HERITAGE CANNABIS HOLDINGS CORP.

Interim Condensed Consolidated Financial Statements

Three and Nine Months Ended July 31, 2020 and July 31, 2019

(Stated in Canadian Dollars)

(Unaudited)

HERITAGE CANNABIS
Holdings Corp

HERITAGE CANNABIS HOLDINGS CORP.

Interim Condensed Consolidated Financial Statements

Three and Nine Months Ended July 31, 2020 and July 31, 2019

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

	Notes		As at July 31, 2020		As at October 31, 2019
Assets					
Current					
Cash		$	4,138,217	$	2,486,466
Short-term investments	3		6,050,000		9,050,000
Sales tax recoverable			16,497		954,770
Accounts receivable	18(a),22		906,212		599,267
Inventories	4		4,153,834		5,517,717
Prepaid expenses and deposits			675,099		773,159
Convertible promissory note receivable	5		253,224		-
Other current assets	16(c)		320,206		49,255
			16,513,289		19,430,634
Other investments and deposits	6		276,104		276,104
Investment in associate	7		3,549,244		3,923,505
Intangible assets	8		47,770,584		49,510,047
Property, plant and equipment	9		19,717,377		19,349,263
Total Assets		$	87,826,598	$	92,489,553
Liabilities					
Current					
Accounts payable and accrued liabilities	16(c),18(b)	$	5,562,115	$	6,748,939
Sales tax payable			169,177		-
Deferred revenue			111,566		991,861
Current portion of long-term debt	10		4,698		4,360
Current portion of contingent consideration payable	11		507,000		-
			6,354,556		7,745,160
Long-term debt	10		4,497,897		24,235
Contingent consideration payable	11		2,058,000		4,684,000
Deferred tax liability	15		4,933,000		6,554,300
Total Liabilities			17,843,453		19,007,695
Shareholders' Equity					
Share capital	12		93,191,673		93,191,673
Contributed surplus	13		5,401,627		5,048,986
Accumulated other comprehensive loss	7		(17,029)		-
Accumulated deficit			(29,387,115)		(25,344,005)
Equity attributable to shareholders			69,189,156		72,896,654
Non-controlling interest	14		793,989		585,204
Total Equity			69,983,145		73,481,858
Total Liabilities and Equity		$	87,826,598	$	92,489,553

Going Concern (Note 1)
Subsequent Events (Note 24)

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

Approved on behalf of the Board of Directors:

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

HERITAGE CANNABIS HOLDINGS CORP.
Interim Condensed Consolidated Statements of Operations and Comprehensive Loss
Three and Nine Months Ended July 31, 2020 and July 31, 2019
(Stated in Canadian Dollars, Unaudited)

	Notes	Three Months Ended July 31, 2020	Three Months Ended July 31, 2019 (Note 23)	Nine Months Ended July 31, 2020	Nine Months Ended July 31, 2019 (Note 23)
Gross Revenue	20	$ 2,389,776	$ -	$ 7,756,320	$ -
Excise taxes		(79,726)	-	(929,858)	-
Net Revenue		2,310,050		6,826,462	
Cost of Sales	4	3,271,593	-	6,357,906	-
Gross Margin Before Fair Value Adjustments		(961,543)	-	468,556	-
Unrealized change in fair value of biological assets		-	-	149,985	-
Gross Margin		(961,543)	-	618,541	-
General and Administrative Expenses					
Advertising, travel and promotion		91,580	407,500	532,272	912,888
Amortization	4,8,9	768,967	875,494	2,257,138	1,638,689
Management and consulting fees	16	376,518	651,241	1,244,257	1,663,828
Occupancy, general and administrative		545,243	658,840	1,749,691	1,534,749
Professional fees		147,367	266,008	426,402	561,748
Share-based payments	13	32,509	683,531	352,641	3,520,992
Salaries, wages and benefits	22	116,150	666,677	1,171,597	1,452,062
		2,078,334	4,209,291	7,733,998	11,284,956
Other Income (Expense)					
Interest and other income		19,387	156,914	242,907	238,813
Interest and accretion expense	10	(173,521)	-	(344,843)	-
Share of loss from investment in associate	7	(123,926)	-	(357,232)	-
Unrealized gain (loss) on contingent consideration payable	11,19	2,026,000	(39,000)	2,119,000	(2,352,973)
Impairment of deposits		-	(150,000)	-	(150,000)
		1,747,940	(32,086)	1,659,832	(2,264,160)
Loss Before Taxes		(1,291,937)	(4,241,377)	(5,455,625)	(13,549,116)
Income Tax Recovery					
Deferred income tax recovery	15	(1,277,000)	-	(1,621,300)	(302,000)
		(1,277,000)	-	(1,621,300)	(302,000)
Net Loss		$ (14,937)	$ (4,241,377)	$ (3,834,325)	$ (13,247,116)
Other comprehensive loss that may be reclassified to net loss					
Loss on foreign currency translation	7	(136,215)	-	(17,029)	-
Net Loss and Comprehensive Loss		$ (151,152)	$ (4,241,377)	$ (3,851,354)	$ (13,247,116)
Net Loss and Comprehensive Loss attributed to:					
Shareholders of the Company		$ (271,547)	$ (4,130,886)	$ (4,060,139)	$ (12,940,597)
Non-controlling interest	14	120,395	(110,491)	208,785	(306,519)
		$ (151,152)	$ (4,241,377)	$ (3,851,354)	$ (13,247,116)
Weighted average number of outstanding shares, basic and diluted	17	473,718,024	468,296,095	473,718,024	412,832,054
Basic and diluted loss per share	17	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.03)

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

HERITAGE CANNABIS HOLDINGS CORP.
Interim Condensed Consolidated Statements of Changes in Equity
Nine Months Ended July 31, 2020 and July 31, 2019
(Stated in Canadian Dollars, Unaudited)

	Notes	Number of Shares	Share Capital	Contributed Surplus	Share Subscriptions	Accumulated Other Comprehensive Loss	Accumulated Deficit	Non-controlling Interest	Total
Balance at October 31, 2018 (Restated, see Note 23)		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	12	131,548,575	30,256,174	-	-	-	-	-	30,256,174
Purefarma Solutions Inc.	12	33,333,333	6,000,000	-	-	-	-	-	6,000,000
Share-based payments - acquisition costs									
CannaCure Corporation	12	5,784,751	1,610,493	163,643	-	-	-	-	1,774,136
Purefarma Solutions Inc.	12	1,200,000	234,000	-	-	-	-	-	234,000
Shares issued for cash consideration									
Exercise of warrants	12	25,086,216	8,857,713	(712,154)	-	-	-	-	8,145,559
Exercise of options	12	4,241,919	1,677,818	(1,016,698)	-	-	-	-	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.	11	-	-	18,974	-	-	-	-	18,974
Share-based payments - vesting of options	13(c)	-	-	1,380,871	-	-	-	-	1,380,871
Share-based payments - vesting of restricted shares	13(d)	-	-	55,478	-	-	-	-	55,478
Share-based payments - issuance of shares	12	153,265	76,507	-	-	-	-	-	76,507
Private placements									
Issuance and exercise of Special Warrants	12,13(e)	33,000,000	6,492,473	366,171	(55,000)	-	-	-	6,803,644
Issuance of Units	12	32,660,000	14,575,839	1,238,892	-	-	-	-	15,814,731
Shares issued on Endocanna share exchange transaction	7,24(c)	2,710,515	1,381,774	-	-	-	-	-	1,381,774
Transaction with non-controlling interest	14	-	-	-	-	-	(150,000)	-	(150,000)
Net loss and comprehensive loss for the period		-	-	-	-	-	(12,940,597)	(306,519)	(13,247,116)
Balance at July 31, 2019 (Restated, see Note 23)		473,638,024	$ 92,761,493	$ 5,277,175	$ -	$ -	$ (25,660,867)	$ 660,510	$ 73,038,311
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	13(c)	-	-	323,977	-	-	-	-	323,977
Share-based payments - vesting of restricted shares	13(d)	-	-	28,664	-	-	-	-	28,664
Net loss and comprehensive loss for the period		-	-	-	-	(17,029)	(4,043,110)	208,785	(3,851,354)
Balance at July 31, 2020		473,718,024	$ 93,191,673	$ 5,401,627	$ -	$ (17,029)	$ (29,387,115)	$ 793,989	$ 69,983,145

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

HERITAGE CANNABIS HOLDINGS CORP.
Interim Condensed Consolidated Statements of Cash Flows
Nine Months Ended July 31, 2020 and July 31, 2019
(Stated in Canadian Dollars, Unaudited)

	Notes	Nine Months Ended July 31, 2020	2019 (Note 23)
Operating Activities			
Net loss for the period		$ (3,834,325)	$ (13,247,116)
Items not affecting cash:			
Amortization	4,8,9	2,257,138	1,638,689
Unrealized change in fair value of biological assets		(149,985)	-
Loss on disposal of property, plant and equipment	9	805	-
Deferred income tax recovery	15	(1,621,300)	(302,000)
Non-cash items included in interest and other income		(3,224)	4,582
Non-cash interest and accretion expense	10	113,280	10,214
Share-based payments	13	352,641	3,520,992
Acquiree's acquisition costs - non-equity-settled		-	118,435
Share of loss from investment in associate	7	357,232	-
Unrealized loss (gain) on contingent consideration payable	11	(2,119,000)	2,352,973
		(4,646,738)	(5,903,231)
Net changes in non-cash working capital, net of business combinations:			
Sales tax recoverable		938,273	(138,557)
Accounts receivable		(306,945)	-
Inventories		1,895,243	(2,035,490)
Prepaid expenses and deposits		98,060	(1,081,972)
Other current assets		(270,951)	(2,951)
Accounts payable and accrued liabilities		(1,219,942)	695,655
Sales tax payable		169,177	-
Repayments to related parties		-	(55,458)
Deferred revenue		(880,295)	-
Cash Flows Used in Operating Activities		(4,224,118)	(8,522,004)
Investing Activities			
Acquisition of property, plant and equipment	9	(1,216,907)	(7,166,496)
Proceeds from disposal of property, plant and equipment	9	2,350	-
Purchase of convertible promissory note receivable	5	(250,000)	-
Cash acquired from business combinations		-	80,233
Deposits advanced		-	(90,000)
Purchases of short-term investments	3	(6,050,000)	(22,550,000)
Maturity of short-term investments	3	9,050,000	10,500,000
Issuance of loans receivable		-	(323,565)
Repayment of loans receivable		-	65,463
Issuance of advances, settled through business combination		-	(89,983)
Purchase of investment in associate	7	-	(2,657,328)
Cash Flows Provided by (Used In) Investing Activities		1,535,443	(22,231,676)
Financing Activities			
Proceeds from exercise of warrants	12	-	8,145,559
Proceeds from exercise of options	12	-	661,120
Proceeds from issuance of Special Warrants, net of issuance costs		-	6,803,644
Proceeds from issuance of Units, net of issuance costs	12	-	15,814,731
Principal payments on lease obligation		(20,294)	-
Repayment of long-term debt	10	(3,229)	(329,011)
Proceeds from long-term debt	10	4,363,949	-
Cash paid to non-controlling interest	11,14	-	(150,000)
Cash Flows Provided By Financing Activities		4,340,426	30,946,043
Net Increase in Cash During the Period		1,651,751	192,363
Cash, Beginning of Period		2,486,466	1,174,600
Cash, End of Period		$ 4,138,217	$ 1,366,963

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

Supplementary information

Interest received		$ 190,024	$ 30,362

Nature of Business

Heritage Cannabis Holdings Corp. (formerly Umbral Energy 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.

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 interim condensed 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. As at July 31, 2020, the Company incurred a net loss of $3,834,325 (2019 - $13,247,116) for the nine months ended July 31, 2020, and had an accumulated deficit of $29,387,115 (October 31, 2019 - $25,344,005). The Company's ability to arrange additional financing in the future depends, in part, on the prevailing capital market conditions. These factors may cast material uncertainty on the Company's ability to continue as a going concern.

The interim condensed 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 interim condensed consolidated financial statements.

1. Basis of Presentation (continued)

(b) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). The accounting policies adopted in preparing these interim condensed consolidated financial statements are consistent with those applied in the Company's annual consolidated financial statements as at and for the year ended October 31, 2019, except for the adoption of new accounting standards and policies described in Note 2. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

These interim condensed consolidated financial statements do not conform in all respects to the requirements of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") for annual financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the Company's October 31, 2019 audited annual consolidated financial statements and notes.

These interim condensed consolidated financial statements were approved by the Board of Directors on September 29, 2020.

(c) Basis of measurement

These interim condensed consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for biological assets, acquisition-related contingent consideration payable, investment in Stanley Park Digital Ltd. ("SPD") and convertible promissory note receivable which are measured at fair value.

(d) Functional and presentation currency

These interim condensed 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. 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 interim condensed 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 July 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

Certain subsidiaries are controlled, indirectly, through other subsidiaries.

During the nine months ended July 31, 2020, the Company incorporated two new wholly-owned subsidiaries: 5450 Realty Inc. (November 1, 2019) and Heritage (US) Oregon Corp. (March 23, 2020).

(f) Estimates and critical judgements made by management

The preparation of these interim condensed 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 interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The interim condensed consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the interim condensed 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.

(g) 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 July 31, 2020, management has identified impairment indicators and therefore performed an impairment test on goodwill (see Note 8). Based on the impairment test, management has not observed any material impairment of the Company's assets or a significant change in the fair value of the assets due to the COVID-19 pandemic.

1. Basis of Presentation (continued)

(g) COVID-19 Estimation Uncertainty (continued)

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 interim condensed 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.

2. Adoption of new accounting pronouncements

The Company has adopted the following new or amended accounting pronouncements for the period 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, and IFRIC 4, Determining whether an arrangement contains a lease, were not reassessed for whether there is a lease. 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 interim condensed consolidated statement of financial position with the cumulative difference recognized in accumulated deficit.

2. Adoption of new accounting pronouncements (continued)

(a) IFRS 16 Leases (continue)

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. Refer to the commitment note in the consolidated financial statements for the year ended October 31, 2019. 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.

The following is the Company's policy for accounting for lease contracts in accordance with IFRS 16.

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.

(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.

3. Short-term Investments

As at July 31, 2020, short-term investments consisted of $6,050,000 (October 31, 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 July 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 as at July 31, 2020 (October 31, 2019 - $50,000).

4. Inventories

	As at July 31, 2020	As at October 31, 2019
Supplies and packaging materials	$ 172,376	$ 80,789
Dried cannabis and hemp	1,373,884	4,172,512
Manufacturing work in progress and finished goods	2,607,574	1,252,233
Other	-	12,183
	$ 4,153,834	$ 5,517,717

During the three and nine months ended July 31, 2020, inventories expensed to cost of sales was $3,271,593 and $6,357,906, respectively (July 31, 2019 - $nil and $nil, respectively). During the three and nine months ended July 31, 2020, $119,206 and $381,375 of amortization was capitalized as part of inventory, respectively (July 31, 2019 - $nil and $nil, respectively). As at July 31, 2020, $381,375 of amortization was capitalized as part of inventories (October 31, 2019 - $nil).

5. 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 July 31, 2020, the convertible promissory note receivable had a fair value of $253,224 (October 31, 2019 - n/a).

6. Other investments and deposits

	As at July 31, 2020	As at October 31, 2019
Investment in SPD (i)	$ 170,000	$ 170,000
Deposit for development costs (ii)	106,104	106,104
	$ 276,104	$ 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 in cash. The fair value of the investment in SPD was determined to be $170,000 as at July 31, 2020 based on management’s best estimate.

6. Other investments and deposits (continued)

(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 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.

7. 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 12(b)). The share exchange transaction was valued at $1,381,774 CAD, 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		(357,232)
Foreign currency translation		(17,029)
Balance at July 31, 2020	$	3,549,244

8. Intangible Assets

	Licenses	Intellectual property	Brand	Goodwill (i)	Property purchase options	Total
Cost (Restated, see Note 23)						
At November 1, 2018	$ 5,067,000	$ -	$ -	$ 1,371,635	$ -	$ 6,438,635
Acquired through business combinations	23,170,000	7,250,000	560,000	13,319,798	957,000	45,256,798
Exercise of property purchase option (Note 9)	-	-	-	-	(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	-	-	-	-	-
At July 31, 2020	$ 28,237,000	$ 7,250,000	$ 560,000	$ 14,691,433	$ 50,738,433
Accumulated Amortization					
At November 1, 2019	$ 826,253	$ 319,795	$ 82,338	$ -	$ 1,228,386
Additions	1,056,959	542,759	139,745	-	1,739,463
At July 31, 2020	$ 1,883,212	$ 862,554	$ 222,083	$ -	$ 2,967,849
Net book value at July 31, 2020	**$ 26,353,788**	**$ 6,387,446**	**$ 337,917**	**$ 14,691,433**	**$ 47,770,584**

The details of individually material intangible assets are as follows:

Description	Carrying Amount As at July 31, 2020	Carrying Amount As at October 31, 2019	Remaining Amortization Period
Voyage cultivation, processing and sales licenses	$ 4,623,982	$ 4,813,650	Approximately 18 years
CannaCure cultivation, processing and sales licenses	$ 21,729,806	$ 22,597,097	Approximately 18 years
Purefarma intellectual property	$ 6,387,446	$ 6,930,205	Approximately 8 years

8. Intangible Assets (continued)

(i) Below is a breakdown of the goodwill balance as at July 31, 2020 and October 31, 2019:

	As at July 31, 2020	As at October 31, 2019
Goodwill acquired through acquisition of Purefarma (Note 23)	$ 4,333,242	$ 4,333,242
Goodwill acquired through acquisition of Cannacure (Note 23)	8,986,556	8,986,556
Goodwill acquired through acquisition of Voyage (Note 23)	1,371,635	1,371,635
	$ 14,691,433	$ 14,691,433

As at October 31, 2019 and July 31, 2020, the full goodwill balance was allocated to the extraction business, the Company's sole 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 July 31, 2020, the Company identified impairment indicators and as a result performed an impairment test on the goodwill using the value-in-use method. The key assumptions used in the calculation of the recoverable amount relate to future cash flows, weighted average cost of capital, and growth rates. These key assumptions were based on historical data from internal sources as well as industry and market trends. The Company estimated the recoverable amount of goodwill based on discounted cash flows. The discount rate used was 24% (October 31, 2019 – 25%) and the growth rates in revenue ranged from 0% to 250% (October 31, 2019 - 10% to 30%).

As the recoverable amount exceeded the carrying value at July 31, 2020, no impairment was recognized. Management reviewed the valuation of the Company's CGU for reasonableness relative to the Company's current market value. The Company believes that any reasonably possible change in the key assumptions would not cause the recoverable amount to decrease below the carrying value.

9. Property, Plant and Equipment

	Equipment	Buildings and leasehold 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 8)	-	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**

9. Property, Plant and Equipment (continued)

		Equipment		Buildings and leasehold 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		704,256		503,229		9,422		1,216,907
Disposals		(4,083)		-		-		(4,083)
At July 31, 2020	$	6,899,354	$	13,570,050	$	930,157	$	21,399,561
Accumulated Amortization								
At November 1, 2019	$	335,664	$	448,398	$	-	$	784,062
Additions		446,078		452,972		-		899,050
Disposals		(928)		-		-		(928)
At July 31, 2020	$	780,814	$	901,370	$	-	$	1,682,184
Net book value at July 31, 2020	**$**	**6,118,540**	**$**	**12,668,680**	**$**	**930,157**	**$**	**19,717,377**

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

10. Long-term debt

		As at July 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	$	25,366	$	28,595
(b) Term loan - bearing interest at 9.5% per annum, monthly interest-only payments, 24-month term, maturing in January of 2022		4,477,229		-
		4,502,595		28,595
Less: current portion		(4,698)		(4,360)
Long-term portion	$	4,497,897	$	24,235

(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 July 31, 2020, the face value of the term loan was $31,604 (October 31, 2019 - $36,871) and the carrying value of the underlying equipment that serves as security for the loan was $28,922 (October 31, 2019 - $29,706).

10. Long-term debt (continued)

(b) On January 30, 2020, the Company entered into a 24-month loan agreement with a maximum amount of $6,700,000. As at July 31, 2020, the first tranche of $4,875,000 had been advanced to the Company, with the second tranche of $1,825,000 becoming available upon the earlier of (i) the issuance of a Health Canada sales licence 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. The loan has an effective interest rate of 16%. To maintain the term loan, the Company is required to meet certain working capital ratios.

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.

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

Proceeds from term loan	$	4,875,000
Discount		(219,375)
Transaction costs		(291,677)
Balance at inception of the term loan		4,363,949
Interest payments		(231,563)
Interest expense		209,495
Accretion		135,348
Balance at July 31, 2020	$	4,477,229

11. Contingent Consideration Payable

Balance at November 1, 2018 (Restated, see Note 23(a))	$	150,000
Issued in Purefarma acquisition, equity-settled		807,026
Issued in Purefarma acquisition, cash-settled		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
Less: current portion		-
Long-term	$	4,684,000

Balance at November 1, 2019	$	4,684,000
Gain from remeasurement		(2,119,000)
Balance at July 31, 2020	$	2,565,000
Less: current portion		(507,000)
Long-term	$	2,058,000

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

On December 14, 2018, the Company acquired all the issued and outstanding shares of Purefarma Solutions Inc. ("Purefarma"). Purefarma's share capital, before and after the acquisition, is comprised of 1,000 Class A common shares. As consideration for all 1,000 Class A common shares, the Company issued 33,333,333 common shares with a fair value of $6,000,000, determined based on the closing share price of the Company on December 14, 2018, and paid $2 in cash plus two types of contingent payments summarized below. 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.

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;

11. Contingent Consideration Payable (continued)

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

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

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 period-end balance represents the discounted value of subsequent share issuances expected to occur between August 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 19,850,000 shares (undiscounted value of $2,084,250 based on the closing stock price of the Company on July 31, 2020).

Contingent consideration payable is measured at fair value at initial recognition and subsequently measured at FVTPL, with remeasurement at the end of each reporting period using a level 3 valuation technique, as detailed in Note 19.

(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;
(b) 9% of extraction-generated gross margin for Purefarma's fiscal year 2020;
(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.

11. Contingent Consideration Payable (continued)

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

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

Contingent consideration payable is measured at fair value at initial recognition and subsequently measured at FVTPL, with remeasurement at the end of each reporting period using a level 3 valuation technique, as detailed in Note 19.

As at July 31, 2020, a balance of $48,831 (October 31, 2019 - $48,831) is 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 interim condensed consolidated statement of financial position.

(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 cumulative EBITDA milestones. 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 23). This valuation reflects the high probability of meeting the first milestone, which entails a cash payment of $150,000, and the remote probability of meeting the remaining milestones. During the year ended October 31, 2019, the first milestone of the agreement 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 July 31, 2020, management re-assessed that the probability of meeting the remaining milestones remained remote and, as a result, the fair value of the contingent consideration payable in relation to Voyage acquisition was calculated as $nil.

11. Contingent Consideration Payable (continued)

The following is a continuity of contingent consideration payable:

	Voyage	Purefarma	Total
Balance at October 31, 2018 (restated, see Note 23)	$ 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 gain from changes in fair value	-	(2,119,000)	(2,119,000)
Balance at July 31, 2020	-	2,565,000	2,565,000

The Company's contingent consideration payable is measured at fair value based on unobservable inputs and is considered a level 3 financial instrument. The fair value of this liability is primarily driven by management's expectations of Purefarma's annual gross margins up to December 31, 2022 and the Company's extraction-related cumulative gross margin up to December 31, 2023. The former is estimated to total $56.62 million by December 31, 2022 and the latter is estimated to total $86.86 million by December 31, 2023. The estimated earn-outs were discounted to present value in order to derive the fair value of the contingent consideration. As at July 31, 2020, the discount rate used is 24% (October 31, 2019 – 25%), based on management's best estimates of cost of capital over the contractual term. If the gross margin estimates were decreased by 20%, the estimated fair value of the contingent consideration would decrease by $463,000. If the gross margin estimates were increased by 20%, the estimated fair value of the contingent consideration would increase by $532,000. If the discount rate decreased by 5%, the estimated fair value of the contingent consideration would increase by $231,000. If the discount rate increased by 5%, the estimated fair value of the contingent consideration would decrease by $201,000. 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.

12. 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 nine months ended July 31, 2020, there were no share issuances.

During the nine months ended July 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 period with respect to these two business combinations amounted to $1,844,493 and has been included in share-based payments.

During the period, 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 $1,016,698.

During the period, the Company issued 25,086,216 common shares for the exercise of 25,086,216 warrants at prices ranging from $0.01 to $0.70 per share. Total proceeds of $8,145,559 was credited to share capital in addition to a transfer from contributed surplus of $712,154.

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 $6,492,473 from contributed surplus to share capital, comprised of original proceeds of $7,500,000, less cash and non-cash issuance costs totaling $1,007,527.

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 $76,507, 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 $1,238,892, 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 7, the Company issued 2,710,515 common shares as part of the purchase of a significant influence interest in Endocanna.

13. Contributed Surplus

(a) Warrants

During the nine months ended July 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 July 31, 2020	31,281,960	$ 0.54

Movements in the number of warrants outstanding for the nine months ended July 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 (i)	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	(25,086,216)	0.32
Balance at July 31, 2019	31,369,720	$ 0.54

(i) During the nine months ended July 31, 2019, 1,241,040 Agent Warrants were exercised, resulting in the issuance of 1,241,040 Units. Each Unit is comprised of 1 common share and 1 common share purchase warrant. As such, through the exercise of 1,241,040 Agent Warrants, 1,241,040 common share purchase warrants were issued.

The following table summarizes the warrants outstanding and exercisable at July 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.

13. Contributed Surplus (continued)

(b) Special Warrants

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

Movements in the number of Special Warrants outstanding for the nine months ended July 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 July 31, 2019	$ -	$ -

(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.

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.

13. Contributed Surplus (continued)

(c) Stock options (continued)

(i) Stock option plan details (continued)

Movements in the number of options outstanding for the nine months ended July 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	(812,500)	0.34
Balance July 31, 2020	14,213,084	$ 0.27

Movements in the number of options outstanding for the nine months ended July 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	5,500,000	0.34
Exercised	(4,241,919)	0.16
Cancelled	(400,000)	0.54
Balance July 31, 2019	13,688,084	$ 0.27

The following table summarizes the options outstanding and exercisable at July 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	280,000	280,000	$ 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	4,325,000	4,325,000	$ 0.34
September 20, 2024	1,500,000	900,000	$ 0.36
	14,213,084	13,485,602	$ 0.27

As at July 31, 2020, the weighted average remaining contractual life of all options outstanding was 2.69 years (October 30, 2019 – 3.54 years).

13. Contributed Surplus (continued)

(c) Stock options (continued)

(ii) Amounts arising from share-based payment transactions

During the nine months ended July 31, 2020, the Company recognized an expense of $323,977 relating to the vesting of options held by employees, directors, officers and consultants (July 31, 2019 - $1,380,871).

(d) Restricted shares

During the nine months ended July 31, 2020, there was no issuance of restricted common shares.

During the nine months ended July 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 nine months ended July 31, 2020, the Company recorded share-based payments of $28,664 (July 31, 2019 - $55,478) for the vesting of restricted shares.

(e) Share subscriptions

During the nine months ended July 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.

14. Non-Controlling Interest

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

	Voyage	Mainstrain
Current assets	$ 4,093,767	$ -
Non-current assets	7,078,506	-
Current liabilities	12,838,709	144,485
Non-current liabilities	20,668	-
Revenue	3,575,187	-
Net income (loss) and comprehensive income (loss)	1,290,564	(12,061)

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

Balance at October 31, 2018 (Restated, See Note 23)	$ 967,029
Share of loss	(381,825)
Balance at October 31, 2019	585,204
Share of income	319,626
Share of amortization of Voyage licenses acquired through business acquisition (Note 8)	(110,841)
Balance at July 31, 2020	$ 793,989

15. Income Taxes

The Company's combined Canadian federal and provincial statutory income tax rate is 26.5% for the three and nine months ended July 31, 2020 and 2019. The rate is expected to apply for the full year.

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 23)	$	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		(1,621,300)
Balance at July 31, 2020	$	4,933,000

16. 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 three and nine months ended July 31, 2020 and 2019 are as follows:

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

	Three Months Ended July 31,			
		2020		2019
Management fees	$	45,000	$	45,000
Consulting fees		161,357		239,359
Occupancy		-		20,000
Accrued interest income		-		1,296
	$	206,357	$	305,655

	Nine Months Ended July 31,			
		2020		2019
Management fees	$	135,000	$	135,000
Consulting fees		554,074		541,724
Occupancy		-		56,645
Accrued interest income				1,296
Loans advanced		-		254,408
Cash paid to non-controlling interest (Note 14)		-		150,000
	$	689,074	$	1,139,073

16. Related Party Transactions and Balances (continued)

(b) Key management compensation

	Three Months Ended July 31,			
		2020		2019
Salary and short-term benefits	$	78,774	$	75,759
Share-based payments		-		462,545
	$	78,774	$	538,304

	Nine Months Ended July 31,			
		2020		2019
Salary and short-term benefits	$	233,282	$	192,310
Share-based payments		156,356		871,943
	$	389,638	$	1,064,253

(c) Related party balances

		As at July 31, 2020		As at October 31, 2019
Included in accounts payable and accrued liabilities	$	70,695	$	200,049
Included in other current assets (Note 11(b))		48,831		48,831

17. Loss per Share

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

18. 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 interim condensed 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.

18. 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 July 31, 2020	As at October 31, 2019
Trade accounts receivable from customers	$ 939,826	$ 473,716
Expected credit losses	(179,125)	-
Net trade receivables	760,701	473,716
Interest and other receivables (Note 22)	145,511	125,551
	$ 906,212	$ 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 of July 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 no concentration of credit risk as at July 31, 2020 (October 31, 2019 - 100% of the balance due from 2 customers).

An analysis of the aging of trade accounts receivable is as follows:

	As at July 31, 2020	As at October 31, 2019
Current (30 days or less)	$ 210,736	$ -
31-60 days	248,140	414,736
61-90 days	50	58,980
Greater than 90 days	301,775	-
	$ 760,701	$ 473,716

18. 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 July 31, 2020, the Company had working capital of $10,158,733 (October 31, 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	$ 5,562,115	$ -	$ -
Long-term debt	354,367	5,120,609	10,535
Contingent consideration payable	584,000	2,267,000	-
Total	$ 6,500,482	$ 7,387,609	$ 10,535

As of July 31, 2020, the Company has prepaid $137,849 in interest on account of long-term debt (October 31, 2019 – n/a).

(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's foreign currency risk is limited to the translation adjustments on its investment in Endocanna (Note 7), 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 7). As at July 31, 2020 and October 31, 2019, the Company has not entered into any hedging agreements to mitigate foreign currency risk.

18. Financial Instruments (continued)

(c) Market risk (continued)

(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 as detailed in Note 10. As at July 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 July 31, 2020 and October 31, 2019, the Company did not have a significant exposure to price risk as the Company did not possess financial instruments that are susceptible to a high degree of variability in the movements of equity or market prices.

19. 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).

19. 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)
Financial instruments measured at amortized cost	
Cash; Short-term investments; Accounts receivable; 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 three and nine months ended July 31, 2020 and 2019, there were no transfers of amounts between levels.

20. Entity-wide Disclosures

The Company's trade net revenue for the three months ended July 31, 2020 is comprised of the following:

	Domestic (Canada)	International	Total
Net revenue from sale of goods	1,381,584	-	1,381,584
Net revenue from provision of services	928,466	-	928,466
	2,310,050	-	2,310,050

The Company's trade net revenue for the nine months ended July 31, 2020 is comprised of the following:

	Domestic (Canada)	International	Total
Net revenue from sale of goods	3,773,420	-	3,773,420
Net revenue from provision of services	3,053,042	-	3,053,042
	6,826,462	-	6,826,462

During the three and nine months ended July 31, 2020, the Company earned 95% of its total trade revenue from four major customers for both periods. The Company did not report any trade revenue for the three and nine months ended July 31, 2019.

21. 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 and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk level.

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 period.

22. Government Grant

As a response to the COVID-19, the Canadian Federal government introduced a Canada Emergency Wage Subsidy ("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 and the Company recognizes government grants when there is a reasonable assurance that it will comply with the conditions required to qualify for the grant, and that the grant will be received.

For the three months ended July 31, 2020, the Company assessed that it qualified for CEWS and as a result successfully applied for a total of $354,835 as CEWS funding. As at July 31, 2020, $114,458 was included in accounts receivable and received subsequently. See Note 18(a).

The Company has elected to present the CEWS as a reduction of the corresponding payroll expenses.

23. Retrospective Restatement

		As Previously Reported	Historical Acquisition of Voyage (a)	Acquisitions of CannaCure and Purefarma (b)	Investment in Endocanna (c)		As Restated
As at July 31, 2019							
Investment in associate	$	3,971,928	-	-	67,174	$	4,039,102
Intangible assets	$	40,432,790	1,371,635	7,812,955	-	$	49,617,380
Total assets	$	80,989,120	1,371,635	7,812,955	67,174	$	90,240,884
Current portion of contingent consideration payable	$	242,000	150,000	409,000	-	$	801,000
Total current liabilities	$	2,952,272	150,000	409,000	-	$	3,511,272
Deferred tax liability	$	-	967,528	6,989,407	-	$	7,956,935
Contingent consideration payable	$	1,898,000	-	3,811,000	-	$	5,709,000
Total liabilities	$	4,875,638	1,117,528	11,209,407	-	$	17,202,573
Share capital	$	92,694,319	-	-	67,174	$	92,761,493
Contributed surplus	$	6,407,336	-	(1,130,161)	-	$	5,277,175
Accumulated deficit	$	(23,585,156)	190,580	(2,266,291)	-	$	(25,660,867)
Equity attributable to shareholders	$	75,516,499	190,580	(3,396,452)	67,174	$	72,377,801
Non-controlling interest	$	596,983	63,527	-	-	$	660,510
Total equity	$	76,113,482	254,107	(3,396,452)	67,174	$	73,038,311
Total liabilities and equity	$	80,989,120	1,371,635	7,812,955	67,174	$	90,240,884
Three Months Ended July 31, 2019							
Amortization	$	418,001	-	457,493	-	$	875,494
Share-based payments	$	683,531	-	-	-	$	683,531
Unrealized loss on contingent consideration payable	$	(80,000)	-	41,000	- -	$	(39,000)
Loss before taxes	$	(3,824,884)	-	(416,493)	-	$	(4,241,377)
Deferred tax recovery	$	-	-	-	-	$	-
Net loss and comprehensive loss	$	(3,824,884)	-	(416,493)	-	$	(4,241,377)
Net loss and comprehensive loss attributed to:							
Shareholders of the Company	$	(3,714,393)	-	(416,493)	-	$	(4,130,886)
Non-controlling interest	$	(110,491)	-	-	-	$	(110,491)

23. Retrospective Restatement (continued)

		As Previously Reported	Historical Acquisition of Voyage (a)	Acquisitions of Cannacure and Purefarma (b)	Investment in Endocanna (c)		As Restated
Nine Months Ended July 31, 2019							
Amortization	$	1,181,196	-	457,493	-	$	1,638,689
Share-based payments	$	3,533,167	-	(12,175)	-	$	3,520,992
Unrealized loss on contingent consideration payable	$	(230,000)	-	(2,122,973)	-	$	(2,352,973)
Loss before taxes	$	(10,980,825)	-	(2,568,291)	-	$	(13,549,116)
Deferred tax recovery		-	-	(302,000)	-	$	(302,000)
Net loss and comprehensive loss	$	(10,980,825)	-	(2,266,291)	-	$	(13,247,116)
Net loss and comprehensive loss attributed to:							
Shareholders of the Company	$	(10,674,306)	-	(2,266,291)	-	$	(12,940,597)
Non-controlling interest	$	(306,519)	-	-	-	$	(306,519)

Basic and diluted loss per share for the three and nine months ended July 31, 2019 remained at ($0.01) and ($0.03), respectively.

(a) Historical Acquisition of Voyage

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 11.

23. Retrospective Restatement (continued)

(a) Historical Acquisition of Voyage (continued)

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

(b) Acquisitions of CannaCure and Purefarma

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. The Company also acquired all the issued and outstanding shares of Purefarma Solutions Inc. ("Purefarma") on December 14, 2018.

During the year ended October 31, 2019, management finalized the purchase price allocations pertaining to the acquisitions of CannaCure Corporation ("CannaCure") and Purefarma Solutions Inc. ("Purefarma"). This resulted in various adjustments to the preliminary acquisition-date fair values of identifiable assets acquired, liabilities assumed, consideration paid, and the resulting allocation to goodwill. Related amortization amounts have also been adjusted to reflect the outcomes of the finalized purchase price allocations. Management also corrected its initial classification of equity-settled contingent consideration in the Purefarma acquisition. The contingent consideration in question is now classified as partially an equity instrument and partially a financial liability (Note 11). Being a FVTPL instrument, the component classified as a financial liability is subject to remeasurement at the end of each reporting period. The restated balances thus include an unrealized remeasurement loss attributable to the instrument's change in fair value during the period. Lastly, management has now appropriately captured the deferred tax implications stemming from the two acquisitions.

23. Retrospective Restatement (continued)

(c) Investment in Endocanna

On July 26, 2019, as detailed in Note 7, the Company issued 2,710,515 common shares as part of the purchase of a significant influence interest in Endocanna, with a fair value of $1,314,600. During the year ended October 31, 2019, the Company adjusted the value of these common shares to $1,381,774, determined based on the fair value of the common shares at the issuance date.

24. Subsequent Events

On August 5, 2020, the Company entered into an agreement to acquire 100% interest in Opticann Inc. ("Opticann"), a Colorado based oral and topical cannabinoid company for initial consideration of up to $5 million of common shares and warrants of Heritage, and a series of possible earn-outs with a potential value of up to $30 million contingent upon achieving significant financial and enterprise milestones over the next five years.

On August 18, 2020, the Company signed a term sheet to enter into a two-year joint venture with Cannahive Inc. ("Cannahive"), with an option to renew for additional one-year terms. The joint venture ("Joint Venture") will be formed to produce cannabis infused edible products under Heritage's brands.