the Senate's version of the bill did not include SAFE and the compromised NDAA language also failed to include the SAFE. On January 28, 2022, Rep. Ed Perlmutter (D-CO) filed an amendment to the America COMPETES Act, HR 4521, which incorporated the SAFE Banking language

into the bill. The America COMPETES Act relates to high-tech investment incentives and programs. On February 1, 2022, Rep. Perlmutter's SAFE Banking amendment was considered by the House Rules Committee and included in the America COMPETES Act. The America COMPETES Act passed the House on February 4, 2022, with the SAFE banking included. The House and Senate determined the content of the final bill and whether SAFE's language would be included through a conference committee process in which the final content of the bill is negotiated by members of both the House and Senate and both political parties. On June 23, 2022, the SAFE Banking Act was removed from the America COMPETES/United States Innovation and Competition Act in favor of historic investment to surge production of American-made goods, tackle supply-chain vulnerabilities and increase global competitiveness, among other priorities.

On May 5, 2021, U.S. Representatives David Joyce (R-OH) and Don Young (R-AK) introduced the Republican reform proposal called the Common Sense Cannabis Reform for Veterans, Small Businesses and Medical Professionals Act.

On February 1, 2021, Leader Schumer and Senators Wyden and Booker issued a joint statement announcing the imminent release of comprehensive cannabis reform legislation which stated, "We will release a unified discussion draft on comprehensive reform to ensure restorative justice, protect public health and implement responsible taxes and regulations." On July 14, 2021, Leader Schumer and Senators Wyden and Booker released the Cannabis Administration and Opportunity Act (the "**CAO Act**"), a 163-page discussion draft bill, alongside a 30-page summary document, which effectively de-schedules cannabis, provides restorative justice for past cannabis-related convictions and establishes a federal regulatory system within the U.S. FDA for cannabis products. In addition to the aforementioned provisions, the CAO Act also maintains state authority to establish individual cannabis policies and establishes a federal tax on cannabis products. Stakeholder comments were submitted to the Sponsoring Offices on or before the requested deadline of September 1, 2021. The Sponsoring Offices spent significant time considering those comments and amended the discussion draft bill. On July 21, 2022, Leader Schumer and Senators Wyden and Booker formally filed the CAO Act. However, there is no indication that the bill will be brought to a vote in the near future.

On November 15, 2021, Rep. Nancy Mace (R-SC) introduced the States Reform Act. The bill, if enacted, would legalize cannabis at the federal level by removing cannabis from the Controlled Substances Act and provide some deference to the states and state programs. The bill defers to the states to prohibit or commercially regulate adult-use cannabis within their borders. In addition to state regulation, cannabis would generally be regulated at the federal level in manner similar to alcohol, including by the U.S. FDA, the U.S. Department of Agriculture and the Alcohol and Tobacco Tax and Trade Bureau, which would be renamed the Bureau of Alcohol, Tobacco and Cannabis Tax and Trade Bureau. The States Reform Act was referred to the House Judiciary Committee and will be reported to several other committees and subcommittees before advancement. There is no indication that the bill will move forward while the House is under Democratic control.

On June 23, 2022, U.S. Congressmen Troy A Carter, Sr. (D-LA) and Guy Reschenthaler (R-PA) introduced bipartisan legislation, The Capital Lending and Investment for Marijuana Businesses Act ("**CLIMB Act**"), to allow American state legal cannabis companies, including small, minority and veteran-owned businesses the ability to access critical lending and investment opportunities currently available to other domestic and regulated industries. The CLIMB Act currently sits in the House Financial Services Committee.

On October 6, 2022, President Joe Biden announced he will take executive action to pardon thousands of people convicted of marijuana possession under federal law. President Biden said he would also encourage state governors to take similar action with state offenses and asked the U.S. Department of Health and

Human Services and the U.S Department of Justice to review how marijuana is scheduled, or classified, under federal law.

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

On December 23, 2022, the U.S. House of Representatives passed a $1.7 trillion year-long federal government spending bill, paving the way for it to be signed into law by President Joe Biden. The spending bill's Senate sponsors, Oregon Democrat Jeff Merkley and Montana Republican Steve Daines, had pushed to include a version of the SAFE Banking Act in the roughly $1.7 trillion funding measure but ultimately it did not make the cut. This is the third failed attempt in 2022 to get the measure passed with a larger package.

Businesses operating in states where marijuana is legal have faced barriers to financial institutions because it remains illegal at the federal level, forcing many of these businesses to deal only in cash, or create workarounds to the banking system — the most popular of which was recently shut down. The SAFE Banking Act would prohibit federal regulators from penalizing banks and other depository institutions for providing services to legal cannabis businesses. It would have been a huge boon to marijuana companies, which have lobbied for the bill as the least controversial form of federal legislation that they have sought over the past years.

Responses of U.S. Attorneys to Sessions Memorandum

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

State of California

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

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

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

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

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

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

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

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

Colorado

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

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

Enforcement of U.S. Federal Laws

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

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

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

U.S. Enforcement Proceedings

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

Most recently, the U.S. Congress passed H.R. 3055, the "Commerce, Justice, Science, Agriculture, Rural Development, Food and Drug Administration, Interior, Environment, Military Construction, Veterans

Affairs, Transportation, and Housing and Urban Development Appropriations Act, 2020" (the "**2020 Appropriations Act**").

On June 20, 2019, the 2020 Appropriations Act was amended by a U.S. Congress house floor vote (267-165) to include Amendment No. 17 (***Blumenauer (D-OR), Norton (D-DC), McClintock (R-CA)***), which expanded the previously-mentioned protective cannabis amendments to appropriations bills and which now specifically prohibits the Department of Justice from interfering with "state cannabis programs", which includes both medical and adult-use cannabis programs. On September 26, 2019, the Senate Appropriations Committee declined to take up the broader amendment but did approve the Rohrabacher–Farr Amendment for the 2020 fiscal year spending bill. On September 27, 2019, the Rohrabacher–Farr Amendment was renewed as part of a stopgap spending bill, in effect through November 21, 2019.

On December 20, 2019, President Donald Trump signed the Consolidated Appropriations Act, 2020 which included the Rohrabacher/Blumenauer Amendment, which prohibits the funding of federal prosecutions with respect to medical cannabis activities that are legal under state law, extending its application until September 30, 2020. In July 2020, the House of Representatives passed the "Blumenauer-McClintock-Norton-Lee amendment," to the Commerce, Justice, Science (CJS) Appropriations bill. That amendment was included in a series of stopgap spending bills from September 2020 through the end of December 2020. On December 27, 2020, the amendment was renewed through the signing of the fiscal year 2021 spending bill, which was effective through September 30, 2021. Following the expiration of the fiscal year 2021 bill, President Biden has renewed the amendment through a series of stopgap spending bills, with the most recent extension effective through March 11, 2022. On March 10, 2022, the fiscal year 2022 omnibus appropriations bill including the amendment was signed into law by President Biden. There can be no assurances that similar provisions will be included in future appropriations bills.

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

Ability to Access Public and Private Capital

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

State-Level Overview

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

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

California

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

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

On May 29, 2018, U.S. federal and California State authorities announced a joint effort to target illegal cannabis grows, with $2.5 million in federal money backing the effort. McGregor Scott, U.S. Attorney for the Eastern District of California, said he will prioritize illegal cannabis rather than pursuing

enforcement with respect to the legal recreational marijuana market even though U.S. federal law bans marijuana. He stated, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there … So for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

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

In May 2019, Attorney General Becerra, along with 37 other U.S. state and territorial attorneys, sent a letter to congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for cannabis companies.
On August 6, 2019, the California DOJ released the "Guidelines for the Security and Non-Diversion of Cannabis Grown for Medicinal Use" to clarify the state's laws governing medicinal cannabis, and specifically those related to the enforcement, transportation, and use of medicinal cannabis. The Guidelines come after significant changes in state law on recreational cannabis use. The revised guidelines include:

(1) A summary of applicable laws;
(2) Guidelines regarding individual qualified patients and primary caregivers;
(3) Best practices for the recommendation of cannabis for medical purposes;
(4) Enforcement guidelines for state and local law enforcement agencies; and
(5) Guidance regarding collectives and cooperatives.

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

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

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

(2) Assembly Bill 1529 requires adding a universal symbol no smaller than a quarter-inch-by-quarter-inch on all cannabis vaporizer cartridges. The symbol must be engraved, affixed with a sticker or printed in black or white.
(3) Assembly Bill 1291 strengthens an existing provision for marijuana businesses by requiring applicants with 20 or more employees to provide a notarized statement that they will enter into and abide by the terms of a labor peace agreement.
(4) Assembly Bill 858 clarifies some requirements for "specialty cottage" growers with a maximum 2,500 sq. ft. of canopy.
(5) Senate Bill 34 allows marijuana retailers to provide free products to medical patients that meet certain criteria. Such was a common industry practice until new regulations went into effect in 2018.

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

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

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

With the passage of AB 141 on July 12, 2021, BCC, CDFA and CDPH were consolidated into DCC. On September 8, 2021, the DCC announced proposed emergency regulations to move all cannabis regulations into Title 4 of the California Code of Regulations, with a stated goal of consolidating and improving the regulations. The proposed emergency regulations were in the review and comment period which closed on September 20, 2021.

In March 2022, the DCC initiated a rule making process in which it promulgated a comprehensive regulatory proposal, including amendments to its current rules that would make permanent emergency rules that have been in effect since September 2021. Comments on the proposed rules were submitted by all interested parties by April 19, 2022. The DCC then considered the comments submitted and issued an updated rule set for a second comment period. A final version of the rules was filed by the DCC with the California Office of Administrative Law on September 26, 2022. The rules are still pending and are anticipated to become effective in the fall of 2022. Among other rule making activities, the DCC is currently considering new rules for large cultivation licenses and conversion to large and medium licenses in addition

to rules related to the establishment of a standard cannabinoids test method, including standardized operating procedures which will be utilized by all licensed testing laboratories in California.

With respect to legislation, the California legislature passed AB 195, which was signed into law by Governor Newsom on June 30, 2022. AB-195 eliminates the cannabis cultivation tax and serves to shift responsibility for collecting the cannabis excise tax from distributors to retailers.

Contract Manufacturing

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

Zoning and Land Use Requirements

Applicants are required to comply with all local zoning, environmental and land use regulations and provide written authorization from the property owner and the local jurisdiction where the commercial cannabis operations are proposed to take place, which must dictate that the applicant has the property owner's authorization and the jurisdiction's authorization to engage in the specific state-sanctioned commercial cannabis activities proposed to occur on the premises. Each of DW27 and SDI have represented to High Fusion that they each hold full zoning and use permits from the San Diego County.

Local Licensing of Cannabis Businesses in California

At present, to legally operate a medical or adult-use cannabis business in California, the operator must have both a local and state license. This requires license holders to operate in cities with cannabis licensing programs. Therefore, cities in California are allowed to determine the number of licenses they will issue to cannabis operators or can choose to outright ban cannabis. Each of DW27 and SDI are located in unincorporated areas of San Diego County and are thus required to hold valid permits from the San Diego County Sheriff's Department. Each of DW27 and SDI have represented to High Fusion that they each hold the requisite licensing from the San Diego County.

Record-Keeping and Continuous Reporting Requirements

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

Operating Procedure Requirements

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

Site-Visits & Inspections

The California operators will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the state of California without satisfying and maintaining compliance with state and local law. As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as all of the facility's books and

records to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

Compliance with United States operations - California and San Diego County

High Fusion's staff tasked with overseeing compliance with applicable local and state regulations work closely with High Fusion's CEO and external consultants tasked with evaluating compliance, High Fusion's standard operating procedures and mechanisms in place to remedy any potential instances of non-compliance. The staff's responsibilities include:

- Securing and updating local operating permits and state manufacturing permits;
- Screening products and product packaging for any discrepancies with regulations issued by the DCC;
- Working with manufacturers and cultivators to address any packaging deficiencies;
- Testing all products according to the State code via licensed facilities;
- Working with State regulators to address any issues exposed through testing including relabeling, remediation or product destruction via licensed cannabis waste management organization; and
- Managing integration with the State's forthcoming Track and Trace program.
- Communication with general managers of High Fusion's facilities outside of California to monitor compliance of those facilities, review the information provided regarding compliance with applicable regulations and if necessary, relay that information to the appropriate members of the senior management team to take the corrective action.

Following submission of a pre-application request and once compliance with the business premises location is completed, including all zoning requirements and sensitive use restrictions, the San Diego County Board of Supervisors will request and review attestations from primary personnel and owner(s) associated with the application. Following such review, San Diego County Board of Supervisors will issue a determination of eligibility/ineligibility for further processing. A determination of eligibility is based on, among other things, an initial inspection and environmental clearance.

Following a determination of eligibility, the San Diego County Board of Supervisors reviews the application for completeness, including the status of state licenses and verification of local compliance under way with the state agencies. Following temporary approval, applicants may apply for an annual license.

Continued compliance includes ongoing, unannounced inspections, investigations and audits conducted by the employees or agents of the San Diego County. Such inspections may include an examination of employee practice; cannabis safety; proper storage; equipment/utensils; facility; plumbing fixtures; sign/license requirements; record keeping; compliance and enforcement; and requirements for manufacturing.

High Fusion's management believes that High Fusion has developed a robust compliance program designed to ensure operational and regulatory requirements continue to be satisfied, and has retained outside counsel to monitor its compliance with U.S. State and local law on an ongoing basis. High Fusion will continue to work closely with its legal counsel to develop and improve its internal compliance program and will defer to their legal opinions and risk mitigation guidance regarding the complex regulatory framework of the State of California and San Diego County. The internal compliance program requires continued monitoring by managers and executives of High Fusion to ensure all operations conform to and comply with required laws, regulations and legally compliant standard operating procedures.

In addition, High Fusion has previously sought and continues to seek legal advice from JRG Attorneys at Law ("**JRG**"), as local external counsel, to ensure that all aspects of the license/permit, products and operation prior to acquisition (as part of due diligence) and post-acquisition is in compliance with

applicable State of California law. The executive of each operating unit is responsible for overseeing and maintaining compliance post-acquisition.

Colorado

Regulatory Developments Overview – Colorado

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

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

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

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

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

As of January 1, 2020, medical and adult use cannabis are regulated together under a single statute – the Cannabis Code. Under the Cannabis Code, the MED is empowered to grant licenses to both adult use and medical cannabis businesses, including cultivation facilities, products manufacturers, testing facilities, transporters, researchers and developers, and (in the adult use context) accelerator cultivators, accelerator stores, and hospitality businesses. Cannabis businesses must also comply with local licensing requirements. Colorado localities are allowed to limit or prohibit the operation of cannabis businesses.

Regulatory Requirements - Colorado

The regulations establish requirements applicable to all cannabis businesses, along with specific requirements for each type of business. All cannabis businesses in Colorado are required to (1) create and enforce limited access areas for the protection of cannabis and cannabis products, (2) maintain security alarm systems installed and maintained by a licensed alarm installation company, as well as approved locks and surveillance equipment, (3) follow all applicable laws regarding waste disposal (including cannabis-containing wastes), (4) implement an inventory tracking system used for inventory tracking and recordkeeping, (5) comply with both state and local requirements as to hours of operation, (6) comply with sanitary requirements applicable to employees and production spaces, including sanitation audits, (7) comply with recordkeeping requirements, and (8) maintain and provide procedures for dealing with product recalls.

The MED and local licensing authorities may conduct announced or unannounced inspections of licensees to determine compliance with applicable laws and regulations. Licensees may also be subject to inspection of the licensed premises by the local fire department, building inspector, or code enforcement officer to confirm that no health or safety concerns are present.

Colorado uses METRC as the MED's cannabis inventory tracking system for all medical and adult use licensees. Cannabis is required to be tracked and reported with specific data points from seed to sale through METRC for compliance purposes under Colorado cannabis laws and regulations. This tracking is conducted by using electronic tags on plants and shipments between licensees and facilities.

Compliance with United States operations – Colorado

High Fusion's management holds a primary responsibility to monitoring compliance of High Fusion's operations in the State of Colorado, and in accordance with the Marijuana Code, each of the management and Board members' names of the ultimate beneficial owners appear on the MED-issued license.

As of the date hereof, High Fusion holds the RMP License through its 100% owned subsidiary Palo Verde

In addition, High Fusion has previously sought and continues to seek legal advice from Holland & Hart LLP, as local external counsel, to ensure that all aspects of the license/permit, products and operations of High Fusion and Palo Verde are in compliance with the applicable State of Colorado and local law.

Summary Of Balance Sheets And Operating Results With Exposure To The U.S. Cannabis-Related Activities

High Fusion's exposure to the U.S. marijuana-related activities through the manufacture and sale of various cannabis consumer products in California and Colorado.

The following is the summary of High Fusion's balance sheet exposure to the U.S. cannabis-related activities as at January 31, 2023:

	Subsidiaries	Non-controlling Investments	Total	Percentage (%) exposure to the US cannabis activities
Current Assets	3,906,210	-	3,906,210	94.2%
Non Current Assets	7,814,467	-	7,814,467	100.0%
Total assets	$ 11,720,677	$ -	$ 11,720,677	98.0%
Current Liabilities	11,696,098	-	11,696,098	59.4%
Non Current Liabilities	990,320	-	990,320	4.6%
Total liabilities	$ 12,686,418	$ -	$ 12,686,418	30.6%

The following is the summary of operating losses from U.S. cannabis-related activities for the three months ended January 31, 2023:

	Subsidiaries	Non-controlling Investments	Total	Percentage (%) exposure to the US cannabis activities
Sales	$ 4,319,140	-	$ 4,319,140	100.0%
COGS	$ (3,119,468)	-	$ (3,119,468)	99.7%
Operating expenses	$ (3,323,911)	-	$ (3,323,911)	89.9%
Other Income (expense)	$ (292,316)	-	$ (292,316)	20.73%
Gain on sale of leaseback	$ -	-	$ -	#DIV/0!
Finance cost	$ (291,417)	-	$ (291,417)	15.3%
FX Gain (loss)	$ -	-	$ -	0.0%
Impairment of Intangible	$ -	-	$ -	0.0%
Income from investment	$ (1,874,190)	-	$ (1,874,190)	-559.4%

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

RISK FACTORS

There are numerous and various risks, known and unknown, that may prevent the Company from achieving its goals. It is believed that these are the factors that could adversely affect the Company's business, financial condition or results of operation. In such case, the trading price of the SVS could decline, and investors could lose all or part of their investment and should be undertaken only by persons whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment.

An investment in the securities of the Company could affect your admissibility to the United States by virtue of business or financial involvement in the legal marijuana industry in Canada or in the United States. Because marijuana remains illegal under United States federal law, those who are not U.S. citizens employed at or investing in legal and licensed U.S. marijuana companies could face detention, denial of entry or lifetime bans from the United States for their business associations with marijuana U.S. businesses. Moreover, marijuana remains a Schedule 1 controlled substance under the U.S. CSA, and the penalties for violating the CSA may include criminal penalties of up to twenty (20) years in prison and/or a fine of up to $2 million. In addition, the U.S. government can seize and seek the civil forfeiture of the real or personal property used to facilitate the sale of marijuana as well as the money or other proceeds received in connection with such sale. Thus, an investment in these securities could subject the investor to criminal and personal liabilities.

The following is a summary of certain risks of relating to various aspects of the Company, its business, its regulatory environment that could be applicable.

Risks Related to the Regulatory Environment

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

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

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

U.S. Federal Laws

The Federal Controlled Substances Act classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices or activities, including without limitation, the manufacture, importation,

possession, use or distribution of marijuana are illegal under U.S. federal law. Strict compliance with State laws with respect to marijuana will neither absolve the Company of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. The enforcement of relevant laws is a significant risk.

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

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

As of the date hereof, to the Company's knowledge, some form of cannabis (medical or adult-use) has been legalized in approximately 37 States, the District of Columbia, and the territories of Guam, U.S. Virgin Islands, Northern Mariana Islands and Puerto Rico; ; however, the risk remains that a shift in the regulatory or political realm could occur and have a drastic impact on the industry as a whole, adversely impacting the Company's business, results of operations, financial condition or prospects. The state laws are in conflict with the Federal Controlled Substances Act, which makes cannabis use and possession illegal on a national level. The U.S. administration has made numerous statements indicating that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical cannabis. However, there is no guarantee that the current U.S. government administration will not change the government's stated policy regarding the low-priority enforcement of federal laws and decide to enforce the federal laws to the fullest extent possible. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to the Company and its shareholders, including the potential exposure to criminal liability.

The constant evolution of laws and regulations affecting the cannabis industry could detrimentally affect the Company's operations. Local, state and federal medical cannabis laws and regulations are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt the business of the Company and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to the business of the Company.

United States border crossing

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

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

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

Local regulation could change and negatively impact on the Company's operations

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

There are risks associated with removal of U.S. Federal Budget Rider Protections

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

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

Access to Banking Services

On March 28, 2019, the House Financial Services Committee approved Secure and Fair Enforcement (SAFE) Banking Act reintroduced by U.S. Sens. Jeff Merkley (D-OR) and Cory Gardner (R-CO). The bill would prevent the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) from taking action against banks or credit unions that serve cannabis-related businesses, prevent those regulators from limiting access to financial institutions by cannabis-related businesses, require the Financial Crimes Enforcement Network (FinCEN) and the Federal Financial Institutions Examination Council (FFIEC) to issue guidance for institutions that provide services to cannabis-related businesses, require reporting by financial regulators and the Government Accountability Office, and impose or increase the cost of private-sector mandates on financial institutions and remove a private right of action against financial institutions.

The Company may have difficulty accessing the service of banks, which may make it challenging to operate efficiently. As the result of U.S. federal prohibitions on cannabis and concerns in the banking industry regarding money laundering and other federal financial crime related to marijuana, the access to U.S. banking system which include, but not limited to, inability to deposit funds in federally insured and licensed banking institutions have been restricted. Consequently, businesses involved in the cannabis industry often have difficulty finding a bank willing to service their businesses or access to credit card processing services. As a result, cannabis businesses in the U.S. are largely cash-based which complicates the implementation of financial controls and increases security and safety issues. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

Anti-Money Laundering Laws and Regulations

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

Lack of Access to U.S. Bankruptcy Protections

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

Taxes

U.S. federal prohibitions on the sale of cannabis may result in the Company not being able to deduct certain costs from its revenue for U.S. federal taxation purposes if the U.S. Internal Revenue Service (IRS) determines that revenue sources of the Company are generated from activities which are not permitted under U.S. federal law. Section 280E of the Internal Revenue Code of 1986 prohibits businesses from deducting certain expenses associated with trafficking-controlled substances (within the meaning of Schedule I and II of the CSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses.

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

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

Environmental and employee health and safety regulations

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

liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Non-compliance with federal, provincial or state laws and regulations, or the expansion of current, or the enactment of new laws or regulations, could adversely affect the Company's business.

The activities of the Company and the Licensed Operators which the Company conducts business with are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are sold. There can be no assurance that the Company will be able to obtain or maintain any necessary licenses, permits or approvals. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products and activities, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The formulation, manufacturing, packaging, labeling, handling, distribution, importation, exportation, licensing, sale and storage of the Licensed Operators' products are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. Such laws, regulations and other constraints may exist at the federal, provincial or local levels. There is currently no uniform regulation applicable to natural health products worldwide. There can be no assurance that the Company or its Licensed Operators will remain in compliance with all of these laws, regulations and other constraints, and changes to such laws, regulations and other constraints may have a material adverse effect on operations. The cost of complying with the legal cannabis industry cannot be known until the regulatory environment is made clear. In addition, special taxes or fees on businesses in the cannabis industry may affect the Company’s plans to enter the industry. If the Company is unable to respond appropriately to these changing federal and state regulations, it may not be successful in capturing significant market share.

Traditional rules of investing may prove to be imperfect in the cannabis industry. For example, while it would be common for investment managers to purchase equity in companies in different States to reach economies of scale and to conduct business across State lines, such an investment thesis may not be feasible in the cannabis industry because of varying State-by-State legislation. Applicable regulations in many States may require advance disclosure of and approval of State regulators to accomplish an investment. As no two regulated markets in the cannabis industry are exactly the same, doing business across State lines may not be possible or commercially practicable. As a result, the Company may be limited to identifying opportunities in individual States, which may have the effect of slowing the growth prospects of the Company.

Liability for actions of employees, contractors and consultants

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company.

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violate: (i) government

regulations; (ii) manufacturing standards; (iii) U.S. federal fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and they are not successful in defending themselves or asserting its rights, those actions could have a significant impact on its business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, the curtailment of the Company's operations or asset seizures, any of which could have a material adverse effect on the Company's businesses, financial condition and results of operations.

The cannabis industry is a new industry that may not succeed.

Should the U.S. federal government change course and decide to prosecute those dealing in medical or adult-use cannabis under applicable law, there may not be any market for the Company's products and services. It is a new industry subject to extensive regulation, and there can be no assurance that it will grow, flourish or continue to the extent necessary to permit the Company to succeed. The Company is treating the cannabis industry as a deregulating industry with significant unsatisfied demand for its proposed products and will adjust its future operations, product mix and market strategy as the industry develops and matures.

Regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital.

The Company's business activities rely on newly established and/or developing laws and regulations in the various States in which the Company operates. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Company's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the FDA, Securities and Exchange Commission, the U.S. DOJ, the Financial Industry Regulatory Advisory or other federal, State or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical and/or adult-use purposes in the U.S. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the Company's industry may adversely affect the business and operations of the Company, including without limitation, the costs to remain compliant with applicable laws and the impairment of its ability to raise additional capital, create a public trading market in the U.S. for securities of the Company or to find a suitable acquirer, which could reduce, delay or eliminate any return on investment in the Company.

the Company may be subject to the risk of an inability to enforce its contracts.

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal at a federal level, judges in multiple States have on a number of occasions refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate federal law, even if there is no violation of State law. There remains doubt and uncertainty that the Company will be able to legally enforce contracts it enters into if necessary. the Company cannot be assured that it will have a remedy for breach of contract, which would have a material adverse effect on the Company.

General Regulatory, Legal and Business Structure Risks

The Company's multi-class structure will have the effect of concentrating voting control and the ability to influence corporate matters

The holders of the MVS, have 10 votes per MVS, whereas the SVS have one vote per SVS. A higher percentage in respect of the election of directors and would therefore have significant influence over the management and affairs of the Company and over all matters requiring shareholder approval, including the election of directors and significant corporate transactions. In addition, because of the 10-to-1 voting ratio between the MVS and SVS, the holders of MVS will control a majority of the combined voting power of the Company's voting shares even though the MVS will represent a substantially reduced percentage of the total outstanding shares of the Company. The concentrated voting control of the holders of MVS will limit the ability of the holders of SVS to influence corporate matters for the foreseeable future, including the election of directors as well as with respect to the Company's decisions to amend its share capital, create and issue additional classes of shares, make significant acquisitions, sell significant assets or parts of its business, merge with other companies and/or undertake other significant transactions. As a result, holders of MVS will have the ability to influence or control many matters affecting the Company and actions may be taken that the holders of SVS may not view as beneficial. The market price of the SVS could be adversely affected due to the significant influence and voting power of the holders of MVS. Additionally, the significant voting interest of the holders of MVS could discourage transactions involving a change of control, including transactions in which an investor, as a holder of the SVS, might otherwise receive a premium for the SVS over the then-current market price, or discourage competing proposals if a going private transaction is proposed by one or more holders of SVS.

Loss of Foreign Private Issuer status.

The Company is a "foreign private issuer" ("**FPI**") as defined in Rule 405 under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), and Rule 3b-4 under the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"). If, as of the last business day of the Company's second fiscal quarter for any year, more than 50% of the Company's outstanding voting securities (as determined under Rule 405 of the U.S. Securities Act) are directly or indirectly held of record by residents of the United States, the Company will no longer meet the definition of an FPI, which may have adverse consequences on the Company's ability to raise capital in private placements or Canadian prospectus offerings. In addition, the loss of the Company's FPI status may result in increased reporting requirements and increased audit, legal and administration costs. These increased costs may significantly affect the Company's business, financial condition and results of operations.

The term "foreign private issuer" is defined as any non-U.S. corporation, other than a foreign government, except any issuer meeting the following conditions:

(a) more than 50% of the outstanding voting securities of such issuer are, directly or indirectly, held of record by residents of the United States; and

(b) any one of the following: (i) the majority of the executive officers or directors are United States citizens or residents, or (ii) more than 50% of the assets of the issuer are located in the United States, or (iii) the business of the issuer is administered principally in the United States.

A "holder of record" is defined by Rule 12g5-1 under the U.S. Exchange Act. Generally speaking, the holder identified on the record of security holders is considered as the record holder. In December 2016, the United States Securities and Exchange Commission (the "SEC") issued a Compliance and Disclosure Interpretation to clarify that issuers with multiple classes of voting stock carrying different voting rights may, for the purposes of calculating compliance with this threshold, examine either (i) the combined voting power of its share classes, or (ii) the number of voting securities, in each case held of record by U.S. residents. Based on this interpretation, each issued and outstanding MVS is counted as one voting security and each issued and outstanding SVS is counted as one voting security for the purposes of determining the 50% U.S. resident threshold, and the Company is a "foreign private issuer". Should the SEC's guidance and interpretation change, the Company may lose its FPI status.

The Company's operations in the U.S. cannabis market may become the subject of heightened scrutiny.

For the reasons set forth above, the Company's existing operations in the U.S., and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the U.S. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate or invest in the U.S. or any other jurisdiction, in addition to those described herein. Given the heightened risk profile associated with cannabis in the U.S., CDS Clearing and Depository Services Inc. ("**CDS**") may implement procedures or protocols that would prohibit or significantly curtail the ability of CDS to settle trades for cannabis companies that have cannabis businesses or assets in the U.S. On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("**TMX MOU**") with the Neo Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the U.S. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of SVS and MVS to make and settle trades. In particular, SVS and MVS would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of SVS and MVS through the facilities of a stock exchange. In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice setting out their disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. The Staff Notice confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. The Staff Notice includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. the Company views the Staff Notice favorably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the Company. Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the U.S. or elsewhere. A negative shift in the public's perception of medical and/or adult-use cannabis in the U.S. or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause State jurisdictions to abandon initiatives or proposals to legalize

medical and/or adult-use cannabis, thereby limiting the number of new State jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may result in a material adverse effect on the Company's business, financial condition, results of operations or prospects.

The Company may be subject to the risk of changes in Canadian laws or regulations, or a failure to comply with any such laws and regulations

The Company is subject to laws and regulations enacted by the federal and provincial governments of Canada. In particular, the Company will be required to comply with certain Canadian securities law, income tax law and the CSE and other legal and regulatory requirements. Compliance with, and monitoring of, applicable laws and regulations may be difficult, time consuming and costly. Those laws and regulations and their interpretation and application also may change from time to time and those changes could have a material adverse effect on the Company's business, investments and results of operations. In addition, a failure to comply with applicable laws or regulations, as interpreted and applied, could result in a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Holding company

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

Risks related to conflicts of interest.

The Company engages in the business of identifying and combining with one or more businesses. The Company's officers and directors may now be, or may in the future become, affiliated with entities that are engaged in a similar business.

The Company's officers and directors also may become aware of business opportunities which may be appropriate for presentation to the Company and the other entities to which it owes duties. In the course of its other business activities, the Company's officers and directors may owe similar or other duties, and may have obligations, to other entities or pursuant to other outside business arrangements, including seeking and presenting investment and business opportunities. Accordingly, they may have conflicts of interest in determining to which entity a particular business opportunity should be presented. These conflicts may not be resolved in the Company's favor, as the Company's officers and directors are not required to present investment and business opportunities to the Company in priority to other entities with which they are affiliated or to which they owe duties.

The Company has not adopted a policy that expressly prohibits its directors, officers, security holders, affiliates or associates from having a direct or indirect financial interest in any investment to be acquired or disposed of by the Company or in any transaction to which it is a party or has an interest. In fact, even though it is not the Company's current intentions to do so, they may enter into a transaction with a target business that is affiliated with the Company's directors or officers.

The Company is subject to the costs of being a public company.

As a public issuer, the Company is subject to the reporting requirements and rules and regulations under the applicable Canadian securities laws and rules of any stock exchange on which the Company's securities may be listed from time to time. Additional or new regulatory requirements may be adopted in the future. The requirements of existing and potential future rules and regulations will increase the Company's legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on its personnel, systems and resources, which could adversely affect its business and financial condition.

Certain remedies may be limited to the Company.

Pursuant to its governing documents, the Company and the shareholders of the Company may be prevented from recovering damages for alleged errors or omissions made by the members of the Company's board of directors and its officers. The Company's governing documents also provide that the Company will, to the fullest extent permitted by law, indemnify members of the Company's board of directors and its officers for certain liabilities incurred by them by virtue of their acts on behalf of the Company.

The Company may have difficulty enforcing judgments and effecting service of process on directors and officers and principals of the Licensed Operators

Certain directors and officers of the Company reside outside of Canada. Most or all of the assets of such persons may be located outside of Canada. Therefore, it may not be possible for the Company's shareholders to collect or to enforce judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities laws against such persons. Moreover, it may not be possible for the Company shareholders to effect service of process within Canada upon such persons.

Risks Related to the Business of the Company and the Industry in which it Operates

Limited operating history

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

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

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

Reliance on securing agreements with Licensed Operators

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

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

Epidemic diseases, such as recent outbreak of the COVID-19 illness

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

The Company currently has insurance coverage; however, because the Company operates within the cannabis industry, there additional difficulties and complexities associated with such insurance coverage.

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

Proposed Acquisitions and Dispositions

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

The Company is dependent on intellectual property, and failure to protect the rights to use that intellectual property could adversely the Company's future growth and success.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available. As a result, intellectual property of the Company's U.S. investments may never be adequately

or sufficiently protected against the use or misappropriation by third parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that the businesses in which it invests will ever obtain any protection of its intellectual property, whether on a federal, state or local level.

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

Reliance on third-party suppliers, manufacturers and contractors

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

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

Product liability, operational risk

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

Recent Announcements and Risks Regarding Vaporizer Products.

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

Product recalls

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

Uninsurable risks

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

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

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

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

Additional financing

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

Access to public and private capital and financing continues to be negatively impacted by the federal illegality of cannabis in the United States. Although the Company has had success completing public and private capital in the past, the Company's ability to obtain debt and/or equity financing in the future on favorable terms or obtain any financing at all cannot be guaranteed.
Furthermore, any debt financing, if available, may involve restrictive covenants and granting of security against assets of the Company, which may limit its operating flexibility with respect to business matters as well as may make it more difficult for the Company to obtain additional capital. The Company will require additional financing to fund its operations until anticipated positive cash flow is achieved.

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

Risks Affecting the real estate industry

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

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

The Company may be vulnerable to unfavorable publicity or consumer perception

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

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

Illegal drug dealer could pose threats

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

Reliance on Management, Board and Other Members of the Leadership Team

The Company’s operations are dependent upon a relatively small group of individuals and, in particular, its officers and directors. The Company believes that its success will depend on the continued service of its officers and directors. In addition, the Company’s officers and directors are not required to commit any specified amount of time to the Company’s affairs and, accordingly, may have conflicts of interest in allocating management time among various business activities, including identifying potential acquisitions and monitoring the related due diligence. The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements or management agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating

results, financial condition or prospects. The Company does not have key-man insurance on the life of any of its directors or officers. The unexpected loss of the services of one or more of its directors or officers could have a detrimental effect on the Company, its operations and its ability to make acquisitions.

Factors which may prevent realization of growth targets

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

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

Risks associated with increasing competition

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

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

Difficult to forecast

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

Management of growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage

its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

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

The Company may be subject to market price volatility risks.

The market price of the SVS may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the SVS.

There is a limited market for the SVS

Notwithstanding that the SVS are listed on the CSE (and excluding the MVS which are not listed securities), there can be no assurance that an active and liquid market for such SVS will develop or be maintained and the Company's shareholders may find it difficult to resell any securities of the Company.

The Company may be subject to the risks posed by sales by existing shareholders

Sales of a substantial number of SVS (and excluding the SVS which are not listed securities) in the public market could occur at any time by existing holders of such SVS. These sales, or the market perception that the holders of a large number of SVS intend to sell SVS, could reduce the market price of the SVS. If this occurs and continues, it could impair the Company's ability to raise additional capital through the sale of securities.

Currency exchange rates

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

The Company has limited control over the operations and activities of the Licensed Operators.

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

Default by the Licensed Operators under the agreements with the Company could have a material impact on the Company.

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

Scientific research related to the benefits of marijuana remains in early stages, is subject to a number of important assumptions and may prove to be inaccurate.

Research in Canada, the United States and internationally regarding the medical benefits, viability, safety, efficacy and dosing of cannabis or isolated cannabinoids remains in early stages. To the Company's knowledge, there have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids. Any statements concerning the potential medical benefits of cannabinoids are based on published articles and reports. As a result, any statements made herein are subject to the experimental parameters, qualifications, assumptions and limitations in the studies that have been completed.
Although the Company believes that the articles and reports, and details of research studies and clinical trials that are publicly available reasonably support its beliefs regarding the medical benefits, viability, safety, efficacy and dosing of cannabis, future research and clinical trials may prove such statements to be incorrect or could raise concerns regarding and perceptions relating to cannabis. Given these risks, uncertainties and assumptions, investors should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this document or reach negative conclusions regarding the viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could materially impact the Company.

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

Certain events or developments in the cannabis industry more generally may impact the Company's reputation.
Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Cannabis has often been associated with various other narcotics, violence and criminal activities, the risk of which is that our business might attract negative publicity. There is also risk that the action(s) of other participants, companies and service providers in the cannabis industry may negatively affect the reputation of the industry as a whole and thereby negatively impact the reputation of the Company. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other

users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regard to the Company and its activities, whether true or not and the cannabis industry in general, whether true or not. The Company does not ultimately have direct control over how it or the cannabis industry is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business strategy and realize on its growth prospects, thereby having a material adverse impact on the Company.

Negative Cash Flow

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

Service providers could suspend or withdraw service to the Company

As a result of any adverse change to the approach in enforcement of United States cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse change in public perception in respect of the consumption of marijuana or otherwise, third-party service providers to the Company could suspend or withdraw their services, which may have a material adverse effect on the Company's business, revenues, operating results, financial condition or prospects.

The Company may be subject to the risk of litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for the SVS and MVS. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

The Company may be subject to risks related to security breaches.

Given the nature of the Company's product and its lack of legal availability outside of channels approved by the Government of the United States, as well as the concentration of inventory in its facilities, despite meeting or exceeding all legislative security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

In addition, the Company collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly patient lists and preferences, is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations or prospects.

The Company may be subject to the risks of leverage.

The Company anticipates utilizing leverage in connection with the Company's investments in the form of secured or unsecured indebtedness. Although the Company will seek to use leverage in a manner it believes is prudent, such leverage will increase the exposure of an investment to adverse economic factors such as downturns in the economy or deterioration in the condition of the investment. If the Company defaults on secured indebtedness, the lender may foreclose and the Company could lose its entire investment in the security of such loan. If the Company defaults on unsecured indebtedness, the terms of the loan may require the Company to repay the principal amount of the loan and any interest accrued thereon in addition to heavy penalties that may be imposed. Because the Company may engage in financings where several investments are cross-collateralized, multiple investments may be subject to the risk of loss. As a result, the Company could lose its interest in performing investments in the event such investments are cross- collateralized with poorly performing or nonperforming investments.

In addition to leveraging the Company's investments, the Company may borrow funds in its own name for various purposes, and may withhold or apply from distributions amounts necessary to repay such borrowings. The interest expense and such other costs incurred in connection with such borrowings may not be recovered by income from investments purchased by the Company. If investments fail to cover the cost of such borrowings, the value of the investments held by the Company would decrease faster than if there had been no such borrowings. Additionally, if the investments fail to perform to expectation, the interests of investors in the Company could be subordinated to such leverage, which will compound any such adverse consequences.

Reliance on management services agreement could adversely affect prospects and results.

The Company provides administrative, consulting, and operations services to DW27 and SDI, pursuant to DW27 MSA and SDI MSA governed by State of California law. The Company's key source of revenue is dependent on the continuing validity and enforceability of such service agreements. If such agreements are found to be invalid or unenforceable or is terminated by the counterparty, this could have a material adverse effect on the business, prospects, financial condition, and operating results. If ultimate approval of license transfers is not able to be obtained, this could have a material adverse effect on the Company.

The Company and the Licensed Operators that it conducts business with may be vulnerable to attacks on privacy systems, cyber-attacks and security of sensitive information.

The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. Throughout the Company's operations, the Company receives, retains and transmits certain confidential information, including personally identifiable information that the Company's customers provide to purchase products or services, interact with the Company's personnel, or otherwise communicate with the Company.

A privacy breach may occur through procedural or process failure, IT malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly customer lists and preferences, is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business,

financial condition and results of operations. the Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future.

The theft, destruction, loss, misappropriation, or release of sensitive and/or confidential information or intellectual property or interference with our IT systems or the technology systems of third parties on which we rely, could result in business disruption, negative publicity, brand damage, loss of employee confidence, violation of privacy laws, loss of customers, potential liability and competitive disadvantage. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices is designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Internal Control over Financial Reporting

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

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at July 31, 2022 covered by this management's discussion and analysis, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws.

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

Cautionary Note Regarding Forward Looking Statements

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

that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks are set out in “Risk Factors” of this MD&A. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained herein are made as of March 27, 2023 and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary Statement.

Management's Responsibility for Financial Information

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

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

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

March 27, 2022

Robert Wilson
Chief Financial Officer