HERITAGE CANNABIS HOLDINGS CORP.

Consolidated Financial Statements

Years Ended October 31, 2020 and 2019

(Stated in Canadian Dollars)

HERITAGE CANNABIS
Holdings Corp

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Consolidated Financial Statements

Years Ended October 31, 2020 and 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Heritage Cannabis Holdings Corp.

Opinion

We have audited the accompanying consolidated financial statements of Heritage Cannabis Holdings Corp. (the "Company"), which comprise the consolidated statement of financial position as at October 31, 2020 and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a net loss of $8,632,597 during the year ended October 31, 2020. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matters

The consolidated financial statements of Heritage Cannabis Holdings Corp. for the year ended October 31, 2019 were audited by another auditor who expressed an unmodified opinion on those statements on February 27, 2020.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

March 1, 2021

HERITAGE CANNABIS HOLDINGS CORP.
Consolidated Statements of Financial Position
As at October 31, 2020 and 2019
(Stated in Canadian Dollars)

	Notes	As at October 31, 2020	As at October 31, 2019 (Note 30)
Assets			
Current			
Cash		$ 1,445,659	$ 2,486,466
Short-term investments	6	6,050,000	9,050,000
Sales tax recoverable		66,472	954,770
Accounts receivable	23(a),28,31	1,063,768	599,267
Inventories	7	5,225,365	5,517,717
Prepaid expenses and deposits		741,065	773,159
Convertible promissory note receivable	8	254,481	-
Other current assets	14(b),20(c)	48,831	49,255
		14,895,641	19,430,634
Other investments and deposits	9	153,018	276,104
Investment in associate	10	3,515,379	3,923,505
Intangible assets and goodwill	11	45,298,364	49,510,047
Property, plant and equipment	12	19,569,406	19,349,263
Total Assets		$ 83,431,808	$ 92,489,553
Liabilities			
Current			
Accounts payable and accrued liabilities	20(c),23(b)	$ 2,462,297	$ 6,748,939
Sales tax payable		373,665	-
Deferred revenue		906	991,861
Current portion of long-term debt	13	519,928	4,360
Current portion of contingent consideration payable	14	148,311	-
		3,505,107	7,745,160
Long-term debt	13	4,070,493	24,235
Contingent consideration payable	14	1,362,000	4,684,000
Warrant liabilities	15	893,377	-
Deferred tax liability	19	5,336,000	6,554,300
Total Liabilities		15,166,977	19,007,695
Equity			
Share capital	16	96,203,173	93,191,673
Contributed surplus	17	5,417,218	5,048,986
Accumulated other comprehensive income	4,10	36,012	-
Accumulated deficit		(34,031,758)	(25,344,005)
Equity attributable to shareholders		67,624,645	72,896,654
Non-controlling interest	18	640,186	585,204
Total Equity		68,264,831	73,481,858
Total Liabilities and Equity		$ 83,431,808	$ 92,489,553

Going Concern (Note 1)
Commitments (Note 21)
Subsequent Events (Note 31)

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

Approved on behalf of the Board of Directors:

"Clint Sharples", CEO	"Graeme Staley"
Director	Director

HERITAGE CANNABIS HOLDINGS CORP.
Consolidated Statements of Operations and Comprehensive Loss
Years Ended October 31, 2020 and 2019
(Stated in Canadian Dollars)

	Notes	Years Ended October 31, 2020	Years Ended October 31, 2019
			(Note 30)
Gross Revenue	25	$ 9,257,070	$ 3,563,623
Excise taxes	2(q)(ii)	(1,000,635)	-
Net Revenue		8,256,435	3,563,623
Cost of Sales	7	6,656,120	4,072,626
Gross Margin Before Fair Value Adjustments		1,600,315	(509,003)
Unrealized change in fair value of biological assets	2(c)	149,985	186,247
Gross Margin		1,750,300	(322,756)
General and Administrative Expenses			
Advertising, travel and promotion		648,196	1,304,417
Amortization	7,11,12	2,515,498	1,843,028
Management and consulting fees	20	1,638,848	2,373,309
Occupancy, general and administrative	20	2,105,889	1,939,041
Professional fees		538,095	722,983
Share-based payments	17,20	368,232	3,714,983
Salaries, wages and benefits	20,28	429,428	1,722,465
		8,244,186	13,620,226
Other Income (Expense)			
Interest and other income		277,785	192,773
Interest and accretion expense	13	(549,581)	-
Share of loss from investment in associate	10	(448,701)	(115,597)
Impairment of intangible assets	11	(5,500,000)	-
Unrealized gain (loss) on contingent consideration payable	14	3,173,689	(676,974)
Unrealized loss on warrant liabilities	15	(140,377)	-
Impairment of other investments and deposits	9	(170,000)	(317,415)
		(3,357,185)	(917,213)
Loss Before Taxes		(9,851,071)	(14,860,195)
Income tax recovery			
Deferred income tax recovery	19	(1,218,300)	(1,704,635)
		(1,218,300)	(1,704,635)
Net Loss		$ (8,632,771)	$ (13,155,560)
Other comprehensive income that may be reclassified to net loss			
Gain on foreign currency translation	4,10	36,012	-
Comprehensive Loss		$ (8,596,759)	$ (13,155,560)
Comprehensive Income (Loss) attributed to:			
Shareholders of the Company		$ (8,651,741)	$ (12,773,735)
Non-controlling interest	18	54,982	(381,825)
		$ (8,596,759)	$ (13,155,560)
Weighted average number of outstanding shares, basic and diluted	22	475,373,876	428,174,008
Basic and diluted loss per share	22	$ (0.02)	$ (0.03)

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

HERITAGE CANNABIS HOLDINGS CORP.
Consolidated Statements of Changes in Equity
Years Ended October 31, 2020 and 2019
(Stated in Canadian Dollars)

	Notes	Number of Shares	Share Capital	Contributed Surplus	Share Subscriptions	Accumulated Other Comprehensive Income	Accumulated Deficit	Non-controlling Interest	Total
									(Note 30)
Balance at October 31, 2018 (Restated, see Note 29)		203,919,450	$ 21,598,702	$ 2,190,551	$ 55,000	$ -	$ (12,570,270)	$ 967,029	$ 12,241,012
Shares issued as purchase consideration									
CannaCure Corporation	16	131,548,575	30,256,174	-	-	-	-	-	30,256,174
Purefarma Solutions Inc.	16	33,333,333	6,000,000	-	-	-	-	-	6,000,000
Share-based payments - acquisition costs									
CannaCure Corporation	16	5,784,751	1,610,493	163,643	-	-	-	-	1,774,136
Purefarma Solutions Inc.	16	1,200,000	234,000	-	-	-	-	-	234,000
Shares issued for cash consideration									
Exercise of warrants	16	25,166,216	8,772,957	(619,398)	-	-	-	-	8,153,559
Exercise of options	16	4,241,919	1,664,674	(1,003,554)	-	-	-	-	661,120
Replacement options issued as purchase consideration									
CannaCure Corporation		-	-	1,357,560		-	-	-	1,357,560
Replacement warrants issued as purchase consideration									
CannaCure Corporation		-	-	233,887	-	-	-	-	233,887
Contingent consideration, equity-settled									
Purefarma Solutions Inc.	14	-	-	18,974	-	-	-	-	18,974
Share-based payments - vesting of options	17(c)	-	-	1,546,505	-	-	-	-	1,546,505
Share-based payments - vesting of restricted shares	17(d)	-	-	83,836	-	-	-	-	83,836
Share-based payments - issuance of shares	16	153,265	76,506	-	-	-	-	-	76,506
Private placements									
Issuance and exercise of Special Warrants	16,17(b)(e)	33,000,000	6,621,589	237,055	(55,000)	-	-	-	6,803,644
Issuance of Units	16	32,660,000	14,974,804	839,927	-	-	-	-	15,814,731
Shares issued on Endocanna share exchange transaction	10	2,710,515	1,381,774	-	-	-	-	-	1,381,774
Comprehensive loss for the year		-	-	-	-	-	(12,773,735)	(381,825)	(13,155,560)
Balance at October 31, 2019		473,718,024	$ 93,191,673	$ 5,048,986	$ -	$ -	$ (25,344,005)	$ 585,204	$ 73,481,858
Balance at October 31, 2019		473,718,024	$ 93,191,673	$ 5,048,986	$ -	$ -	$ (25,344,005)	$ 585,204	$ 73,481,858
Share-based payments - vesting of options	17(c)	-	-	339,568	-	-	-	-	339,568
Share-based payments - vesting of restricted shares	17(d)	-	-	28,664	-	-	-	-	28,664
Shares issued as purchase consideration for Opticann acquisition	4	21,918,698	2,959,000	-	-	-	-	-	2,959,000
Shares issued for the acquisition of intangible asset	11,16	500,000	52,500	-	-	-	-	-	52,500
Comprehensive income (loss) for the year	4,10	-	-	-	-	36,012	(8,687,753)	54,982	(8,596,759)
Balance at October 31, 2020		496,136,722	$ 96,203,173	$ 5,417,218	$ -	$ 36,012	$ (34,031,758)	$ 640,186	$ 68,264,831

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

HERITAGE CANNABIS HOLDINGS CORP.
Consolidated Statements of Cash Flows
Years Ended October 31, 2020 and 2019
(Stated in Canadian Dollars)

	Notes	Years Ended October 31, 2020	Years Ended October 31, 2019 (Note 30)
Operating Activities			
Net loss for the year		$ (8,632,771)	$ (13,155,560)
Items not affecting cash:			
Amortization	7,11,12	2,515,498	2,001,692
Amortization in cost of sales		469,284	-
Unrealized change in fair value of biological assets		(149,985)	(186,247)
Loss on disposal of property, plant and equipment	12	805	-
Deferred income tax recovery	19	(1,218,300)	(1,704,635)
Non-cash items included in interest and other income		(4,481)	4,581
Non-cash recovery of accounts payable	7	(2,879,718)	-
Non-cash interest and accretion expense	13	202,237	10,948
Share-based payments	17	368,232	3,714,983
Acquiree's acquisition costs - non-equity-settled		-	118,435
Share of loss from investment in associate	10	448,701	115,597
Unrealized loss (gain) on contingent consideration payable	14	(3,173,689)	676,974
Unrealized loss on warrant liabilities	15	140,377	-
Unrealized foreign exchange gain	4	(4,140)	-
Impairment of intangible assets	11	5,500,000	-
Impairment of other investments and deposits	9	170,000	317,415
		(6,247,950)	(8,085,817)
Net changes in non-cash working capital, net of business combinations:			
Sales tax recoverable		888,298	(63,962)
Accounts receivable	9(iii)	(511,403)	(599,267)
Inventories		1,530,653	(5,331,470)
Prepaid expenses and deposits		32,094	(509,380)
Other current assets		-	(3,376)
Accounts payable and accrued liabilities		(2,050,474)	4,738,575
Sales tax payable		373,665	-
Repayments to related parties		-	(55,458)
Deferred revenue		(990,955)	991,861
Cash Flows Used in Operating Activities		(6,976,072)	(8,918,294)
Investing Activities			
Acquisition of property, plant and equipment	12	(1,355,212)	(8,915,049)
Proceeds from disposal of property, plant and equipment	12	2,350	-
Purchase of convertible promissory note receivable	8	(250,000)	-
Cash acquired from asset acquisition	4	205,767	80,233
Deposits advanced		-	(90,000)
Purchases of short-term investments	6	(6,050,000)	(22,550,000)
Maturity of short-term investments	6	9,050,000	13,500,000
Issuance of loans receivable		-	(322,421)
Repayment of loans receivable		-	322,421
Issuance of advances, settled through business combination		-	(89,983)
Purchase of investment in associate	10	-	(2,657,328)
Cash Flows Provided by (Used In) Investing Activities		1,602,905	(20,722,127)
Financing Activities			
Proceeds from exercise of warrants	16	-	8,153,559
Proceeds from exercise of options	16	-	661,120
Proceeds from issuance of Special Warrants, net of issuance costs		-	6,803,644
Proceeds from issuance of Units, net of issuance costs	16	-	15,814,731
Principal payments on lease obligation		(27,229)	-
Principal payment on long-term debt	13	(4,360)	(330,767)
Proceeds from long-term debt	13	4,363,949	-
Cash paid to non-controlling interest	14,18	-	(150,000)
Cash Flows Provided By Financing Activities		4,332,360	30,952,287
Net Increase (Decrease) in Cash During the Year		(1,040,807)	1,311,866
Cash, Beginning of Year		2,486,466	1,174,600
Cash, End of Year		$ 1,445,659	$ 2,486,466

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

Supplementary information			
Interest received		$ 164,576	$ 60,718
Interest paid	13	$ 347,344	$ -
Income taxes paid		$ -	$ -

Nature of business

Heritage Cannabis Holdings Corp. ("the Company") is a public company whose common shares trade on the Canadian Securities Exchange under the symbol "CANN". The Company was incorporated on October 25, 2007 in British Columbia, Canada, under the Business Corporations Act and commenced operations on November 1, 2007. On January 9, 2018, the Company changed its name to Heritage Cannabis Holdings Corp. The head office and principal address of the Company is Suite 600-77 Bloor Street West, Toronto, Ontario, Canada, M5S 1M2 and the registered office of the Company is located at Suite 1500-1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

The Company is a vertically integrated cannabis business. Through its subsidiaries, Voyage Cannabis Corp. ("Voyage") and CannaCure Corporation ("CannaCure"), the Company holds licenses under the Cannabis Act (Canada) and its relevant regulations. Voyage, a holder of a cultivation, processing and medicinal and adult use and cannabis oil sales license, as well as an industrial hemp license, operates out of a 15,500 square foot facility in Falkland, British Columbia. CannaCure, a holder of a cultivation, processing and medicinal and adult use sales license, as well as an industrial hemp license, operates out of a 122,000 square foot facility in Fort Erie, Ontario. Purefarma Solutions Inc. ("Purefarma"), a wholly-owned subsidiary, provides the Company with the experience and know-how necessary to manufacture, refine and formulate cannabis oils. On December 18, 2018, CALYX Life Sciences Corp., a wholly-owned subsidiary, was incorporated to create products and services aimed at providing an integrative approach to cannabinoid therapy for healthcare consumers and healthcare practitioners. On October 6, 2020, the Company acquired 100% of Opticann, Inc., a Colorado based oral and topical cannabinoid company.

1. Basis of presentation

(a) Going concern

Although the Company was awarded licenses and has invested resources into its business, the Company is not yet generating positive cash flow from operations and as such, it must rely, in part, on equity and debt financing to fund operations. To date, the Company's main source of funding has been the issuance of equity securities for cash through private placements to sophisticated investors, public offerings to institutional investors, and issuances of long-term debt.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes that the Company will operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. For the year ended October 31, 2020, the Company incurred a net loss of $8,632,771 (2019 - $13,155,560) for the year ended October 31, 2020, and had an accumulated deficit of $34,031,758 (2019 - $25,344,005) as at October 31, 2020. The Company's ability to arrange additional financing in the future depends, in part, on the prevailing capital market conditions. These factors indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

The consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments other than in the normal course of business and at amounts different from those in these consolidated financial statements.

1. Basis of presentation (continued)

(b) Statement of compliance

The consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") applicable to the preparation of these consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on February 25, 2021.

(c) Basis of measurement

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for acquisition-related contingent consideration payable, investment in Stanley Park Digital Ltd. ("SPD"), investment in 1186366 B.C. Ltd., convertible promissory note receivable and warrant liabilities which are measured at fair value. These consolidated financial statements have been prepared on an accrual basis except for cash flow information.

(d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars ("CDN") unless otherwise noted. The functional currency of Heritage US Holdings Corp., Heritage (US) Cali Corp., Heritage (US) Oregon Corp., Heritage (US) Colorado Corp., Opticann, Inc. and Endocanna Health, Inc. ("Endocanna") is the U.S. dollar ("USD"). The functional currency of the remaining entities is the Canadian dollar.

(e) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, with intercompany balances and transactions eliminated on consolidation. Subsidiaries are those entities over which the Company has control, which exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. As of October 31, 2020, subsidiaries over which the Company has control are listed below.

1. Basis of presentation (continued)

(e) Basis of consolidation (continued)

Subsidiaries	Ownership Percentage	Jurisdiction of Incorporation
CannaCure Corporation	100%	Ontario, Canada
Purefarma Solutions Inc.	100%	British Columbia, Canada
CALYX Life Sciences Corp. (formerly BriteLife Sciences Ltd.)	100%	British Columbia, Canada
1005477 B.C. Ltd.	100%	British Columbia, Canada
Voyage Cannabis Corp. (formerly PhyeinMed Inc.)	75%	British Columbia, Canada
Mainstrain Market Ltd.	75%	British Columbia, Canada
333 Jarvis Realty Inc.	100%	Ontario, Canada
Heritage US Holdings Corp.	100%	Delaware, United States
Heritage (US) Cali Corp.	100%	California, United States
5450 Realty Inc.	100%	British Columbia, Canada
Heritage (US) Oregon Corp.	100%	Oregon, United States
Heritage Cannabis Exchange Corp.	100%	Ontario, Canada
Heritage (US) Colorado Corp.	100%	Delaware, United States
Opticann, Inc.	100%	Colorado, United States

Certain subsidiaries are controlled, indirectly, through other subsidiaries.

During the year ended October 31, 2020, the Company incorporated four new wholly-owned subsidiaries: 5450 Realty Inc. (November 1, 2019), Heritage (US) Oregon Corp. (March 23, 2020), Heritage (US) Colorado Corp. (September 24, 2020) and Heritage Cannabis Exchange Corp. (October 6, 2020). In addition, on October 6, 2020, the Company acquired all the issued and outstanding shares of Opticann, Inc. Refer to Note 4.

(f) Estimates and critical judgements made by management

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods. While management believes that the estimates are reasonable, actual results could differ materially from those estimates and may impact the future results of operations.

1. Basis of presentation (continued)

(f) Estimates and critical judgements made by management (continued)

(i) COVID-19 Estimation Uncertainty

In March 2020, the World Health Organization declared the outbreak of the novel strain of coronavirus ("COVID-19"), a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, had an impact on the Company's operations from the second quarter of 2020. As at October 31, 2020, management performed an annual impairment test on goodwill (see Note 11). Based on the impairment test, management has recognized an impairment loss of $5,500,000 on goodwill.

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's business, financial position and operating results in the future. In addition, it is possible that estimates in the Company's consolidated financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

(ii) Share-based payment transactions

Certain equity-settled transactions are measured by reference to the fair value of the equity instruments granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the share option or warrant, volatility and dividend yield.

(iii) Business combinations

In a business combination, the Company may acquire assets and assume certain liabilities of an acquired entity. Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. Estimates are made as to the fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date, as well as the fair value of consideration paid and contingent consideration payable. In certain circumstances, such as the valuation of property, plant and equipment, intangible assets and goodwill acquired, the Company may rely on independent third-party valuators. The determination of these fair values involves a variety of assumptions, include revenue growth rates, expected operating income, discount rates, and earnings multiples.

(iv) Estimated useful lives and depreciation of property, plant and equipment, right-of-use asset and intangible assets with finite lives

Depreciation and amortization of property, plant and equipment, right-of-use asset and intangible assets with finite lives are dependent upon estimates of useful lives and when the asset is available for use, which are determined through the exercise of judgment and are dependent upon estimates that take into account factors such as economic and market conditions, frequency of use, anticipated changes in laws and technological improvements.

1. Basis of presentation (continued)

(f) Estimates and critical judgements made by management (continued)

(v) Impairment of property, plant and equipment, right-of-use asset and intangible assets other than goodwill

The assessment of any impairment on property, plant and equipment, right-of-use asset and intangible assets other than goodwill is dependent upon estimates of recoverable amounts. As the recoverable amount is the higher of fair value less costs of disposal and value in use, management must consider factors such as economic and market conditions, estimated future cash flows, discount rates and asset-specific risks.

(vi) Impairment of goodwill

The impairment test for cash generating units ("CGUs") to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based on assumptions including, but not limited to, the cash flow growth rate and the discount rate.

(vii) Determination of CGUs

Management is required to use judgement in determining which assets or group of assets make up appropriate CGUs for the level at which goodwill and intangible assets with indefinite lives are tested for impairment. A CGU is defined as 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.

(viii) Valuation of financial instruments

The Company makes estimates and assumptions relating to the fair value measurement and disclosure of its convertible promissory note receivable, private company investments, contingent consideration payable and warrant liabilities. The fair values are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, management's judgment is required to establish fair values.

(ix) Control, joint control or significant influence

In determining the appropriate basis of accounting for the Company's interests in investees, judgment is applied regarding the degree to which the Company has the ability to control or exert significant influence over, directly or indirectly, the investees' financial and operating activities.

(x) Income taxes and recoverability of potential deferred tax assets

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses for income tax purposes, it assesses the probability of taxable income being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

1. Basis of presentation (continued)

(f) Estimates and critical judgements made by management (continued)

(xi) Inventory

Inventory is valued at the lower of cost and net realizable value. Determining net realizable value requires the Company to make assumptions about estimated selling prices in the ordinary course of business and the estimated variable costs to sell. Determining cost requires the Company to make estimates surrounding capacity and to allocate both direct and indirect costs on a systematic basis.

(xii) Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECLs") for all debt financial assets not held at fair value requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses. These assumptions are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

(xiii) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. Management monitors future cash requirements to assess the Company's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 1(a).

(xiv) Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

2. Significant accounting policies

(a) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

2. Significant accounting policies (continued)

(a) Business combination (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition date amounts of identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for those items for which the accounting is incomplete. The provisional amounts are adjusted during the measurement period, or additional assets or liabilities may be recognized to reflect additional information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2. Significant accounting policies (continued)

(b) Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalents comprises short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of change and have maturities of three months or less from the date of acquisition, held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. The Company had no cash equivalents at the end of the reporting periods.

(c) Inventories

Inventories are initially valued at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis.

As at October 31, 2020, the Company does not have any biological assets. During the year ended October 31, 2020, an unrealized gain of $149,985 was related to the fair value increase of biological assets transferred into inventories.

(d) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the assets' estimated useful lives.

Licenses	4 to 20 years
Intellectual property	10 years
Brand	3 years

Estimated useful lives and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is thereafter regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(e) Property, plant and equipment and right-of-use asset

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized on a straight-line basis over the assets' estimated useful lives.

Buildings and improvements	20 years
Equipment	10 years
Right-of-use asset	Lesser of lease term or useful life

2. Significant accounting policies (continued)

(e) Property, plant and equipment and right-of-use asset (continued)

An asset's residual value, useful life and depreciation method are reviewed at the end of each reporting period and adjusted if appropriate. When parts of an item of plant, property and equipment have different useful lives, they are accounted for as separate items.

During their construction, property, plant and equipment are not subject to depreciation. When the asset is available for use, depreciation commences.

Gains and losses on the disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in profit or loss.

(f) Impairment of long-lived assets

Impairment tests on goodwill and intangible assets with indefinite useful lives are undertaken annually at the financial year-end and whenever there is an indication that these assets may be impaired. For other long-lived assets, the Company reviews their carrying amounts at the end of each reporting period to determine whether there is any indication that the carrying amount is not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the carrying value of an asset exceeds its recoverable amount, the asset is written down accordingly.

The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows resulting from the asset's use and eventual disposition are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

When an individual asset does not generate independent cash flows, the Company estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

(g) Financial instruments

All financial instruments are initially recorded at fair value at the time of acquisition. The Company aggregates its financial instruments in accordance with IFRS 9, Financial Instruments, into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized, which is normally the date of the transaction. The Company's accounting policy for each class of financial instruments is as follows:

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(i) Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest ("SPPI") criterion, and financial liabilities which are not required, and for which the Company has not elected to subsequently record at fair value through profit or loss.

Financial instruments in this category are initially recognized at fair value plus directly attributable transaction costs. Subsequently, these instruments are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Financial assets are adjusted for any expected credit losses (“ECLs”).

Financial assets in this category include cash, short-term investments, accounts receivable and other current assets. Financial liabilities in this category include accounts payable and accrued liabilities and long-term debt.

(ii) Fair value through profit or loss (“FVTPL”)

This category includes derivative instruments and debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

These financial instruments are initially recognized at fair value; all transaction costs are recognized immediately in profit or loss. Subsequently, these instruments are recognized at fair value at each reporting date. Any changes in fair value, and gains or losses upon disposition of the financial instruments are recognized in profit or loss.

Financial assets and liabilities in this category include convertible promissory note receivable, investments in SPD and 1186366 B.C. Ltd. included in other investments and deposits, contingent consideration payable and warrant liabilities.

(iii) Fair value through other comprehensive income (“FVOCI”)

This category only includes equity instruments, which the Company intends to hold for the foreseeable future and which the Company has irrevocably elected to so classify upon initial recognition or transition.

Equity instruments in this category are subsequently measured at fair value with changes recognized in other comprehensive income, with no recycling of gains or losses to profit or loss upon derecognition. Dividend income is recognized in earnings. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9.

The Company did not have any financial instruments in this category as at October 31, 2019 and 2020.

2. Significant accounting policies (continued)

(h) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on cash, short-term investments and accounts receivable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Company recognises lifetime ECLs for accounts receivable. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. For all other financial instruments, the Company recognizes measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs. However, when there has been a significant increase in credit risk on these other financial instruments since initial recognition, lifetime ECLs are recognized. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) De-recognition of financial instruments

The Company de-recognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and reward of ownership of the asset to another party. On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

The Company de-recognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in profit or loss.

(j) Investments in associates

Significant influence is the power to participate in the financial and operating policy decisions of the associate without control or joint control over those policies. Significant influence is presumed to exist if the Company holds between 20% and 50% of the voting rights, unless evidence exists to the contrary. The Company has assessed that it has significant influence over Endocanna (Note 10). Associates in which the Company has significant influence are accounted for using the equity method. The Company's interest is initially recorded at cost, including transaction costs, and is subsequently adjusted for the Company's share of the associate's profit or loss and other comprehensive income, less any impairment in the value of individual investments, less any dividends received. Where the Company transacts with an associate, profits and losses are eliminated to the extent of the Company's interest in that associate. If the Company's share of losses equals or exceeds its interest in the associate, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

2. Significant accounting policies (continued)

(k) Leases

The Company accounts for lease contracts in accordance with IFRS 16, Leases.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use assets are adjusted for impairment losses, if any. The estimated useful lives and recoverable amounts of right-of-use assets are determined on the same basis as those of property and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases and leases for which the underlying asset is of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term. During the year ended October 31, 2020, the Company recognized lease payments of $133,456 as expenses for short-term leases and leases for which the underlying assets are of low value.

(l) Income taxes

Income tax expense is comprised of current and deferred tax. Current and deferred income tax are recognized in the consolidated statements of operations and comprehensive loss except to the extent that they relate to a business combination or items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income. Current income taxes are the expected taxes payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustments to taxes payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the asset can be utilized.

At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Deferred income tax assets and liabilities are presented as non-current.

2. Significant accounting policies (continued)

(m) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, warrants, share options, restricted shares and restricted share units ("RSU") are classified as equity instruments.

(n) Share-based payments

Equity-settled share-based payments to directors, officers and employees are measured at the fair value of the equity instruments at the grant date and are recognized as an expense over the relevant vesting periods with a corresponding credit to contributed surplus.

Equity-settled share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments granted, if it is determined that the fair value of the goods or services received cannot be reliably measured. The fair value of equity-settled share-based payments to non-employees is recorded as an expense at the date the goods or services are received with a corresponding credit to contributed surplus.

The number of equity instruments 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. After the vesting date, amounts recorded for expired instruments remain in contributed surplus.

In the case of stock options, proceeds received from stock option holders are recorded as an increase to share capital upon exercise and the related reserve balance in contributed surplus is transferred to share capital. In the case of RSUs, the related reserve balance in contributed surplus is transferred to share capital upon release of the underlying restrictions.

(o) Basic and diluted loss per share

Basic loss per share is computed by dividing the net loss for the year by the weighted average number of common shares outstanding for the relevant year. Diluted loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

(p) Share purchase warrants

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in private placements is determined to be the more easily measurable component and they are valued at their fair value, as determined by the closing quoted bid price on the measurement date. The remainder, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded in contributed surplus.

2. Significant accounting policies (continued)

(q) Revenue recognition

Revenue is recognized at the amount of the transaction price that is allocated to the performance obligation. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

Regarding the cannabis concentrate sales, the Company has three revenue streams: White label production, which includes bulk sales of crude oil, own branded products and tolling services.

White label production requires the Company to purchase dried cannabis either through long-term supply agreements or through spot purchases. The Company extracts, and depending on the requirements of the Licensed Producers ("LP"), may also purify, formulate and/or package the oil. The Company sells the cannabis concentrates to the LP customers at wholesale prices. Revenue from white label production is recognized when control of the product is transferred, that being when the product is delivered to the LP customer or in certain cases when delivery is deemed to have occurred. Deemed delivery occurs in situations where the white label contract has two deliverables – an initial sale and transfer of wholesale bulk crude oil, and, at the option of the customer, a subsequent sale of post-extraction refinement, formulation and packaging services. In this case, upon completion of the initial bulk oil extraction, the Company provides a formal notification to its customer of completion, readiness for delivery and timing of title transfer. At the request of the customer, the bulk oil may be held by the Company and undergo further refinement services, essentially taking on the characteristics of tolling services.

Sales of branded products include the sale of products to the various provincial boards. Revenue is recognized when control of the product is transferred, that being when the products are shipped to the various provincial boards as per purchase order and shipping document.

Tolling services work by LP partners supplying the Company with dried cannabis flower and the Company receives a tolling fee for producing cannabis concentrates. Revenue from tolling services is recognized when delivered or deemed delivered, in the case of a bill-and-hold arrangement, to the LP partner. Under tolling service agreements, the Company does not have any inventory risk as control over the inventory stays with the LP and the Company's consideration is in the form of a fee.

(i) Remaining performance obligations

The Company's outstanding performance obligations in relation to customer contracts as at October 31, 2020 will be completed upon transfer of ownership (or deemed transfer) of extracts and as services are rendered. The Company's payment terms require payment without penalty to be made within 30 days after the customer accepts transfer of ownership or a notice of completion.

The outstanding performance obligations at year end require the Company to (i) deliver crude cannabis extracts and (ii) provide post extraction refinement, formulation, and packaging services. Revenue in the amount of $906 (2019 - $991,861 to be earned in the 2020 fiscal year) is expected to be earned in the 2021 fiscal year from contracts and orders in place as at October 31, 2020.

The contract to manufacture includes a standard limited warranty which holds the company to certain assurances surrounding manufacturing practices and compliance with the Cannabis Act and its Regulations as well as other applicable laws.

2. Significant accounting policies (continued)

(q) Revenue recognition (continued)

(ii) Excise tax

Excise taxes are charged to consumers and payable to the Canadian federal government by licensed cannabis producers upon the sale of the packaged cannabis products to consumers in the marketplace, including provincially-authorized distributors and/or retailers and individual consumers. During the year ended October 31, 2019, the Company did not have such sales and, therefore, no excise taxes were charged.

(r) Foreign exchange translation

(i) Translation of foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using the exchange rate prevailing at the date of the transaction. At each reporting date, foreign currency denominated monetary assets and liabilities are translated at year-end exchange rates. Exchange differences are recorded in profit or loss for the period.

(ii) Translation of foreign operations

The assets and liabilities of foreign operations are translated into Canadian dollars at year-end exchange rates. Income and expenses, and cash flows are translated into Canadian dollars using average exchange rates. Differences resulting from translating foreign operations are reported as translation differences in other comprehensive income and accumulated in equity. When a foreign operation is disposed of, the translation differences previously recognized in equity are reclassified to profit or loss.

(s) Government grant

Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attached to them and the government grants will be received. Grants are recognized as either income over the period(s) necessary to match them with the related costs or if related to a specific expense, as a reduction or contra to the expenses for which they are intended to compensate, on a systematic basis. Grants receivable for costs already incurred or for immediate financial support, with no future related costs, are recognized as income in the period in which the grant is receivable.

If a grant becomes repayable, it is treated as a change in estimate. Where the original grant related to income, the repayment would be applied first against any related unamortized deferred credit, and any excess would be expensed. Where the original grant related to an asset, the repayment would be treated as increasing the carrying amount of the asset or reducing the deferred income balance. The cumulative depreciation which would have been charged had the grant not been received would be charged as an expense.

The Company has elected to present the Canada Emergency Wage Subsidy ("CEWS"), a form of government grants, as a reduction of the corresponding payroll expenses. See Note 28.

2. Significant accounting policies (continued)

(t) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

3. New accounting standards and pronouncements

The Company has adopted the following new or amended accounting pronouncements for the year beginning November 1, 2019.

(a) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, Leases which replaced the previous guidance on leases, predominantly, IAS 17, Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize all assets and liabilities arising from a lease. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16.

As at November 1, 2019, the Company adopted IFRS 16 in accordance with the transitional provisions stipulated in IFRS 16. The Company has applied the following practical expedients:

(i) The Company applied the modified retrospective approach and did not restate comparative information. As a result, any adjustment on initial application is recognized in accumulated deficit as at November 1, 2019.

(ii) On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were excluded from consideration under IFRS 16. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after November 1, 2019.

In accordance with the practical expedients applied, the Company has recognized lease liabilities and right-of-use assets at the date of initial application for leases previously classified as operating leases in accordance with IAS 17. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease term of 12 months or less) and leases for which the underlying asset is of low value. The Company has also elected to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. In addition, the Company has elected not to record depreciation of the right-of-use assets prior to the date of initial application. Upon transition to the new standard, lease liabilities were measured at the present value of the remaining lease payments discounted at the Company's incremental borrowing rate as at November 1, 2019. Right-of-use assets and lease liabilities were recognized on the consolidated statement of financial position with the cumulative difference recognized in accumulated deficit.

As at November 1, 2019, the Company had one non-cancellable lease, resulting in the recognition of a lease liability and right-of-use asset in the amount of $53,412 with $nil cumulative difference recognized in accumulated deficit. The lease was previously assessed and reported as an operating lease in accordance with IAS 17. The weighted average incremental borrowing rate applied on the date of initial application is 5%. The right-of-use asset is amortized over 1.9 years, the lesser of lease term and useful life.

3. New accounting standards and pronouncements (continued)

(b) Adoption of IFRIC 23, Uncertainty Over Income Tax Treatments

IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 became effective for fiscal years beginning on or after January 1, 2019, with earlier application permitted. The Company has adopted this interpretation as of November 1, 2019 and has assessed no significant impact as a result of the adoption of this interpretation.

(c) Adoption of Amendments to IFRS 3, Business Combinations

IFRS 3 was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive and the inputs and process must together significantly contribute to operating outputs. In addition, it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted. The Company has early adopted these amendments as permitted. The Company has assessed no significant impact as a result of the adoption of these amendments.

(d) Amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Issued but not Yet Effective

IAS 1 and IAS 8 were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted. The Company will adopt these amendments as of their effective date, and is currently assessing the impacts on adoption.

4. Asset acquisition

On October 6, 2020, the Company, through its wholly owned subsidiary Heritage Cannabis Exchange Corp. (“Purchaser Sub”), acquired all of the issued and outstanding shares of Opticann, a Colorado-based oral and topical cannabinoid company with the rights to exclusively sell cannabidiol (“CBD”) and cannabigerol (“CBG”) products made with the patented VESIsorb® drug delivery system for optimized absorption and stability. Subsequent to the acquisition date, the Company rolled over all of its issued and outstanding shares of Opticann to the Purchaser Sub, which then rolled over all its issued and outstanding shares of Opticann to Heritage (US) Colorado Corp. As a result of rollover transactions, Heritage (US) Colorado Corp. directly held 100% ownership of Opticann as at October 31, 2020. The Company acquired Opticann as a strategic maneuver to advance its presence in the United States CBD market.

4. Asset acquisition (continued)

Aggregate purchase consideration payable for all the outstanding and issued common shares in Opticann includes:

(a) 15,838,982 common shares of the Company ("Heritage Common Shares"), which were issued to original shareholders of Opticann. The fair value was determined as $2,138,000 in total and recorded as share capital.

(b) 6,079,716 Heritage Common Shares, which were issued to Geocann LLC ("Geocann") pursuant to an exclusive distribution and supply agreement ("License") between Opticann and Geocann. These shares were considered as a part of the aggregate consideration for the asset acquisition, given the License was a part of the acquired assets. The fair value was determined as $821,000 in total based on the closing share price of the Company on October 6, 2020. Subsequent to the initial recognition, the License was recorded at cost less accumulated amortization and accumulated impairment losses. See Note 11.

(c) 100,000,000 Class B Exchangeable Shares of Purchaser Sub, which were issued immediately and are redeemable and retractable, subject to conditions including Opticann's ability to meet certain cumulative gross margin targets within required time periods and to enter into distribution, supply, or collaboration agreements (or similar) with certain vendors, into Heritage Common Shares on a 1:1 basis at the fair market value of a Heritage Common Share on the last business day prior to the redemption or retraction date at the option of the exchangeable shareholders ("Redemption/Retraction Price").

(d) 7,919,493 warrants of Purchaser Sub ("Class 1 Warrants"), which were issued and exercisable for its Class A exchangeable shares at a price of $0.20 per warrant for a period of 24 months from October 6, 2020, and 3,511,110 warrants of Purchaser Sub ("Class 2 Warrants"), which were issued immediately and exercisable for its Class A exchangeable shares at a price of $0.30 per warrant for a period of 36 months from October 6, 2020. The Class A Exchangeable Shares of Purchaser Sub are redeemable and retractable into Heritage Common Shares on a 1:1 basis at the Redemption/Retraction Price. The total fair value of Class 1 Warrants and Class 2 Warrants were determined as $429,000 and $324,000, respectively, using the Black-Scholes model with the assumptions outlined below. These warrants were considered to be exchangeable into a variable number of Heritage common shares and were therefore classified as a financial liability measured at FVTPL. See Note 15 for subsequent measurement.

(e) Contingent performance payments, payable in Heritage Common Shares, partly based on a fixed percentage of the funds invested in the Company in cash or assets up to certain amounts by certain vendors noted in Note 4(c), partly upon the Company's ability to achieve certain cumulative sales or gross margin targets, and partly upon the acquisition of Geocann.

4. Asset acquisition (continued)

The acquisition was accounted for as an asset acquisition, given Opticann did not meet the definition of business at the acquisition date in accordance with IFRS 3.

The fair value of Class 1 and Class 2 Warrants were determined at the time of issuance using the Black-Scholes model with the following inputs, assumptions and results, respectively:

	Class 1 warrants	Class 2 warrants
Number of warrants issued	7,919,493	3,511,110
Risk-free annual interest rate	0.21%	0.26%
Expected life (years)	2	3
Expected annualized volatility	95.7%	141.77%
Expected annual dividend yield	0.00%	0.00%
Exercise price	$0.20	$0.30
Share price	$0.14	$0.14
Calculated fair value per warrant at grant date	$0.05	$0.09

The Company did not include the purchase price of either the value of Class B Exchangeable Shares or the value of contingent performance payments, given none of their payment milestones were met and, therefore, no provision is recognized. See Note 21 for subsequent assessment. The following table presents the Company's purchase price allocation for the asset acquisition:

Total consideration paid		
15,838,982 Heritage Common Shares	$	2,138,000
6,079,716 Heritage Common Shares		821,000
Class 1 and 2 Warrants of Purchaser Sub (Note 15)		753,000
		3,712,000
Fair value of identifiable net assets acquired		
Cash		205,767
Inventories		496,943
Accounts payable and accrued liabilities		(209,020)
Other loans payable		(62,602)
Loans payable to the Company		(345,746)
License (Note 11)		3,626,658
	$	3,712,000

5. Business combinations

(a) CannaCure Corporation

On November 5, 2018, the Company, through a wholly-owned subsidiary ("TransactionCo"), entered into a three-cornered amalgamation transaction which resulted in the acquisition of all the issued and outstanding shares of CannaCure Corporation ("CannaCure"), a company incorporated in Ontario, Canada that holds licenses issued by Health Canada under the Cannabis Regulations. Between November 1, 2018 and the date of amalgamation, November 5, 2018, TransactionCo did not have any activity other than the transaction specified above. The Company acquired CannaCure as a strategic manoeuvre to advance its goal of becoming a vertically integrated cannabis producer.

As consideration for all 26,147,439 common shares in CannaCure, the Company issued 133,333,326 common shares with a fair value of $30,666,667. Fair value was determined based on the closing share price of the Company on November 5, 2018. The amalgamation transaction resulted in the Company obtaining control of CannaCure. The transaction was accounted for as a business combination under IFRS 3, with the Company as the acquirer and CannaCure as the acquiree.

As part of the acquisition, the Company agreed to replace CannaCure's existing share-based payment awards, resulting in additional purchase consideration with a fair value of $1,755,090, comprised of $1,357,560 in stock options and $397,530 in share purchase warrants. The fair value of the replacement stock options and warrants were determined using a level 3 pricing model with the inputs and assumptions detailed in Note 17(c) and Note 17(a) respectively.

As consideration for acquisition-related services, including legal costs and finder's fees, the Company paid $61,883 and issued 4,000,000 common shares with a fair value of $1,200,000, determined based on the fair value of the services received. Furthermore, of the total common shares and replacement warrants issued for purchase consideration, 1,784,751 common shares (fair value of $410,493) and 764,893 warrants (fair value of $163,643) are deemed to be reimbursements of the acquiree's acquisition costs. The Company is also deemed to have reimbursed the acquiree $118,435 for other non-equity-settled acquisition costs.

The fair value of replacement share-based payment awards was determined at the time of issuance using the Black-Scholes pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	2.71% - 3.12%
Expected life (years)	1.41 – 6.43
Expected annualized volatility	142% - 156%
Expected annual dividend yield	0.00%
Exercise price	$0.10 - $0.20
Share price	$0.23
Weighted average Black-Scholes value at grant date	$1.02

5. Business combinations (continued)

(a) CannaCure Corporation (continued)

Total consideration paid		
133,333,326 Heritage Common Shares	$	30,666,667
Replacement of share-based payment awards		1,755,090
Less: portion attributable to acquiree's acquisition costs		(692,571)
		31,729,186
Fair value of identifiable net assets acquired		
Cash		22,829
Sales tax recoverable		611,884
Prepaid expenses and deposits		59,815
Non-current deposits (Note 9(ii))		106,104
Property purchase options (Note 11)		957,000
Licenses (Note 11)		23,170,000
Property, plant and equipment (Note 12)		4,186,533
Accounts payable and accrued liabilities		(1,188,828)
Net assets, excluding deferred taxes		27,925,337
Purchased goodwill		3,803,849
Deferred tax liability		5,182,707
Goodwill recognized (Note 11)	$	8,986,556

Goodwill represents expected synergies, future income and growth potential, and other intangibles that do not qualify for separate recognition. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The fair value of the sales tax recoverable balance acquired in the business combination is equal to the gross amounts receivable. The Company has collected the full balance subsequent to the acquisition.

For the year ended October 31, 2019, CannaCure generated $1,591,828 in trade revenues, $186,560 in other income, and incurred a comprehensive loss of $1,632,599 since November 5, 2018. If the acquisition had been completed on November 1, 2018, the financial impact would have been approximately the same.

(b) Purefarma Solutions Inc.

On December 14, 2018, the Company acquired all the issued and outstanding shares of Purefarma Solutions Inc. ("Purefarma"), a company incorporated in British Columbia, Canada with expertise in the manufacture, refinement and formulation of cannabis oils. The Company acquired Purefarma as a strategic plan to advance its goal of becoming a vertically integrated cannabis producer.

5. Business combinations (continued)

(b) Purefarma Solutions Inc. (continued)

Purefarma's share capital, before and after the acquisition, is comprised of 1,000 Class A common shares. The Company acquired all 1,000 Class A common shares as follows:

(a) As consideration for 760 Class A common shares in Purefarma, the Company issued 33,333,333 common shares of the Company with a fair value of $6,000,000. Fair value was determined based on the closing share price of the Company on December 14, 2018.

(b) As consideration for 200 Class A common shares in Purefarma, the Company paid $1 in cash plus a pro-rata earn-out, payable in common shares of the Company, based on Purefarma's ability to meet certain cumulative gross margin targets between December 14, 2018 and December 31, 2023. Details regarding the pro-rata earn-out are specified in Note 14(a).

(c) As consideration for 40 Class A common shares in Purefarma, the Company paid $1 in cash plus contingent performance payments, payable in cash, based on a fixed percentage of the gross margin generated from the extraction business between December 14, 2018 and December 31, 2022. Details regarding the contingent performance payments are specified in Note 14(b).

The above transactions resulted in the Company obtaining control of Purefarma. The transaction was accounted for as a business combination in accordance with IFRS 3, with the Company as the acquirer and Purefarma as the acquiree.

Included in the purchase consideration was the settlement of advances that were owed to the Company by Purefarma in the amount of $89,983.

As consideration for acquisition-related services, including legal costs and finder's fees, the Company paid $37,969 in cash and issued 1,200,000 common shares with a fair value of $234,000, determined based on the fair value of the services received.

Total consideration paid		
Cash	$	2
33,333,333 Heritage Common Shares		6,000,000
Contingent consideration, equity-settled (Note 14)		826,000
Contingent consideration, cash-settled (Note 14)		3,200,000
Settlement of advances		89,983
	$	10,115,985
Fair value of identifiable net assets acquired		
Cash	$	57,404
Prepaid expenses and deposits		11,687
Other current asset		45,879
Intellectual property (Note 11)		7,250,000
Brand (Note 11)		560,000
Property, plant and equipment (Note 12)		467,135
Accounts payable and accrued liabilities		(164,662)
Long-term debt		(336,000)
Net assets, excluding deferred taxes		7,891,443
Purchased goodwill		2,224,542
Deferred tax liability		2,108,700
Goodwill recognized (Note 11)	$	4,333,242

5. Business combinations (continued)

(b) Purefarma Solutions Inc. (continued)

Goodwill represents expected synergies, future income and growth potential, and other intangibles that do not qualify for separate recognition. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

For the year ended October 31, 2019, Purefarma generated $nil in trade revenues, incurred $1,580 in other losses, and incurred a comprehensive loss of $1,897,050 since December 14, 2018. If the acquisition had been completed on November 1, 2018, the Company estimates it would have incurred a comprehensive loss of $2,109,091, with no change in trade revenue or other losses, for the year ended October 31, 2019.

6. Short-term investments

As at October 31, 2020, short-term investments consisted of $6,050,000 (2019 - $9,050,000) in guaranteed investment certificates ("GICs") maintained with a Canadian chartered bank. The carrying value of these short-term investments approximates their fair value as at October 31, 2020 due to the short term to maturity. Of the total balance, $50,000 is restricted and held as security against the Company's corporate credit card (2019 - $50,000).

7. Inventories

	As at October 31, 2020	As at October 31, 2019
		(Note 30)
Supplies and packaging materials	$ 363,587	$ 80,789
Dried cannabis and hemp	1,431,309	4,172,512
Manufacturing work in progress	2,930,075	1,215,588
Finished goods	498,174	36,645
Other	2,220	12,183
	$ 5,225,365	$ 5,517,717

During the year ended October 31, 2020, inventories expensed to cost of sales was $5,350,145 (2019 - $4,072,626). As at October 31, 2020, $591,385 of capitalized amortization remained in inventories.

During the year ended October 31, 2020, the Company recognized a recovery of accounts payable from a previously significant vendor in the amount of $2,879,718 with a corresponding decrease in cost of sales.

8. Convertible promissory note receivable

In December 2019, the Company purchased a promissory note from Empower Healthcare Assets Inc. ("Empower Health") for $250,000, bearing interest at 2% per annum on the outstanding principal. The promissory note is due on demand. The promissory note is guaranteed by Empower Health and Empower Clinics Inc. ("Empower Clinics"), an affiliated company of Empower Health. At the Company's option, the promissory note is convertible into the shares of Empower Clinics based on the value of the shares at the closing price the day before the conversion, or into the equity interest in the joint venture to be formed between the Company and Empower Health.

The convertible promissory note receivable is classified and measured at fair value through profit and loss ("FVTPL"). As at October 31, 2020, the convertible promissory note receivable had a fair value of $254,481 (October 31, 2019 - n/a).

9. Other investments and deposits

	As at October 31, 2020	As at October 31, 2019
Investment in SPD (i)	$ -	$ 170,000
Refundable deposit for development costs (ii)	106,104	106,104
Investment in 118366 B.C. Ltd. (iii)	46,914	-
	$ 153,018	$ 276,104

(i) In January 2018, the Company signed a Letter of Intent ("LOI") to acquire 20% of the issued and outstanding shares of SPD, a blockchain developer based in Vancouver, British Columbia. Pursuant to the original terms of the LOI, the total purchase price is $500,000, a portion of which is to be paid in cash while the remainder will be settled by way of the Company issuing common shares upon execution of a definitive Share Purchase Agreement ("Agreement"). As at October 31, 2019, $340,000 in cash was advanced to SPD, and a valuation allowance of $170,000 was recognized on the deposit. On April 30, 2020, the Agreement was finalized and replaced the LOI. Pursuant to the Agreement, the Company acquired 18% interest in SPD for total consideration of $340,000 previously paid as deposit. As at October 31, 2020, management determined the fair value of the investment in SPD as $nil, given the investment was not in line with the Company's core business and therefore provided negligible value to the Company. As a result, the Company recognized a loss of $170,000.

(ii) On February 16, 2018, CannaCure, entered into an agreement with its municipality to conduct land development where its production facility is located. As part of this agreement, CannaCure deposited with the municipality a $106,104 refundable letter of credit to guarantee the completion of these land development costs. In the event that the cost of the work is less than the letter of credit, the municipality shall return any excess funds. In the event that the cost of the work is more than the letter of credit, the municipality may collect the deficiency on demand or in like manner as municipal taxes.

(iii) On June 15, 2020, the Company received 76,923 common shares of 118366 B.C. Ltd. at a price of $0.61 per share as settlement of $46,914 accounts receivable for storage and other services provided. As a result, the Company acquired 5% interest in 118366 B.C. Ltd. The fair value of the investment was determined to be $46,914 as at October 31, 2020 based on management's best estimates.

10. Investment in associate

On July 26, 2019, the Company acquired a 30% strategic interest in Endocanna, a company based in California, U.S.A. that develops saliva collection kits used in identifying genetic variants to facilitate cannabinoid formulation and dosing decisions. Through two of its wholly owned subsidiaries, Heritage US Holdings Corp. and Heritage (US) Cali Corp., the Company invested $2,000,000 USD (equivalent to $2,636,400 CDN) in exchange for a 20% interest in Endocanna. The Company then issued 2,710,515 common shares to certain principals of Endocanna in exchange for a further 10% interest (Note 16(b)). The share exchange transaction was valued at $1,381,774 CDN, determined based on the fair value of the common shares at the issuance date. The Company incurred transaction costs of $20,928.

A reconciliation of the carrying amount of the investment is detailed below:

Balance at October 31, 2018	$	-
Additions		4,018,174
Transaction costs		20,928
Share of net loss		(115,597)
Balance at October 31, 2019	$	3,923,505
Share of net loss		(448,701)
Foreign currency translation		40,575
Balance at October 31, 2020	$	3,515,379

The following table summarized, in aggregate, the financial information of Endocanna in USD:

	As at October 31, 2020		As at October 31, 2019	
Cash and cash equivalents	$	412,515	$	2,189,186
Current assets		568,796		2,401,130
Non-current assets		600,861		393,818
Current liabilities		136,588		124,583
Non-current liabilities		-		-

	For the year ended October 31, 2020		For the period from July 26, 2019 to October 31, 2019	
Revenue	$	134,214	$	145,950
Interest income (expense)		15		6
Depreciation and amortization expense		144,444		72,676
Loss from continuing operations		1,021,123		385,322
Total comprehensive loss		1,021,123		385,322

11. Intangible assets and goodwill

	Licenses	Intellectual property	Brand	Goodwill (i)	Property purchase options	Total
Cost (Restated, see Note 29)						
At November 1, 2018	$ 5,067,000	$ -	$ -	$ 1,371,635	$ -	$ 6,438,635
Acquired through business Combinations (Note 5)	23,170,000	7,250,000	560,000	13,319,798	957,000	45,256,798
Exercise of property purchase option (Note 12)	-	-	-	-	(957,000)	(957,000)
At October 31, 2019	$ 28,237,000	$ 7,250,000	$ 560,000	$ 14,691,433	$ -	$ 50,738,433
Accumulated Amortization						
At November 1, 2018	$ -	$ -	$ -	$ -	$ -	$ -
Additions	826,253	319,795	82,338	-	-	1,228,386
At October 31, 2019	$ 826,253	$ 319,795	$ 82,338	$ -	$ -	$ 1,228,386
Net book value at October 31, 2019	**$ 27,410,747**	**$ 6,930,205**	**$ 477,662**	**$ 14,691,433**	**$ -**	**$ 49,510,047**

	Licenses	Intellectual property	Brand	Goodwill (i)	Total
Cost					
At November 1, 2019	$ 28,237,000	$ 7,250,000	$ 560,000	$ 14,691,433	$ 50,738,433
Additions (Note 4, 11(ii), 16(b))	3,626,658	-	52,500	-	3,679,158
Impairment	-	-	-	(5,500,000)	(5,500,000)
At October 31, 2020	$ 31,863,658	$ 7,250,000	$ 612,500	$ 9,191,433	$ 48,917,591
Accumulated Amortization					
At November 1, 2019	$ 826,253	$ 319,795	$ 82,338	$ -	$ 1,228,386
Additions	1,476,258	724,999	189,584	-	2,390,841
At October 31, 2020	$ 2,302,511	$ 1,044,794	$ 271,922	$ -	$ 3,619,227
Net book value at October 31, 2020	**$ 29,561,147**	**$ 6,205,206**	**$ 340,578**	**$ 9,191,433**	**$ 45,298,364**

The details of individually material intangible assets are as follows:

	Carrying Amount		
Description	As at October 31, 2020	As at October 31, 2019	Remaining Amortization Period
Voyage processing and sales licenses	$ 4,560,299	$ 4,813,650	Approximately 18 years
CannaCure cultivation, processing and sales licenses	21,438,598	22,597,097	Approximately 18 years
Purefarma intellectual property	6,205,206	6,930,205	Approximately 8 years
Opticann license (Note 4 and Note 11(ii))	3,562,250	-	Approximately 4 years

11. Intangible assets and goodwill (continued)

(i) Below is a reconciliation of changes in the goodwill balance for the year ended October 31, 2020 and 2019:

	Purefarma	CannaCure	Voyage	Total
As at November 1, 2018	$ -	$ -	$ -	$ -
Acquired through business combinations (Note 5, 29)	4,333,242	8,986,556	1,371,635	14,691,433
As at October 31, 2019	4,333,242	8,986,556	1,371,635	14,691,433
Impairment	(1,622,226)	(3,364,278)	(513,496)	(5,500,000)
As at October 31, 2020	$ 2,711,016	$ 5,622,278	$ 858,139	$ 9,191,433

As at October 31, 2019 and 2020, the full goodwill balance was allocated to the Canadian extraction cash generating unit ("CGU"). The Company assesses whether there are events or changes in circumstances that would more likely than not reduce the fair value of its CGU to below its carrying value and, therefore, require goodwill to be tested for impairment at the end of each reporting period.

As at October 31, 2020, the Company performed its annual impairment test on the goodwill using the value-in-use method. The key assumptions used in the calculation of the recoverable amount relate to five-year future cash flows, weighted average cost of capital, and five-year average growth rate. These key assumptions were based on historical data from internal sources as well as industry and market trends. The discount rate used was 15.8% (2019 – 25%), representing the weighted average cost of capital (after-tax) determined based on mid-year discounting, and the five-year average growth rate in gross revenue was estimated as 75% (2019 - 20%).

As the recoverable amount was below the carrying value at October 31, 2020, an impairment loss of $5,500,000 was recognized and allocated to goodwill based on their relative carrying amounts. Management has determined that the impairment was primarily due to shifting market dynamics.

(ii) Opticann license

The Company acquired the License, which was derived from the exclusive distribution and supply agreement between Opticann and Geocann, as a part of the Opticann acquisition described in Note 4. Pursuant to the agreement, Opticann has the right to purchase certain goods from Geocann and becomes the exclusive worldwide distributor of these goods. The agreement has an initial term of 5 years from June 30, 2020 to June 30, 2025 and automatically renews for an additional 5 years on a continuous basis unless terminated. As consideration for the License, the Company agreed to make payments, including:

11. Intangible assets and goodwill (continued)

(ii) Opticann license (continued)

(a) USD $750,000 payable partly in Cash and partly in Heritage Common Shares. Opticann has paid the cash-settled portion in an amount of USD $200,000 prior to the Opticann acquisition, and the Company has paid the full equity-settled amount upon the acquisition of Opticann through issuances of Heritage Common Shares. Refer to Note 4;

(b) USD $2,600,000 payable upon the Company's achievement of certain milestones, including its receipt of first purchase order for certain goods and reaching USD $2,000,000 and CAD $1,000,000 sales of certain goods, respectively. As of October 31, 2020, the Company has not reached any of the payment milestones and, therefore, recognized $nil in relation to this milestone;

(c) Royalty payment of 20% on all gross margins from the sale of certain goods, payable quarterly;

(d) Additional milestone payments, calculated as 10% of the value of any upfront milestone payments received by the Company for certain agreements with certain parties and 15% of the gross margin received on net sales as a result of certain agreements between the Company and certain parties; and

(e) Dedication of a minimum 11% of net sales per year for marketing activities, which commences at the same time as the purchase right noted below.

The Company also has a right to purchase at least USD $27,500,000 from Geocann over 3 years from the first day of the month in which the Company received the purchase order for certain goods from any customer.

12. Property, plant and equipment

	Equipment	Buildings and improvements	Land	Total
Cost				
At November 1, 2018	$ 519,942	$ 4,824,833	$ 255,000	$ 5,599,775
Acquired through business Combinations	661,927	3,991,741	-	4,653,668
Exercise of property purchase option (Note 11)	-	2,548,822	665,735	3,214,557
Additions	5,017,312	1,648,013	-	6,665,325
At October 31, 2019	$ 6,199,181	$ 13,013,409	$ 920,735	$ 20,133,325
Accumulated Amortization				
At November 1, 2018	$ -	$ 10,756	$ -	$ 10,756
Additions	335,664	437,642	-	773,306
At October 31, 2019	$ 335,664	$ 448,398	$ -	$ 784,062
Net book value at October 31, 2019	**$ 5,863,517**	**$ 12,565,011**	**$ 920,735**	**$ 19,349,263**

12. Property, plant and equipment (continued)

	Equipment	Buildings and improvements	Land	Total
Cost				
At November 1, 2019	$ 6,199,181	$ 13,013,409	$ 920,735	$ 20,133,325
IFRS 16 adjustment	-	53,412	-	53,412
Additions	776,462	569,328	9,422	1,355,212
Disposals	(4,083)	-	-	(4,083)
At October 31, 2020	$ 6,971,560	$ 13,636,149	$ 930,157	$ 21,537,866
Accumulated Amortization				
At November 1, 2019	$ 335,664	$ 448,398	$ -	$ 784,062
Additions	600,612	584,714	-	1,185,326
Disposals	(928)	-	-	(928)
At October 31, 2020	$ 935,348	$ 1,033,112	$ -	$ 1,968,460
Net book value at October 31, 2020	**$ 6,036,212**	**$ 12,603,037**	**$ 930,157**	**$ 19,569,406**

As at October 31, 2020, assets included in improvements and equipment that were not available for use and therefore not amortized, amounted to $1,747,596 and $1,037,192 (2019 - $1,747,596 and $1,037,192) respectively.

As at October 31, 2020 and 2019, substantially all of the Company's property, plant and equipment was domiciled in Canada.

13. Long-term debt

	As at October 31, 2020	As at October 31, 2019
(a) Term loan - non-interest bearing, principal-only payments of $585 per month, 6-year term, maturing in January of 2025	$ 24,235	$ 28,595
(b) Term loan - bearing interest at 9.5% per annum, monthly interest-only payments prior to January 31, 2021 and monthly principal payments of $85,000 plus monthly interests from February 2021 to January 2022 with remaining balance due on maturity date, 24-month term, maturing in January of 2022	4,566,186	-
	$ 4,590,421	$ 28,595

(a) The effective interest at a rate of 10% per annum has been imputed on the term loan, determined based on the Company's incremental cost of borrowing at the time of initial recognition. At October 31, 2020, the face value of the term loan was $29,848 (2019 - $36,871) and the carrying value of the underlying equipment that serves as security for the loan was $27,792 (2019 - $29,706).

13. Long-term debt (continued)

(b) On January 30, 2020, the Company entered into a 24-month loan agreement for a maximum amount of $6,700,000, among which the first tranche of $4,875,000 had been advanced to the Company as at October 31, 2020, with the second tranche of $1,825,000 becoming available upon the earlier of (i) the issuance of a Health Canada sales license to CannaCure or Voyage, or (ii) the Company achieving consolidated revenues of $7,500,000. The Company may, at any time prior to maturity, request an increase in credit in the aggregate amount of up to $2,300,000, to be provided at the sole discretion of the creditor. On September 29, 2020, the Company amended the loan agreement. The amendments replaced the original interest-only repayment schedule by monthly principal repayments of $85,000 plus interest from February 2021 to January 2022 with remaining balance due on maturity date. The amendments also added a clause that the advance of the second tranche of $1,825,000 shall be at the creditor's sole and absolute discretion. To maintain the term loan, the Company is required to meet certain working capital ratios. As at October 31, 2019 and 2020, the Company was in compliance with the capital requirements.

The term loan is secured by the following:

(i) A General Security Agreement ("GSA") from the Company and various guarantors, including all wholly-owned subsidiaries of the Company;
(ii) a pledge by the Company and each guarantor of all securities in all of their present and future subsidiaries;
(iii) an assignment of material contracts, licenses, and insurance agreements granted by the Company and each guarantor; and
(iv) a mortgage in respect of certain real properties owned by the Company.

Based on management's assessment, the modification of the loan did not result in a substantial change in the carrying amount of the loan and therefore was accounted for as a modification of loan. The loan was revalued at the modification date, using the original effective interest rate of 16% and based on the updated repayment schedule. The change in carrying amount of the loan of $28,926 was recognized in profit or loss.

Below is a reconciliation of changes in the carrying amount of the term loan:

Proceeds from term loan	$	4,875,000
Discount withheld by lender		(219,374)
Transaction costs		(291,677)
Balance at inception of the term loan		4,363,949
Change in carrying amount as a result of modification		28,926
Interest payments		(347,344)
Interest expense		347,344
Accretion		173,311
Balance at October 31, 2020	$	4,566,186

14. Contingent Consideration Payable

Balance at November 1, 2018 (Restated, see Note 29)	$	150,000
Issued in Purefarma acquisition, equity-settled (Note 5(b))		807,026
Issued in Purefarma acquisition, cash-settled (Note 5(b))		3,200,000
Cash payment made on contingent consideration issued in Voyage acquisition		(150,000)
Loss from remeasurement		676,974
Balance at October 31, 2019	$	4,684,000

Balance at November 1, 2019	$	4,684,000
Gain from remeasurement		(3,173,689)
Balance at October 31, 2020	$	1,510,311

(a) Contingent consideration issued in Purefarma acquisition, equity-settled

As detailed in Note 5(b), the Company is required to make certain pro-rata earn-out payments, payable in shares, to former shareholders of Purefarma as additional purchase consideration. These payments are based on Purefarma's ability to meet certain extraction-related cumulative gross margin targets, as follows:

Upon Purefarma achieving a cumulative gross margin of $25,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 2,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of $25,000,000 by December 31, 2019, an additional 1,250,000 common shares will be issued to the former shareholders of Purefarma. As at December 31, 2019, Purefarma did not achieve a cumulative gross margin of $25,000,000, and therefore the Company is not obligated to issue an additional 1,250,000 common shares.

Upon Purefarma achieving a cumulative gross margin of $50,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 3,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of $50,000,000 before December 31, 2020, an additional 1,400,000 common shares will be issued to the former shareholders of Purefarma. Subsequent to year-end, Purefarma did not achieve a cumulative gross margin of $25,000,000 prior to December 31, 2020, and therefore the Company is not obligated to issue an additional 1,250,000 common shares.

Upon Purefarma achieving a cumulative gross margin of $75,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 4,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of $75,000,000 before December 31, 2021, an additional 1,350,000 common shares will be issued to the former shareholders of Purefarma; and

14. Contingent Consideration Payable (continued)

(a) Contingent consideration issued in Purefarma acquisition, equity-settled (continued)

Upon Purefarma achieving a cumulative gross margin of $100,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 5,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of $100,000,000 before December 31, 2022, an additional 1,100,000 common shares will be issued to the former shareholders of Purefarma.

The total acquisition-date fair value of the equity-settled contingent consideration was apportioned in two. One portion was considered to be payable in a variable number of shares and was therefore classified as a financial liability. The remainder was considered to be payable in a fixed number of shares and was thus classified as equity. The balance being described in this note relates to the financial liability.

The year-end balance represents the probability-weighted discounted value of subsequent share issuances expected to occur between November 1, 2020 and December 31, 2023, based on management's best estimate of the probability of Purefarma meeting each of the cumulative gross margin targets. Over the contractual term, the total cumulative earn-out could range from nil shares (undiscounted value of $nil) to 18,450,000 shares (undiscounted value of $3,321,000 at a stock price of $0.18 on the payout dates per Heritage Common Share based on the management's best estimates).

(b) Contingent consideration issued in Purefarma acquisition, cash-settled

The Company is required to make certain performance payments, in cash, to a company controlled by the former shareholders of Purefarma as additional purchase consideration. These payments are based on a fixed percentage of the gross margin generated by the extraction business, as follows:

(a) 12% of extraction-generated gross margin for Purefarma's fiscal year 2019. During the year ended October 31, 2019, the Company incurred a gross loss of $322,756 by the extraction business. As such, no payment was made;
(b) 9% of extraction-generated gross margin for Purefarma's fiscal year 2020. As at October 31, 2020, the Company accrued a payable of $148,311;
(c) 6% of extraction-generated gross margin for Purefarma's fiscal year 2021; and
(d) 3% of extraction-generated gross margin for Purefarma's fiscal year 2022.

Prior to the acquisition during the Company's year ended October 31, 2019, the fiscal year end of Purefarma was December 31st. Purefarma's fiscal year end was then changed to coincide with that of the Company. As a result, a pro-rated catch-up payment may be required in December of 2022.

Additional performance payments may be required based on certain geographical scope parameters.

As at October 31, 2020, a balance of $48,831 (2019 - $48,831) was outstanding from a corporation controlled by the former shareholders of Purefarma, including an active director of the Company. The director has the ability to exercise significant influence over the corporation in question. This balance is intended to be offset against the first payment made under the terms of the contingent consideration detailed above. The balance is unsecured, non-interest bearing, has no fixed terms of repayment and is included in other current assets in the consolidated statement of financial position.

14. Contingent Consideration Payable (continued)

(c) Contingent consideration issued in Voyage acquisition, cash-settled

In October of 2014, the Company entered into an agreement with the non-controlling shareholder of Voyage, the terms of which state that the non-controlling shareholder has the right to require the Company to purchase from it certain preferred shares in Voyage. The non-controlling shareholder has the ability to exercise this right upon Voyage meeting certain license procurement and the cumulative earnings before interest, taxes, depreciation and amortization ("EBITDA") milestones of $1.5 million and $2.5 million, respectively. If all milestones were met and the non-controlling shareholder exercised its right, the Company would be required to purchase these shares for total consideration of $550,000.

In accounting for the business combination stemming from the step acquisition of Voyage in August of 2017, the Company recognized contingent consideration payable in the amount of $150,000, reflecting the fair value of this arrangement (see Note 29). This valuation reflects the high probability of meeting the license procurement milestone, which entails a cash payment of $150,000, and the remote probability of meeting the EBITDA milestones. During the year ended October 31, 2019, the first milestone of the license procurement was reached and the Company paid total proceeds of $150,000 in cash to purchase 150,000 preferred shares in Voyage from the non-controlling shareholder.

As at October 31, 2020, management recognized contingent consideration payable in an amount of $400,000 in relation to Voyage acquisition, reflecting the high probability of meeting the remaining EBITDA milestones.

The following is a continuity of contingent consideration payable:

	Purefarma	Voyage	Total
Balance at October 31, 2018 (restated, see Note 29)	$ -	$ 150,000	$ 150,000
Additions from acquisition	4,007,026	-	4,007,026
Payment made	-	(150,000)	(150,000)
Unrealized loss from changes in fair value	676,974	-	676,974
Balance at October 31, 2019	4,684,000	-	4,684,000
Unrealized loss (gain) from changes in fair value	(3,573,689)	400,000	(3,173,689)
Balance at October 31, 2020	$ 1,110,311	$ 400,000	$ 1,510,311

The Company's contingent consideration payable is measured at fair value based on unobservable inputs and is considered a level 3 financial instrument. Refer to Note 24.

14. Contingent Consideration Payable (continued)

The fair value of the liability to Purefarma is primarily driven by management's expectations of Purefarma's cumulative gross margins up to December 31, 2021, 2022 and 2023, estimated to total $9.25 million, $25.93 million and $43.11 million, respectively. The probability-weighted estimated earn-outs were discounted to present value in order to derive the fair value of the contingent consideration. As at October 31, 2020, the discount rate used was 15.8% (2019 – 25%), based on management's best estimates of cost of capital over the contractual term. The estimated probabilities of achieving the expected low, base and high gross margins were 25% , 50% and 25% (2019 – 25%, 50% and 25%), respectively. If the gross margin estimates were decreased by 20%, the estimated fair value of the contingent consideration would decrease by $215,000. If the gross margin estimates were increased by 20%, the estimated fair value of the contingent consideration would increase by $315,000. If the discount rate decreased by 5%, the estimated fair value of the contingent consideration would increase by $114,715. If the discount rate increased by 5%, the estimated fair value of the contingent consideration would decrease by $97,554. As there is no upper limit on the contingent performance payments to be settled in cash, the total potential pay-out is unlimited over the contractual term.

15. Warrant liabilities

On October 6, 2020, as part of the consideration for the acquisition of Opticann, Heritage Cannabis Exchange Corp., the Purchaser Sub, issued 11,430,603 warrants, which were classified as financial liabilities measured at FVTPL as described in Note 4.

As at October 31, 2020, the Company re-valued the warrant derivative liabilities using a level 3 valuation technique, as detailed in Note 23 with the following inputs, assumptions and results, respectively:

	Class 1 warrants	Class 2 warrants
Number of warrants issued	7,919,493	3,511,110
Risk-free annual interest rate	0.26%	0.27%
Expected life (years)	1.93	2.93
Expected annualized volatility	91%	135%
Expected annual dividend yield	0.00%	0.00%
Exercise price	$0.20	$0.30
Share price	$0.14	$0.14
Calculated fair value per warrant at year-end	$0.07	$0.10

Expected annualized volatility was estimated using the Company's average historical volatility for a time period equal to the Class 1 and 2 Warrants' remaining terms, respectively.

The following is a continuity of warrant liabilities:

Balance at October 31, 2019	$	-
Addition from acquisition (Note 4)		753,000
Unrealized loss from changes in fair value		140,377
Balance at October 31, 2020	$	893,377

15. Warrant liabilities (continued)

The following table summarizes warrant activities in Heritage Cannabis Exchange Corp. during the year ended December 31, 2020:

	Number of warrants	Weighted average exercise price
Balance October 31, 2019	-	$ -
Granted	11,430,603	0.23
Balance October 31, 2020	11,430,603	$ 0.23

16. Share capital

(a) Authorized share capital

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

(b) Issued share capital

During the year ended October 31, 2020, the following share issuances took place:

On August 24, 2020, the Company issued a total of 500,000 common shares for the acquisition of Pura Vida brand, with a fair value of $52,500 based on the closing stock price of the Company on the issuance date given the fair value of Pura Vida brand cannot be estimated reliably. See Note 11.

On October 31, 2020, as a part of the purchase consideration for the Opticann acquisition, the Company issued a total of 21,918,698 common shares as described in Note 4. The fair value of these shares was measured at $2,959,000.

During the year ended October 31, 2019, the following share issuances took place:

On November 5, 2018, the Company issued a total of 137,333,326 common shares with a fair value of $31,866,667 for purchase consideration and acquisition-related costs stemming from the CannaCure acquisition.

On December 14, 2018, the Company issued a total of 34,533,333 common shares with a fair value of $6,234,000 for purchase consideration and acquisition-related costs stemming from the Purefarma acquisition.

Total acquisition-related costs settled in common shares and expensed in the year with respect to these two business combinations amounted to $1,844,493 and has been included in share-based payments.

During the year ended October 31, 2019, the Company issued 4,241,919 common shares for the exercise of 4,241,919 options at prices ranging from $0.10 to $0.35 per share. Total proceeds of $661,120 was credited to share capital in addition to a transfer from contributed surplus of $1,003,554.

16. Share capital (continued)

(b) Issued share capital (continued)

During the year ended October 31, 2019, the Company issued 25,166,216 common shares for the exercise of 25,166,216 warrants at prices ranging from $0.01 to $0.70 per share. Total proceeds of $8,153,559 was credited to share capital in addition to a transfer from contributed surplus of $619,398.

On February 6, 2019, the Company issued 33,000,000 common shares on the deemed exercise of 30,000,000 Special Warrants. This resulted in a net transfer of $6,621,589 from contributed surplus to share capital, comprised of original proceeds of $7,500,000, less cash and non-cash issuance costs totaling $878,411.

On March 14, 2019, the Company issued 153,265 common shares to a technical consultant following the completion of CannaCure's first Health Canada approved harvest. The value of the issuance amounted to $76,506, determined based on the fair value of the equity instruments granted.

On May 7, 2019, the Company issued 32,660,000 Units, at a price of $0.53 per Unit, for gross proceeds of $17,309,800 as part of a private placement. Each Unit comprises one common share and one-half of one common share purchase warrant. Each warrant entitles its holder to acquire one common share of the Company at an exercise price of $0.70 and expires on November 8, 2021. All proceeds were allocated to the common shares in accordance with the residual method. The Company paid issuance costs of $1,495,069 and issued 2,286,200 Broker Warrants. Each Broker Warrant is exercisable into one Unit of the Company at an exercise price of $0.53, expiring on May 7, 2022. The value of the Broker Warrants amounted to $839,927, based on the fair value of the equity instruments granted. This issuance cost was recorded as a reduction in share capital and an increase in contributed surplus.

On July 26, 2019, as detailed in Note 10, the Company issued 2,710,515 common shares as part of the purchase of a significant influence interest in Endocanna.

17. Contributed surplus

(a) Warrants

During the year ended October 31, 2020, there were no movements in warrants.

	Number of Warrants	Weighted average exercise price
Balance at October 31, 2019	31,281,960	$ 0.54
Balance at October 31, 2020	31,281,960	$ 0.54

17. Contributed surplus (contributed)

(a) Warrants (contributed)

Movements in the number of warrants outstanding for the year ended October 31, 2019 are as follows:

	Number of warrants	Weighted average exercise price
Balance at October 31, 2018	232,049	$ 0.08
Issued as purchase consideration	1,050,454	0.02
Issued for acquisition-related services	764,893	0.20
Issued upon deemed exercise of Special Warrants	33,000,000	0.35
Issued upon deemed exercise of Agent Special Warrants	1,551,300	0.25
Issued upon exercise of Agent Warrants	1,241,040	0.35
Issued for cash as part of May 2019 private placement	16,330,000	0.70
Issued as issuance cost for May 2019 private placement	2,286,200	0.53
Exercised	(25,166,216)	0.32
Expired	(7,760)	0.10
Balance at October 31, 2019	31,281,960	$ 0.54

The fair value of warrants issued during the year ended October 31, 2019 for purchase consideration, acquisition-related services and issuance costs was determined at the time of issuance using the Black-Scholes option pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	1.56% - 3.03%
Expected life (years)	1.41 – 5.00
Expected annualized volatility	109% - 156%
Expected annual dividend yield	0.00%
Exercise price	$0.01 - $0.53
Weighted average share price at grant date	$0.23 - $0.55
Calculated fair value per warrant at grant date	$0.15 - $0.37

Expected annualized volatility was estimated using the Company's average historical volatility since entering the cannabis market.

The following table summarizes the warrants outstanding and exercisable at October 31, 2020:

Expiry date	Number of warrants	Weighted average exercise price
May 7, 2021	12,666,260	$ 0.35
November 8, 2021	16,329,500	$ 0.70
May 7, 2022	2,286,200	$ 0.53
	31,281,960	$ 0.54

Of the 31,281,960 warrants outstanding, 2,286,200 are Broker Warrants, 310,260 are Agent Warrants, and 28,685,500 are standard common share purchase warrants. Broker and Agent Warrants are exercisable into Units of the Company; in turn, each Unit comprises one common share and either a whole or partial common share purchase warrant.

17. Contributed surplus (continued)

(b) Special Warrants

During the year ended October 31, 2020, there were no activities in Special Warrants. As at October 31, 2019 and October 31, 2020, there were nil Special Warrants outstanding.

Movements in the number of Special Warrants outstanding for the year ended October 31, 2019 as follows:

	Number of warrants	Weighted average exercise price
Balance October 31, 2018	-	$ -
Special Warrants issued for cash consideration	30,000,000	0.25
Agent Special Warrants issued as share-based payments	1,551,300	0.25
Deemed exercise of Special Warrants	(30,000,000)	0.25
Deemed exercise of Agent Special Warrants	(1,551,300)	0.25
Balance as at October 31, 2019	-	$ -

The fair value of the Special Warrants issued during the year ended October 31, 2019 was determined at the time of issuance using the Black-Scholes option pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	2.22%
Expected life (years)	2.50
Expected annualized volatility	114%
Expected annual dividend yield	0.00%
Exercise price	$0.25
Weighted average share price at grant date	$0.24
Calculated fair value per Special Warrant at grant date	$0.15

Expected annualized volatility was estimated using the Company's average historical volatility since entering the cannabis market.

(c) Stock options

(i) Stock option plan details

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion and in accordance with the Canadian Stock Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Options will be exercisable for a period to be determined by the Board of Directors, but not exceeding 10 years.

17. Contributed surplus (continued)

(c) Stock options (continued)

(i) Stock option plan details (continued)

In connection with the foregoing, the number of common shares reserved for issuance to any technical consultant will not exceed two percent (2%) of the issued and outstanding common shares of the Company in any twelve-month period. The number of common shares reserved for issuance to individuals providing investor relation services will not exceed two percent (2%) of the issued and outstanding common shares of the Company in any twelve-month period. Furthermore, these options must vest over twelve months with a maximum of one quarter of the options vesting in any three-month period. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

Movements in the number of options outstanding for the year ended October 31, 2020 are as follows:

	Number of options	Weighted average exercise price
Balance October 31, 2019	15,650,584	$ 0.28
Forfeited	(625,000)	0.36
Expired	(1,187,500)	0.31
Balance October 31, 2020	13,838,084	$ 0.28

Movements in the number of options outstanding for the year ended October 31, 2019 are as follows:

	Number of Options	Weighed average exercise price
Balance October 31, 2018	5,691,000	$ 0.32
Granted as purchase consideration	7,139,003	0.13
Granted as share-based payment	7,500,000	0.35
Exercised	(4,241,919)	0.16
Cancelled	(437,500)	0.52
Balance October 31, 2019	15,650,584	$ 0.28

17. Contributed surplus (continued)

(c) Stock options (continued)

The fair value of stock options issued during the year ended October 31, 2019 was determined at the time of issuance using the Black-Scholes option pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	1.42% - 3.12%
Expected life (years)	2.03 – 6.43
Expected annualized volatility	101% - 156%
Expected annual dividend yield	0.00%
Exercise price	$0.10 - $0.36
Weighted average share price at grant date	$0.23 - $0.36
Calculated fair value per option at grant date	$0.19 - $0.27

Expected annualized volatility was estimated using the Company's average historical volatility since entering the cannabis market.

The following table summarizes the options outstanding and exercisable at October 31, 2020:

Expiry date	Number of options outstanding	Number of options exercisable	Weighted average exercise price
August 16, 2022	2,000,000	2,000,000	$ 0.10
November 15, 2022	80,000	80,000	$ 0.14
January 22, 2023	700,000	700,000	$ 0.59
March 19, 2023	861,000	861,000	$ 0.54
April 30, 2023	850,000	850,000	$ 0.35
November 14, 2020	2,549,644	2,549,644	$ 0.10
August 20, 2023	254,964	127,482	$ 0.20
April 10, 2025	892,476	892,476	$ 0.20
February 8, 2024	4,150,000	4,150,000	$ 0.34
September 20, 2024	1,500,000	1,500,000	$ 0.36
	13,838,084	13,710,602	$ 0.28

As at October 31, 2020, the weighted average remaining contractual life of all options outstanding was 2.43 years (2019 – 3.54 years). The weighted average exercise price for exercisable options was $0.28 (2019 - $0.26).

Subsequent to the year ended October 31, 2020, 2,549,644 options were exercised prior to expiry. See Note 31(a).

During the year ended October 31, 2020, the Company recognized an expense of $339,568 relating to the vesting of options held by employees, directors, officers and consultants (2019 - $1,546,505).

17. Contributed surplus (continued)

(d) Restricted shares

During the year ended October 31, 2020, there was no issuance of restricted common shares.

During the year ended October 31, 2019, the Company granted 500,000 restricted common shares, subject to certain vesting requirements, to a director. These restricted shares vest over a period of 1 year from the grant date. The issuance was valued at $112,500, determined based on the fair value of the equity instruments granted.

During the year ended October 31, 2020, the Company recorded share-based payments of $28,664 (2019 - $83,836) for the vesting of restricted shares.

(e) Share subscriptions

During the year ended October 31, 2019, a pre-existing balance of $55,000 reflecting funds advanced for Special Warrant subscriptions was transferred to contributed surplus upon the completion of the corresponding private placement.

18. Non-controlling interest

The following table presents the summarized financial information for Voyage and Mainstrain Market Ltd. ("Mainstrain"), the Company's subsidiaries which each have non-controlling interest ("NCI") of 25%. This information represents amounts before intercompany eliminations for the year ended and as at October 31, 2020. NCI is measured at fair value at the acquisition date.

	Voyage	Mainstrain
Current assets	$ 4,351,767	$ -
Non-current assets	7,056,611	-
Current liabilities	13,627,466	144,953
Non-current liabilities	19,419	-
Revenue	4,401,467	-
Net income (loss) and comprehensive income (loss)	739,159	(12,529)

The following table presents the summarized financial information before intercompany eliminations for the year ended and as at October 31, 2019.

	Voyage	Mainstrain
Current assets	$ 2,359,561	$ 2,500
Non-current assets	7,118,214	-
Current liabilities	12,431,207	134,924
Non-current liabilities	24,235	-
Revenue	1,971,795	-
Net income (loss) and comprehensive income (loss)	(1,492,659)	(34,642)

18. Non-controlling interest (continued)

The net changes in non-controlling interest are as follows:

	Voyage (Note 30)	Mainstrain (Note 30)	Total
Balance at October 31, 2018 (Restated, See Note 29)	$ 942,572	$ 24,457	$ 967,029
Share of loss	(373,165)	(8,660)	(381,825)
Balance at October 31, 2019	569,407	15,797	585,204
Share of income (loss)	184,789	(3,132)	181,657
Share of amortization of Voyage licenses acquired through business acquisition (Note 11)	(126,675)	-	(126,675)
Balance at October 31, 2020	$ 627,521	$ 12,665	$ 640,186

19. Income taxes

The Company's combined Canadian federal and provincial statutory income tax rate is 26.5% for the year ended October 31, 2020 and 2019. The Company's provision for income taxes for the years ended October 31, 2020 and 2019 differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates to the net and comprehensive loss as a result of the following:

	2020	2019
Income tax recovery at statutory rate	$ (1,910,000)	$ (4,012,000)
Non-deductible and non-taxable permanent differences	195,000	773,000
Financing fees charged to equity	-	(880,000)
Income tax benefits not recognized and other	496,700	2,414,365
Provision for income taxes	(1,218,300)	$ (1,704,635)

19. Income taxes (continued)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Balance at October 31, 2018 (Restated, see Note 29)	$	967,528
Deferred tax liabilities assumed through business combinations		7,291,407
Deferred income tax recovery		(1,704,635)
Balance at October 31, 2019		6,554,300
Deferred income tax recovery		(1,218,300)
Balance at October 31, 2020	$	5,336,000

The tax effects of temporary timing differences that give rise to significant components of the Company's deferred tax assets and liabilities for the years ended October 31, 2020 and 2019 were as follows:

	2020	2019
Deferred tax assets (liabilities)		(Note 30)
Non-capital loss carry forward	$ 7,956,000	$ 6,430,000
Inventories	(201,000)	86,000
Property, plant and equipment	196,000	(68,000)
Intangible assets	(8,666,000)	(9,257,000)
Share issuance costs	535,000	727,000
Resource deductions	280,000	280,000
Contingent consideration payable	(559,000)	-
Other	300,000	(10,300)
	(159,000)	(1,812,300)
Less: Tax assets not recognized	(5,177,000)	(4,742,000)
Deferred tax liability	$ (5,336,000)	$ (6,554,300)

The Company has accumulated non-capital losses for Canadian tax purposes of approximately $29,721,000 which may be carried forward and used to reduce taxable income in future years. The accumulated non-capital losses expire as follows:

19. Income taxes (continued)

Year of Expiry		Amount
2028	$	81,000
2029		148,000
2030		247,000
2031		267,000
2032		187,000
2033		422,000
2034		711,000
2035		486,000
2036		498,000
2037		2,093,000
2038		6,389,000
2039		10,973,000
2040		7,219,000
	$	29,721,000

The Company has cumulative Canadian exploration and development expenses in the amount of approximately $1,039,000, which can be carried forward indefinitely. No benefit has been recognized in respect of these amounts.

20. Related party transactions and balances

All amounts either due to or from related parties, unless disclosed otherwise, are non-interest bearing, unsecured and due on demand. Transactions undertaken with related parties during the year ended October 31, 2020 and 2019 are as follows:

(a) Transactions with directors, officers and companies controlled by directors, officers and/or their families

	Year ended October 31,			
		2020		2019
Management fees	$	180,000	$	180,000
Consulting fees		697,574		773,083
Occupancy		-		60,645
Accrued interest income		-		2,495
Loans advanced		-		254,408
Loan repayments received		-		254,408
Cash paid to non-controlling interest (Note 14)		-		150,000
	$	877,574	$	1,675,039

20. Related party transactions and balances (continued)

(b) Key management compensation

	Year ended October 31,	
	2020	2019
Salary and short-term benefits	$ 309,384	$ 266,989
Share-based payments	156,356	876,636
	$ 465,740	$ 1,143,625

(c) Related party balances

	As at October 31, 2020	As at October 31, 2019
Included in accounts payable and accrued liabilities	$ 338,906	$ 200,049
Included in other current assets (Note 14(b))	48,831	48,831

21. Commitments

Refer to Note 11(ii) for commitments relating to License. As at October 31, 2020, none of the payment milestones were met and, therefore, no provision was recognized.

22. Loss per share

Basic loss per share amounts are calculated by dividing the net loss attributable to common shareholders for the year by the weighted average number of common shares outstanding during the year. The basic and diluted loss per share amounts are the same as there are no instruments that have a dilutive effect.

23. Financial instruments

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information pertaining to these risks is presented throughout these consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them since October 31, 2019, unless otherwise stated.

23. Financial instruments (continued)

(a) Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company has moderate exposure to credit risk from its cash, short-term investments, accounts receivable, and convertible promissory note receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash and short-term investments is mitigated by holding these balances with highly-rated Canadian financial institutions. The Company therefore does not expect any credit losses on its cash and short-term investments.

The Company's accounts receivable balance consists of the following:

	As at October 31, 2020	As at October 31, 2019
Trade accounts receivable from customers	$ 948,367	$ 473,716
Expected credit losses	(358,250)	-
Net trade receivables	590,117	473,716
Interest and other receivables (Note 28, 31)	473,651	125,551
	$ 1,063,768	$ 599,267

The Company provides credit to certain customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk for customers is assessed on a case-by-case basis and a provision is recorded where required. As at October 31, 2020, the Company identified certain accounts that may result in a credit loss on its accounts receivable, for which expected credit losses are recognized.

The Company has assessed that there is a concentration of credit risk, as 91% of the Company's trade accounts receivable is due from 2 customers as at October 31, 2020 (2019 - 100% of the balance due from 2 customers).

An analysis of the aging of trade accounts receivable (net of allowance) is as follows:

	As at October 31, 2020	As at October 31, 2019
Current (30 days or less)	$ 495,414	$ -
31-60 days	6,482	414,736
61-90 days	8	58,980
Greater than 90 days	88,213	-
	$ 590,117	$ 473,716

23. Financial instruments (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the financial obligations associated with its financial liabilities as they come due. The Company manages liquidity risk through the management of its capital structure. As at October 31, 2020, the Company had working capital of $11,390,534 (2019 – $11,685,474). The Company does not yet have positive cash flows from operations and as such, the Company may be dependent upon the issuance of new equity and/or debt to advance its production efforts and meet its financial obligations. If equity or debt financing is required, failure to obtain such financing on a timely basis may cause the Company to postpone, reduce or terminate its production plans. The Company has the following undiscounted contractual obligations subject to liquidity risk:

	<1 year	1-3 years	> 3 years
Accounts payable and accrued liabilities	$ 2,462,297	$ -	$ -
Long-term debt	1,172,329	4,250,159	8,779
Contingent consideration payable	157,527	782,000	-
Total	$ 3,792,153	$ 5,032,159	$ 8,779

(c) Market risk

(i) Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. The Company is exposed to this risk on its investment in Endocanna (Note 10), an associate that bears the U.S. dollar as its functional currency. The Company is required to translate the financial position and operating results of Endocanna into Canadian dollars and to recognize its share of the resulting translation gain or loss in other comprehensive loss (Note 10). The Company is further exposed to the risk through Opticann, a wholly owned subsidiary operating in United States (Note 1(e) and Note 4). As at October 31, 2020 and October 31, 2019, the Company has not entered into any hedging agreements to mitigate foreign currency risk. As such, the Company's financial position and financial results may be adversely affected by the unfavorable fluctuations in currency exchange rates.

The following table provides a summary of financial assets and liabilities denominated in USD:

	As at October 31, 2020	As at October 31, 2019
Cash	$ 3,724	$ -
Other current assets	9	-
Accounts payable and other liabilities	204,658	-
Investment in associate	2,645,529	2,909,901

23. Financial instruments (continued)

(c) Market risk (continued)

(i) Foreign currency risk (continued)

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by $324,839 (2019 - $382,943). A 10% weakening of the Canadian dollar against the foreign currencies listed above would result in an equal, but opposite effect.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's short-term investments and convertible promissory note receivable earn fixed rates of interest in the range from 0.7% to 1.05% per annum and 2.00% per annum respectively. The Company's long-term debt bears interest at a fixed rate as detailed in Note 13. As at October 31, 2020 and October 31, 2019, the Company had no hedging agreements in place.

(iii) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. As at October 31, 2020 and October 31, 2019, the Company is exposed to this risk on its contingent consideration payable in Heritage Common Shares pursuant to the acquisition of Opticann (Note 4) and Purefarma (Note 5 and 14(a)).

24. Fair value of financial instruments

Assets recorded at fair value in the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24. Fair value of financial instruments (continued)

Financial instruments are measured either at fair value or at amortized cost. The table below lists the valuation methods used to determine the fair value of each financial instrument.

Financial Instruments measured at fair value	
Contingent consideration payable	Discounted cash flow (Level 3)
Convertible promissory note receivable	Amount due on demand (Level 3)
Warrant liabilities	Black-Scholes model (Level 3)
Other investments	Discounted cash flow (Level 3)
Financial instruments measured at amortized cost	
Cash; Short-term investments; Accounts receivable; Other current assets; Accounts payable and accrued liabilities	Carrying amount (approximates fair value due to short-term nature)
Long-term debt	Carrying value at the effective interest rate which approximates fair value

During the year ended October 31, 2020 and 2019, there were no transfers of amounts between levels.

25. Entity-wide disclosures

The Company's trade net revenue for the year ended October 31, 2020 is comprised of the following:

	Domestic (Canada)	International	Total
Net revenue from sale of Heritage branded products	747,772	-	747,772
Net revenue from sale of White Label products	4,516,088		4,516,088
Net revenue from provision of services	2,992,575	-	2,992,575
	8,256,435	-	8,256,435

The Company's trade net revenue for the year ended October 31, 2019 is comprised of the following:

	Domestic (Canada)	International	Total
Net revenue from sale of White Label products	$ 3,038,671	$ 58,980	$ 3,097,651
Net revenue from provision of services	465,972	-	465,972
	$ 3,504,643	$ 58,980	$ 3,563,623

During the year ended October 31, 2020, the Company earned 96% of its total trade revenue from four major customers (2019 – 97% from two major customers).

26. Operating segment information

For the year ended October 31, 2019 and 2020, the Company identified a single reportable operating segment.

27. Capital management

The Company manages its cash, short-term investments, common shares, stock options and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of a cannabis production business, to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk level and to be in compliance with the capital requirements externally imposed by long-term debt described in Note 13(b).

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and short-term investments on hand.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing production efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments, selected with regards to the expected timing of expenditures from continuing operations.

Management considers its approach to capital management to be appropriate given the relative size of the Company. There were no changes in the Company's approach to capital management during the year.

28. Government grant

As a response to the COVID-19, the Canadian Federal government introduced CEWS for qualifying businesses, which suffered a drop in gross revenues by a certain amount from March 2020. The purpose of the CEWS is to support businesses and employers to continue to employ workers or to re-hire workers that were previously laid off. The CEWS is considered as a form of government grant.

For the year ended October 31, 2020, the Company assessed that it qualified for CEWS and successfully applied for a total of $936,329 as CEWS funding, which was recorded and presented as a reduction of the corresponding payroll expenses. As at October 31, 2020, $299,436 was included in accounts receivable. See Note 23(a) and Note 31.

29. Retrospective restatement

During the year ended October 31, 2017, the Company obtained control of Voyage. As part of the identifiable net assets acquired in the business combination, the Company acquired a license with a fair value of $5,067,000. In accounting for this business combination, the Company unintentionally omitted to capture the deferred tax liability on the license, some additional contingent consideration payable, and the resulting impact on goodwill. The details of the contingent consideration are outlined in Note 14(c).

To correct the error, the Company has restated certain opening balances to the earliest prior period presented as follows:

	As Previously Reported	Adjustment	As Restated
Opening intangible assets, November 1, 2018	$ 5,067,000	$ 1,371,635	$ 6,438,635
Opening total assets, November 1, 2018	12,699,236	1,371,635	14,070,871
Opening current portion of contingent consideration payable, November 1, 2018	-	150,000	150,000
Opening current liabilities, November 1, 2018	712,331	150,000	862,331
Opening deferred tax liability, November 1, 2018	-	967,528	967,528
Opening total liabilities, November 1, 2018	712,331	1,117,528	1,829,859
Opening accumulated deficit, November 1, 2018	(12,760,850)	190,580	(12,570,270)
Opening equity attributable to shareholders, November 1, 2018	11,083,403	190,580	11,273,983
Opening non-controlling interest, November 1, 2018	903,502	63,527	967,029
Opening total equity, November 1, 2018	11,986,905	254,107	12,241,012
Opening total liabilities and equity, November 1, 2018	12,699,236	1,371,635	14,070,871

30. Comparative figures

Certain comparative figures have been reclassified to conform with the basis of presentation applied for the year ended October 31, 2020.

31. Subsequent events

(a) Exercise of options

On November 12, 2020, the Company issued 2,549,644 Heritage Common Shares as a result of 2,549,644 options exercised at an exercise price of $0.10. Refer to Note 17(c).

(b) Issuance and exercise of RSUs

On January 15, 2021, the Company issued 5,076,628 RSUs as settlement of part of 2019 key management compensation, which were then exercised by the holders resulting in an issuance of 5,076,628 Heritage Common Shares.

31. Subsequent events (continued)

(c) Acquisition of Premium 5 Ltd.

On January 26, 2021, the Company acquired all of the issued and outstanding securities of Premium 5 Ltd. ("Premium 5"), a Canada-based recreational and medical cannabis company in order to leverage their distribution channels, brand recognition, and financial synergies. As consideration for the acquisition, the Company issued 150,000,000 Heritage Common Shares. The Company will issue additional Heritage Common Shares with a potential value of up to $20,000,000 upon achieving a series of revenue milestones and maintaining minimum gross margin objectives over the next 24 months. The Company is currently assessing its accounting treatment of the acquisition, including the evaluation and fair value measurement of consideration paid, assets acquired and liabilities assumed.

(d) Public offering

On February 2, 2021, the Company announced a public offering of units (each, a "Unit") of the Company (the "Offering") to issue up to 86,000,000 Units at a price of $0.14 per Unit (the "Issue Price") for aggregated gross proceeds of up to $12,040,000. Each Unit consists of one Heritage Common Share and one common share purchase warrant (each, a "Warrant"). Each Warrant is exercisable for one Heritage Common Share at any time for a period of 24 months following the closing of the Offering at an exercise price of $0.21 per Warrant.

(e) Subsequent receipt of CEWS funding

Subsequent to October 31, 2020, the Company received the CEWS funding of $299,436, which was included in accounts receivable as at October 31, 2020. See Note 23(a) and Note 28.