

**HERITAGE CANNABIS HOLDINGS CORP.**

Consolidated Financial Statements

Years Ended October 31, 2021 and 2020

(Stated in Canadian Dollars)



---

# HERITAGE CANNABIS HOLDINGS CORP.

## Consolidated Financial Statements

Years Ended October 31, 2021 and 2020

---

	<b>Page</b>
Independent Auditor's Report	1
Consolidated Statements of Financial Position	4
Consolidated Statements of Operations and Comprehensive Loss	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

## 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 statements of financial position as at October 31, 2021 and 2020 and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years 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, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 \$57,452,213 during the year ended October 31, 2021 and, as of that date, the Company's total deficit was \$91,538,667. 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 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.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

May 10, 2022

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Consolidated Statements of Financial Position**  
**As at October 31, 2021 and October 31, 2020**  
(Stated in Canadian Dollars)

	Notes	As at October 31, 2021	As at October 31, 2020
			(Note 31)
<b>Assets</b>			
Current			
Cash		\$ 3,763,577	\$ 1,445,659
Short-term investments	6	950,000	6,050,000
Sales tax recoverable		1,014,805	66,472
Accounts receivable	25(a),30	4,773,285	1,063,768
Inventories	7	16,124,241	5,225,365
Prepaid expenses and deposits	8	2,347,740	741,065
Convertible promissory note receivable	9	259,481	254,481
Other current assets	16(b),22	48,831	48,831
		29,281,960	14,895,641
<b>Other investments and deposits</b>	10	438,678	153,018
<b>Investment in associate</b>	11	3,044,182	3,515,379
<b>Intangible assets and goodwill</b>	12	44,253,279	45,298,364
<b>Property, plant and equipment</b>	13	20,769,966	19,569,406
<b>Total Assets</b>		\$ 97,788,065	\$ 83,431,808
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities	22(c),25(b)	\$ 7,785,461	\$ 2,436,115
Sales tax payable		276,032	373,665
Deferred revenue		240,705	906
Current portion of long-term debt	15	5,321	519,928
Current portion of lease liabilities	14	79,359	26,182
Current portion of contingent consideration payable	16	590,176	148,311
		8,977,054	3,505,107
<b>Lease liabilities</b>	14	729,744	-
<b>Long-term debt</b>	15	10,836,359	4,070,493
<b>Contingent consideration payable</b>	16	15,940,000	1,362,000
<b>Derivative liabilities</b>	17	1,478,469	893,377
<b>Deferred tax liability</b>	21	4,606,000	5,336,000
<b>Total Liabilities</b>		42,567,626	15,166,977
<b>Equity</b>			
Share capital	18	140,482,057	96,203,173
Contributed surplus	19	5,779,474	5,417,218
Accumulated other comprehensive income (loss)	11,25(c)(i)	(197,307)	36,012
Accumulated deficit		(91,538,667)	(34,031,758)
Equity attributable to shareholders		54,525,557	67,624,645
Non-controlling interest	20	694,882	640,186
<b>Total Equity</b>		55,220,439	68,264,831
<b>Total Liabilities and Equity</b>		\$ 97,788,065	\$ 83,431,808
Going Concern (Note 1(a))			
Commitments (Note 23)			
Subsequent Events (Note 32)			

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

Approved on behalf of the Board of Directors:

"Clint Sharples"  
\_\_\_\_\_  
Director

"David Schwede", CEO  
\_\_\_\_\_  
Director

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**Years Ended October 31, 2021 and 2020**  
(Stated in Canadian Dollars)

	Notes	Years Ended October 31,	
		2021	2020
<b>Gross Revenue</b>	27	\$ 18,676,958	\$ 9,257,070
Excise taxes		(4,617,828)	(1,000,635)
<b>Net Revenue</b>		14,059,130	8,256,435
<b>Cost of Sales</b>	7	13,492,997	6,656,120
<b>Gross Margin Before Fair Value Adjustments</b>		566,133	1,600,315
Unrealized change in fair value of biological assets		-	149,985
<b>Gross Margin</b>		566,133	1,750,300
<b>General and Administrative Expenses</b>			
Advertising, travel and promotion		1,654,619	648,196
Amortization and depreciation	7,12,13	5,223,667	2,515,498
Management and consulting fees	22	2,034,610	1,638,848
Occupancy, general and administrative		2,842,580	2,105,889
Professional fees		1,060,650	538,095
Share-based payments	19,22	692,816	368,232
Salaries, wages and benefits	22,30	4,965,320	429,428
		18,474,262	8,244,186
<b>Other Income (Expense)</b>			
Interest and other income		121,591	277,785
Interest and finance expense	14,15,17	(958,848)	(549,581)
Share of loss from investment in associate	11	(235,393)	(448,701)
Impairment of intangible assets and goodwill	12	(36,337,826)	(5,500,000)
Unrealized gain (loss) on contingent consideration payable	16	(3,514,865)	3,173,689
Unrealized gain (loss) on derivative liabilities	17	236,772	(140,377)
Loss on debt extinguishment	15	(1,361,338)	-
Impairment of inventories	7	(513,137)	-
Impairment of other investments and deposits		-	(170,000)
		(42,563,044)	(3,357,185)
<b>Loss Before Taxes</b>		(60,471,173)	(9,851,071)
<b>Income tax recovery</b>			
Deferred income tax recovery	21	(3,018,960)	(1,218,300)
		(3,018,960)	(1,218,300)
<b>Net Loss</b>		\$ (57,452,213)	\$ (8,632,771)
Other comprehensive income (loss) that may be reclassified to net loss			
Gain (loss) on foreign currency translation	11,25(e)(i)	(233,319)	36,012
<b>Comprehensive Loss</b>		\$ (57,685,532)	\$ (8,596,759)
<b>Comprehensive Income (Loss) attributed to:</b>			
Shareholders of the Company		\$ (57,740,228)	\$ (8,651,741)
Non-controlling interest	20	54,696	54,982
		\$ (57,685,532)	\$ (8,596,759)
<b>Weighted average number of outstanding shares, basic and diluted</b>	24	697,447,550	475,373,876
<b>Basic and diluted loss per share</b>	24	\$ (0.08)	\$ (0.02)

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, 2021 and 2020**  
(Stated in Canadian Dollars)

	Notes	Number of Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non-controlling Interest	Total
<b>Balance at October 31, 2019</b>		473,718,024	\$ 93,191,673	\$ 5,048,986	\$ -	\$ (25,344,005)	\$ 585,204	\$ 73,481,858
Share-based payments - vesting of options	19(b)	-	-	339,568	-	-	-	339,568
Share-based payments - vesting of restricted shares	19(c)	-	-	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	12,18	500,000	52,500	-	-	-	-	52,500
Comprehensive income (loss) for the year	20	-	-	-	36,012	(8,687,753)	54,982	(8,596,759)
<b>Balance at October 31, 2020</b>		496,136,722	\$ 96,203,173	\$ 5,417,218	\$ 36,012	\$ (34,031,758)	\$ 640,186	\$ 68,264,831
<b>Balance at October 31, 2020</b>		496,136,722	\$ 96,203,173	\$ 5,417,218	\$ 36,012	\$ (34,031,758)	\$ 640,186	\$ 68,264,831
Share-based payments - vesting of options	19(b)	-	-	342,123	-	-	-	342,123
Share-based payments - issuance of restricted shares	18(b),19(c)	2,191,831	350,693	-	-	-	-	350,693
Exercise of options	18(b),19(b)	2,549,644	828,259	(578,259)	-	-	-	250,000
Restricted shares issued for debt and services	18(b),19(c)	2,884,797	342,142	-	-	-	-	342,142
Shares issued for debt and services	18(b)	3,308,933	228,218	-	-	-	-	228,218
Shares issued as purchase consideration for Premium 5 acquisition	5,18(b)	180,156,643	30,626,629	-	-	-	-	30,626,629
Issuance of units, net of issuance costs	18(b),19(a)	98,900,000	11,902,943	598,392	-	-	-	12,501,335
Comprehensive income (loss) for the year	20	-	-	-	(233,319)	(57,506,909)	54,696	(57,685,532)
<b>Balance at October 31, 2021</b>		786,128,570	\$ 140,482,057	\$ 5,779,474	\$ (197,307)	\$ (91,538,667)	\$ 694,882	\$ 55,220,439

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, 2021 and 2020**  
(Stated in Canadian Dollars)

	Notes	Years Ended October 31,	
		2021	2020
<b>Operating Activities</b>			
Net loss for the year		\$ (57,452,213)	\$ (8,632,771)
Items not affecting cash:			
Amortization and depreciation	12,13	5,223,667	2,515,498
Depreciation in cost of sales	12,13	251,815	469,284
Unrealized change in fair value of biological assets		-	(149,985)
Capitalized depreciation recognized in cost of sales	7	763,672	-
Inventory fair value increase recognized in cost of sales	5,7	583,087	-
Loss on disposal of property, plant and equipment		-	805
Deferred income tax recovery	21	(3,018,960)	(1,218,300)
Non-cash items included in interest and other income	9	(5,000)	(4,481)
Non-cash recovery of accounts payable	7	-	(2,879,718)
Non-cash interest and finance expense	15,17	544,607	202,237
Shares issued for services	18(b)	123,555	-
Share-based payments	19(b)(c)	692,816	368,232
Loss on debt extinguishment, net of cash-settled transaction costs	15	1,341,090	-
Share of loss from investment in associate	11	235,393	448,701
Unrealized (gain) on contingent consideration payable	16	3,514,865	(3,173,689)
Unrealized loss (gain) on derivative liabilities	17	(236,772)	140,377
Unrealized foreign exchange loss (gain)	11,25(c)(i)	20,244	(4,139)
Impairment of intangible assets and goodwill	12	36,337,826	5,500,000
Impairment of other investments and deposits	10	-	170,000
		(11,080,308)	(6,247,949)
Net changes in non-cash working capital, net of business combination:			
Sales tax recoverable		(845,954)	888,298
Accounts receivable		(3,427,115)	(511,403)
Inventories		(8,059,636)	1,530,653
Prepaid expenses and deposits		(1,587,918)	32,094
Other current assets		369,630	-
Other investments and deposits		(285,660)	-
Accounts payable and accrued liabilities		4,648,603	(2,050,474)
Sales tax payable		(97,633)	373,665
Deferred revenue		239,799	(990,955)
<b>Cash Flows Used in Operating Activities</b>		<b>(20,126,192)</b>	<b>(6,976,071)</b>
<b>Investing Activities</b>			
Acquisition of property, plant and equipment	13	(1,930,776)	(1,355,212)
Proceeds from disposal of property, plant and equipment		-	2,350
Issuance of convertible promissory note receivable	9	-	(250,000)
Cash acquired from business combination	5	1,281,341	-
Cash acquired from asset acquisition	4	-	205,767
Redemptions of short-term investments	6	5,100,000	-
Purchases of short-term investments	6	-	(6,050,000)
Maturity of short-term investments	6	-	9,050,000
<b>Cash Flows Provided by Investing Activities</b>		<b>4,450,565</b>	<b>1,602,905</b>
<b>Financing Activities</b>			
Proceeds from exercise of options	18(b),19(b)	250,000	-
Proceeds from issuance of units, net of cash-settled issuance costs	18(b),19(a)	12,501,335	-
Principal payments on lease obligation	14	(49,879)	(27,230)
Principal payments on long-term debt, net of cash-settled transaction costs	15	(4,677,029)	(4,360)
Proceeds from long-term debt, net of cash-settled transaction costs	15(c)	9,151,618	4,363,949
Proceeds from convertible promissory note payable	17(b)	817,500	-
<b>Cash Flows Provided by Financing Activities</b>		<b>17,993,545</b>	<b>4,332,359</b>
<b>Net Increase (Decrease) in Cash During the Year</b>		<b>2,317,918</b>	<b>(1,040,807)</b>
Cash, Beginning of Year		1,445,659	2,486,466
<b>Cash, End of Year</b>		<b>\$ 3,763,577</b>	<b>\$ 1,445,659</b>

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

**Supplementary information**

Interest received		\$ 71,711	\$ 164,576
Interest paid	14,15	\$ 414,241	\$ 347,344
Shares and restricted shares for debt	18(b)	\$ 342,142	\$ -
Shares issued for Premium 5 acquisition	5,18(b)	\$ 30,626,629	\$ -
Non-cash share issuance costs	18(b),19(a)	\$ 598,392	\$ -
Income taxes paid		\$ -	\$ -
Capitalized depreciation expense during the year		\$ 275,628	\$ 591,385
Right-of-use asset additions	13	\$ 286,456	\$ 53,412

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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. In Canada, 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, medicinal and adult use, and cannabis oil sales licenses, 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. CALYX Life Sciences Corp., a wholly-owned subsidiary, creates products and services aimed at providing an integrative approach to cannabinoid therapy for healthcare consumers and healthcare practitioners. On January 25, 2021, the Company acquired 100% of Premium 5 Ltd., a Canada-based recreational and medical cannabis company in high-quality full spectrum concentrates. In the United States, the Company operates under 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 flows 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. The Company incurred a net loss of \$57,452,213 for the year ended October 31, 2021 (2020 - \$8,632,771), and had an accumulated deficit of \$91,538,667 as at October 31, 2021 (2020 - \$34,031,758). 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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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 May 10, 2022.

(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 derivative 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, 2021, subsidiaries over which the Company has control are listed below.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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.	100%	British Columbia, Canada
1005477 B.C. Ltd.	100%	British Columbia, Canada
Voyage Cannabis Corp.	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
Premium 5 Ltd.	100%	Alberta, Canada

Certain subsidiaries are controlled, indirectly, through other subsidiaries.

During the year ended October 31, 2021, the Company acquired all the issued and outstanding shares of Premium 5 Ltd (January 25, 2021). Refer to Note 5.

(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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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, 2021, management performed an annual impairment test on goodwill and related cash generating unit, and certain intangible assets with finite useful lives as impairment indicators became known (see Note 12).

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 valuers. 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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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 ("FVLCD") and value in use ("VIU"), 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 higher of VIU and FVLCD 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 derivative 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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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.

(xv) Discount rate and lease term used in application of IFRS 16, Leases

The determination of the Company's lease liabilities and right-of-use assets depends on certain assumptions, which include the selection of the discount rate. The discount rate is set by reference to the Company's incremental borrowing rate. Management determines the incremental borrowing rate for each leased asset by taking into account the Company's credit standing, the guarantee, the term and the value of the underlying leased asset, as well as the economic environment in which the leased asset is operated. Incremental borrowing rates can be changed due to macroeconomic changes in the environment. To determine the appropriate lease term, management considers all relevant facts and circumstances that create an economic incentive for the Company to exercise a renewal option or not to exercise a termination option. The periods covered by the renewal options are included in the lease term only if management is reasonably certain it will renew the lease. Changes in the assumptions used may have a significant effect on the consolidated financial statements.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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.

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, not to exceed 12 months, 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.



**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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 presented.

(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.

(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 to 10 years
Board relationships	10 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 assets

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 assets	Lesser of lease term or useful life

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**2. Significant accounting policies (continued)**

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

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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 1186366 B.C. Ltd. included in other investments and deposits, contingent consideration payable and derivative 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, 2020 and 2021.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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 recognizes 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 11). 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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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.

(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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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, share options, restricted shares, restricted share units ("RSU") and certain warrants 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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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, 2021 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 either (i) deliver crude cannabis extracts, and/or (ii) provide post extraction refinement, formulation, and packaging services. Revenue in the amount of \$240,705 (2020 - \$906 to be earned in the 2021 fiscal year) is expected to be earned in the 2022 fiscal year from contracts and orders in place as at October 31, 2021.

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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**2. Significant accounting policies (continued)**

(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 30.



**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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**

(a) Adoption of Amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

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 has adopted these amendments as of November 1, 2020 and has assessed no significant impact as a result of adoption.

(b) Amendment to IAS 1, Presentation of Financial Statements, Issued but not Yet Effective

IAS 1 was amended in January 2020 to address inconsistencies with how entities apply the standard over classification of current and non-current liabilities. The amendment serves to address whether, in the statement of financial position, debt and other liabilities with an uncertain settlement should be classified as current or non-current. The amendment is effective for annual reporting periods beginning on or after January 1, 2023. Earlier adoption is permitted. The Company will adopt this amendment as of the effective date, and is currently assessing the impacts of adoption.

(c) Amendment to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, Issued but not Yet Effective

IAS 37 was amended in May 2020 to clarify the costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. Earlier adoption is permitted. The Company will adopt the amendment as of the effective date, and is currently assessing the impacts of adoption.

(d) Amendment to IAS 16, Property, Plant and Equipment, Issued but not Yet Effective

IAS 16 was amended in May 2020 to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. Earlier adoption is permitted. The Company will adopt the amendment as of the effective date, and is currently assessing the impacts of adoption.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

#### 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. The Company acquired Opticann as a strategic maneuver to advance its presence in the United States CBD market.

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 12.
- (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 17(a) 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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**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 23 for subsequent assessment. The following table presents the Company's purchase price allocation for the asset acquisition:

<b>Total consideration paid</b>	
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 17(a))	753,000
	<b>3,712,000</b>
<b>Fair value of identifiable net assets acquired</b>	
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 12)	3,626,658
	<b>\$ 3,712,000</b>

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**5. Business combination**

On January 25, 2021, the Company, through a wholly-owned subsidiary ("TransactionCo"), entered into a three-cornered amalgamation which resulted in the acquisition of all of the issued and outstanding shares of Premium 5 Ltd. ("Premium 5"), a Canada-based recreational and medical cannabis company in high-quality full spectrum concentrates. The amalgamation was completed on the same day, and the resulting amalgamated company changed its name to Premium 5 Ltd. The Company acquired Premium 5 as a strategic maneuver to leverage their distribution channels, brand recognition, and financial synergies.

Aggregate purchase consideration payable for all the outstanding and issued common shares in Premium 5 includes:

- (a) 150,000,000 Heritage Common Shares issued with a fair value of \$25,500,000, determined based on the closing share price of the Company at the acquisition date;
- (b) 30,156,643 Heritage Common Shares issued as additional compensation for Premium 5's excess working capital, with a fair value of \$5,126,629 determined based on the closing share price of the Company at the acquisition date;
- (c) Contingent performance payments payable in Heritage Common Shares, with a potential value of up to \$15,000,000, based on a fixed percentage of the excess net revenue over \$7,000,000 derived from certain products within the twelve months following the acquisition date ("First Performance Milestone"). The fair value of such contingent performance payments was determined as \$10,824,000, using the Black-Scholes model with the following inputs, assumptions and result; and
- (d) Contingent performance payment in the amount of \$5,000,000, payable in Heritage Common Shares, upon the Company's ability to achieve certain average gross margin target across all recreational products within the second twelve months following the acquisition date ("Second Performance Milestone"). The fair value of such contingent performance payment was determined as \$681,000, using the Black-Scholes model with the following inputs, assumptions and result.

At January 25, 2021, the acquisition date	Performance Milestone 1
Option type	Vanilla
Net revenue	\$23,072,960
Exercise price	\$7,000,000 - \$17,000,000
Time period (years)	1.00
Volatility	70%
Dividend yield	0.00%
Risk-free rate	0.10%
Calculated fair value of earnout	\$10,824,000

At January 25, 2021, the acquisition date	Performance Milestone 2
Option type	Cash-or-nothing
Gross margin	\$7,191,479
Cash payment	\$5,000,000
Exercise price	\$10,487,325
Time period (years)	2.00
Volatility	125%
Dividend yield	0.00%
Risk-free rate	0.10%
Calculated fair value of earnout	\$681,000

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

**5. Business combination (continued)**

Refer to Note 16(d) for management's subsequent valuation of above contingent performance payments.

Management determined that the assets and processes comprised a business and therefore accounted for the transaction as a business combination using the acquisition method of accounting. The following table summarizes the fair value of the consideration transferred and the major classes of assets acquired and liabilities assumed at the acquisition date.

<b>Total consideration paid</b>		
180,156,643 Heritage Common Shares	\$	30,626,629
Contingent performance payments (Note 16(d))		11,505,000
		<b>42,131,629</b>
<b>Fair value of identifiable net assets acquired</b>		
Cash		1,281,341
Accounts receivable		282,402
Sales tax recoverable		102,379
Inventories		3,910,371
Prepaid expenses and deposits		18,757
Advances to the Company		369,630
Property, plant and equipment (Note 13)		726,041
Brand (Note 12)		8,918,000
Board relationships (Note 12)		1,034,000
Accounts payable and accrued liabilities		(1,042,885)
Lease liability (Note 14)		(546,344)
Net assets, excluding deferred taxes		15,053,692
Purchased goodwill		27,077,937
Deferred tax liability (Note 21)		2,288,960
Goodwill recognized (Note 12)	\$	29,366,897

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 intangible assets acquired has been determined using valuation techniques that require estimation of future earnings, future net cash flows, and discount rates. Changes in estimates and assumptions used could have a material impact on the amount of goodwill recorded and the amount of depreciation and amortization expense recognized in earnings for depreciable assets in future periods.

Since January 25, 2021, the acquisition date, Premium 5 commenced sales of its products through Voyage and Cannacure, the cannabis license holders and wholly-owned subsidiaries of the Company. As such, management determined that it would be impracticable to determine the amount of trade revenues and profit or loss Premium 5 would have generated if the acquisition had been completed on November 1, 2020.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**6. Short-term investments**

As at October 31, 2021, short-term investments consisted of \$950,000 (2020 - \$6,050,000) 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, 2021 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 (2020 - \$50,000).

**7. Inventories**

	As at October 31, 2021	As at October 31, 2020
Supplies and packaging materials	\$ 3,032,189	\$ 363,587
Dried cannabis and hemp	1,615,938	1,431,309
Manufacturing work in progress	3,250,178	2,930,075
Finished goods	8,101,748	498,174
Other	124,188	2,220
	<b>\$ 16,124,241</b>	<b>\$ 5,225,365</b>

During the year ended October 31, 2021, inventories expensed to cost of sales was \$9,827,525 (2020 - \$5,350,145). As at October 31, 2021, \$103,341 (2020 - \$591,385) of capitalized amortization remained in inventories.

During the year ended October 31, 2021, the Company recognized a recovery of accounts payable from a previously significant vendor in the amount of \$nil (2020 - \$2,879,718) with a corresponding decrease in cost of sales.

**8. Prepaid expenses and deposits**

	As at October 31, 2021	As at October 31, 2020
Inventory deposits	\$ 1,913,665	\$ 497,168
Prepaid insurance and consulting	65,577	29,592
Equipment deposits	40,971	14,800
Marketing	65,145	90,780
Other prepaid expenses	262,382	108,725
	<b>\$ 2,347,740</b>	<b>\$ 741,065</b>

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**9. 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, 2021, the convertible promissory note receivable had a fair value of \$259,481 (2020 - \$254,481).

**10. Other investments and deposits**

	As at October 31, 2021	As at October 31, 2020
Refundable deposit for development costs	\$ 106,104	\$ 106,104
Investment in 118366 B.C. Ltd.	35,875	46,914
Long-term deposits	296,699	-
	<u>\$ 438,678</u>	<u>\$ 153,018</u>

**11. 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.

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

<b>Balance at October 31, 2019</b>	\$ 3,923,505
Share of net loss	(448,701)
Foreign currency translation	40,575
<b>Balance at October 31, 2020</b>	<u>\$ 3,515,379</u>
Share of net loss	(235,393)
Foreign currency translation	(235,804)
<b>Balance at October 31, 2021</b>	<u>\$ 3,044,182</u>

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

**11. Investment in associate (continued)**

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

	As at October 31, 2021	As at October 31, 2020
Cash and cash equivalents	\$ 72,529	\$ 412,515
Other current assets	241,766	568,796
Non-current assets	205,840	600,861
Current liabilities	347,010	136,588
Non-current liabilities	-	-
	For the year ended October 31, 2021	For the year ended October 31, 2020
Revenue	\$ 152,250	\$ 134,214
Depreciation and amortization expense	216,844	144,444
Loss from continuing operations	619,275	1,021,123
Total comprehensive loss	619,275	1,021,123

**12. Intangible assets and goodwill**

	Licenses	Intellectual property	Brand	Goodwill (i)	Total
<b>Cost</b>					
At October 31, 2019	\$ 28,237,000	\$ 7,250,000	\$ 560,000	\$ 14,691,433	\$ 50,738,433
Additions (18(b))	-	-	52,500	-	52,500
Acquisitions from asset acquisition (Note 4, 18(b))	3,626,658	-	-	-	3,626,658
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
<b>Accumulated amortization</b>					
At October 31, 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
<b>Net book value at</b>					
<b>October 31, 2020</b>	<b>\$ 29,561,147</b>	<b>\$ 6,205,206</b>	<b>\$ 340,578</b>	<b>\$ 9,191,433</b>	<b>\$ 45,298,364</b>



**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

**12. Intangible assets and goodwill (continued)**

	<b>Licenses</b>	<b>Board Relationships</b>	<b>Intellectual property</b>	<b>Brand</b>	<b>Goodwill (i)</b>	<b>Total</b>
<b>Cost</b>						
At October 31, 2020	\$ 31,863,658	\$ -	\$ 7,250,000	\$ 612,500	\$ 9,191,433	\$ 48,917,591
Acquisition from business Combination (Note 5)	-	1,034,000	-	8,918,000	29,366,897	39,318,897
Foreign currency translation	(17,760)	-	-	-	-	(17,760)
Impairment	(2,637,826)	-	-	-	(33,700,000)	(36,337,826)
At October 31, 2021	\$ 29,208,072	\$ 1,034,000	\$ 7,250,000	\$ 9,530,500	\$ 4,858,330	\$ 51,880,902
<b>Accumulated amortization</b>						
At October 31, 2020	\$ 2,302,511	\$ -	\$ 1,044,794	\$ 271,922	\$ -	\$ 3,619,227
Additions	2,318,515	79,037	725,000	885,844	-	4,008,396
At October 31, 2021	\$ 4,621,026	\$ 79,037	\$ 1,769,794	\$ 1,157,766	\$ -	\$ 7,627,623
<b>Net book value at</b>						
<b>October 31, 2021</b>	<b>\$ 24,587,046</b>	<b>\$ 954,963</b>	<b>\$ 5,480,206</b>	<b>\$ 8,372,734</b>	<b>\$ 4,858,330</b>	<b>\$ 44,253,279</b>

The details of individually material intangible assets are as follows:

<b>Description</b>	<b>Carrying Amount</b>		<b>Remaining Amortization Period</b>
	<b>As at October 31, 2021</b>	<b>As at October 31, 2020</b>	
Voyage processing and sales licenses	\$ 4,306,948	\$ 4,560,299	Approximately 17 years
CannaCure cultivation, processing and sales licenses	20,280,098	21,438,598	Approximately 17 years
Purefarma intellectual property	5,480,206	6,205,206	Approximately 7 years
Opticann license (Note 4)	-	3,562,250	Approximately 3 years
Premium 5 board relationships (Note 5)	954,963	-	Approximately 9 years
Premium 5 brand (Note 5)	8,236,323	-	Approximately 9 years

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

**12. Intangible assets and goodwill (continued)**

(i) Below is a reconciliation of changes in the goodwill balance for the years ended October 31, 2021 and 2020:

	Purefarma	CannaCure	Voyage	Premium 5	Total
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
Acquired through business combination (Note 5)	-	-	-	29,366,897	29,366,897
Impairment	(2,369,429)	(4,913,874)	(750,014)	(25,666,683)	(33,700,000)
As at October 31, 2021	\$ 341,587	\$ 708,404	\$ 108,125	\$3,700,214	\$4,858,330

As at October 31, 2020 and October 31, 2021, the full goodwill balance was allocated to the Canadian extraction 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, 2021, the Company performed its annual impairment test on the goodwill based on the higher of VIU and FVLCD of the CGU, determined in accordance with the expected cash flow approach, a level 3 valuation technique. 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 12.5% (2020 – 15.8%), 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 36.2% (2020 - 75%).

As the recoverable amount was below the carrying value at October 31, 2021, an impairment loss of \$33,700,000 (2020 - \$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.

**13. Property, plant and equipment**

	Equipment	Buildings and improvements	Land	Total
<b>Cost</b>				
At October 31, 2019	\$ 6,199,181	\$ 13,013,409	\$ 920,735	\$ 20,133,325
Additions	776,462	622,740	9,422	1,408,624
Disposals	(4,083)	-	-	(4,083)
At October 31, 2020	\$ 6,971,560	\$ 13,636,149	\$ 930,157	\$ 21,537,866
<b>Accumulated amortization</b>				
At October 31, 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
<b>Net book value at October 31, 2020</b>	<b>\$ 6,036,212</b>	<b>\$ 12,603,037</b>	<b>\$ 930,157</b>	<b>\$ 19,569,406</b>

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

**13. Property, plant and equipment (continued)**

	<b>Equipment</b>	<b>Buildings and improvements</b>	<b>Land</b>	<b>Total</b>
<b>Cost</b>				
At October 31, 2020	\$ 6,971,560	\$ 13,636,149	\$ 930,157	\$ 21,537,866
Acquisitions from business combination (Note 5)	136,761	589,280	-	726,041
Additions	1,625,477	591,755	-	2,217,232
Deduction as a result of terminated lease	-	(53,412)	-	(53,412)
At October 31, 2021	\$ 8,733,798	\$ 14,763,772	\$ 930,157	\$ 24,427,727
<b>Accumulated amortization</b>				
At October 31, 2020	\$ 935,348	\$ 1,033,112	\$ -	\$ 1,968,460
Additions	953,006	789,707	-	1,742,713
Deduction as a result of terminated lease	-	(53,412)	-	(53,412)
At October 31, 2021	\$ 1,888,354	\$ 1,769,407	\$ -	\$ 3,657,761
<b>Net book value at October 31, 2021</b>	<b>\$ 6,845,444</b>	<b>\$ 12,994,365</b>	<b>\$ 930,157</b>	<b>\$ 20,769,966</b>

Below is a reconciliation of changes in the right-of-use assets, which are included in the buildings and improvements balance based on the nature of their underlying assets

	<b>Right-of-use assets</b>
<b>Cost</b>	
At October 31, 2019	\$ -
IFRS 16 adoption (Note 14)	53,412
At October 31, 2020	\$ 53,412
<b>Accumulated depreciation</b>	
At October 31, 2019	\$ -
Additions	29,134
At October 31, 2020	\$ 29,134
<b>Net book value at October 31, 2020</b>	<b>\$ 24,278</b>

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

**13. Property, plant and equipment (continued)**

	<b>Right-of-use assets</b>
<b>Cost</b>	
At October 31, 2020	\$ 53,412
Additions (Note 14)	286,456
Acquisitions from business combination (Note 5)	546,344
Deduction as a result of terminated lease	(53,412)
At October 31, 2021	\$ 832,800
<b>Accumulated depreciation</b>	
At October 31, 2020	\$ 29,134
Additions	102,116
Deduction as a result of terminated lease	(53,412)
At October 31, 2021	\$ 77,838
<b>Net book value at October 31, 2021</b>	<b>\$ 754,962</b>

As at October 31, 2021, assets included in improvements and equipment that were not available for use and therefore not amortized, amounted to \$nil and \$nil (2020 - \$1,747,596 and \$1,037,192) respectively.

As at October 31, 2021 and October 31, 2020, substantially all of the Company's property, plant and equipment was domiciled in Canada.

**14. Lease liabilities**

During the year ended October 31, 2020, the Company had an office lease with a fixed monthly lease payment of \$2,430 until September 30, 2021. In January 2021, as part of the Premium 5 acquisition described in Note 5, the Company acquired an office lease, with an escalating monthly lease payment of \$7,123 until April 22, 2031. At the acquisition date, the Company re-measured the lease liability at the present value of the remaining lease payments as if the lease were a new lease at the acquisition date. In March 2021, the Company entered into another lease for office space with an escalating monthly lease payment of \$5,811 until April 30, 2026, the end of the initial term, with a subsequent renewal through April 30, 2031. The Company applied a discount rate of 10% in the calculation of lease liabilities for the new leases entered into during the year ended October 31, 2021 (2020 – 6%).

The following is a continuity of lease liabilities:

	As at October 31, 2021	As at October 31, 2020
<b>Beginning balance</b>	\$ 26,182	\$ -
IFRS 16 adoption (Note 13)	-	53,412
Acquired through business combination (Note 5)	546,344	-
Additions	286,456	-
Interest expense	62,235	1,930
Lease payments	(112,114)	(29,160)
<b>Ending balance</b>	<b>\$ 809,103</b>	<b>\$ 26,182</b>
Less: current portion	(79,359)	(26,182)
<b>Long-term portion</b>	<b>\$ 729,744</b>	<b>\$ -</b>

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**14. Lease liabilities (continued)**

Future undiscounted lease payments for these leases, excluding certain operating expenses such as common area maintenance fees which are excluded from lease liabilities, are as follows:

	<1 year	2-5 years	> 5 years
Contractual cash flows	\$ 156,117	\$ 607,410	\$ 408,100

During the year ended October 31, 2021, the Company has recognized rent expenses of \$94,757 in the profit or loss in relation to the short-term leases, low-value leases and variable lease payments which were excluded from the measurement of lease liabilities (2020 - \$142,806).

**15. Long-term debt**

	As at October 31, 2021	As at October 31, 2020
(a) Term loan - non-interest bearing, principal-only payments of \$585 per month, 6-year term, maturing on January 18, 2025	\$ 19,419	\$ 24,235
(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 on January 30, 2022	-	4,566,186
(c) Term loan – comprised of three credit facilities for up to \$14,775,000, with two facilities bearing interest at Royal Bank of Canada prime rate plus 1.25% per annum and the remaining one bearing interest at 18% per annum, monthly interest-only payments, 16-month term, maturing on February 1, 2023	10,822,261	-
	\$ 10,841,680	\$ 4,590,421
Less: current portion	(5,321)	(519,928)
Long-term portion	\$ 10,836,359	\$ 4,070,493

- (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, 2021, the face value of the term loan was \$22,825 (2020 - \$29,848) and the carrying value of the underlying equipment that serves as security for the loan was \$25,087 (2020 - \$27,792)

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**15. 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, 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 during the year ended October 31, 2020.

On March 31, 2021, the Company entered into a refinance agreement described in Note 15(c) and repaid the outstanding balance of the term loan in full.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**15. Long-term debt (continued)**

(b) 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)
<b>Balance at inception of the term loan</b>		<b>4,363,949</b>
Change in carrying amount as a result of modification		28,926
Interest payments		(347,344)
Interest expense		347,344
Accretion		173,311
<b>Balance at October 31, 2020</b>	<b>\$</b>	<b>4,566,186</b>
Repayments, net of transaction costs		(4,863,163)
Interest expense		190,950
Accretion		106,027
<b>Balance at October 31, 2021</b>	<b>\$</b>	<b>-</b>

(c) On March 31, 2021, the Company, along with its subsidiaries CannaCure Corporation, 333 Jarvis Realty Inc., Voyage Cannabis Corp. and 5450 Realty Inc., (together the “Borrowers”) refinanced the existing term loan described in Note 15(b) by entering into a 18-month refinance agreement for \$7,000,000. The effective interest rate implicit in the term loan is 10%.

The term loan is secured by the following:

- (i) A promissory note in the amount of \$7,000,000;
- (ii) mortgages and assignments of rents over certain properties owned by the Company;
- (iii) an environmental indemnity agreement;
- (iv) an encumbrance and charge of all of the Borrowers’ right, title and interest in the Borrowers’ present and future personal property and assets by way of a general security agreement;
- (v) an assignment of proceeds from the Borrowers’ sales;
- (vi) assignments and postponements of creditors’ claims from creditors of the Borrowers;
- (vii) joint and several unlimited guarantees inclusive of assignments and postponements of creditors’ claims from each of the guarantors, including five of the Company’s remaining subsidiaries (together the “Guarantors”);
- (viii) general security agreements from the Borrowers and Guarantors inclusive of serial specific registration on certain assets;
- (ix) a pledge by the Company, each of its subsidiaries and all the investees in which the Company holds interests;
- (x) an assignment of material contracts and insurance agreements granted by the Company and each guarantor; and
- (xi) solicitors’ opinions for Borrowers.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**15. Long-term debt (continued)**

- (c) On October 6, 2021, the Company amended the loan agreement by establishing three credit facilities for a maximum amount of \$14,775,000 (collectively the "Loan") as follows:
- (i) Facility 1: the initial loan is increased from \$7,000,000 to \$7,175,000, with the increase of \$175,000 to be used by the Company to pay to the lender an extension fee of \$175,000 to extend the due date to February 1, 2023;
  - (ii) Facility 2: an additional loan \$2,600,000 will be advanced at the Royal Bank of Canada prime rate plus 1.25% per annum;
  - (iii) Facility 3: a revolving line of credit up to maximum of \$5,000,000 shall be established at an interest rate of 18% per annum.

The Loan is due on February 1, 2023. If the Loan is repaid in its entirety on or before October 1, 2022, the lender will repay the \$175,000 extension fee for Facility 1 to the Company. As at October 31, 2021, the Company has advanced total of \$10,822,261 in principal, with the remaining line of credit \$3,952,739 available for advance.

As part of the amendments, the Company also issued 10,000,000 warrants to the lender. Each warrant is exercisable into one Heritage Common Share at an exercise price of \$0.25 per share and has a term of 24 months expiring on October 8, 2023. See Note 19(a). These warrants were considered exchangeable into a fixed number of Heritage common shares, and thus were classified as equity.

Based on management's assessment, the modification of the loan resulted in a substantial change in the carrying amount of the loan, and therefore was accounted for as an extinguishment of the original loan and a recognition of the new loan. The Company initially valued the Loan at its fair value at the modification date, using the effective interest rate of 5.08% implicit in the Loan, with \$nil residual value to the warrants. The difference between the fair value of the Loan and the original loan, as well as the transaction costs incurred as part of modification in the amount of \$1,361,338 were recognized in profit or loss at the modification date.

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

Proceeds from term loan	\$	7,000,000
Transaction costs, cash-settled		(1,111,433)
Transaction costs, equity-settled (Note 16(b))		(28,000)
<b>Balance at inception of the term loan</b>		<b>5,860,567</b>
Interest payments		(129,500)
Interest expense		129,500
Accretion		357,553
<b>Balance at October 6, 2021, the modification date</b>	<b>\$</b>	<b>6,218,120</b>
Advances, net of cash-settled transaction costs		3,263,051
Loss on debt extinguishment from changes in carrying amount and transaction costs withheld by lender as a result of modification <sup>(i)</sup>		1,341,090
Interest expense		31,556
Interest payments		(31,556)
<b>Balance at October 31, 2021</b>	<b>\$</b>	<b>10,822,261</b>

<sup>(i)</sup> In addition, the Company incurred legal fees of \$20,248 in connection with the modification, which was recognized as loss on debt extinguishment.



**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**16. Contingent Consideration Payable**

<b>Balance at October 31, 2019</b>	\$	4,684,000
Gain from remeasurement		(3,173,689)
<b>Balance at October 31, 2020</b>	\$	1,510,311
Issued in Premium 5 acquisition (Note 5)		11,505,000
Loss from remeasurement		3,514,865
<b>Balance at October 31, 2021</b>	\$	16,530,176
Less: current portion		(590,176)
Long-term portion	\$	15,940,000

(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"). In connection with the acquisition, 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.

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.

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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**16. Contingent Consideration Payable (continued)**

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

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, 2021 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. The remaining performance payments are based on a fixed percentage of the gross margin generated by the extraction business, as follows:

- (a) 6% of extraction-generated gross margin for Purefarma's fiscal year 2021; and
- (b) 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, 2021, a balance of \$48,831 (2020 - \$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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**16. 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.

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, 2021, management recognized the fair value of contingent consideration payable in an amount of \$345,000 in relation to Voyage acquisition, reflecting the high probability of meeting the remaining EBITDA milestones. The discount rate used was 15.8%, based on management’s best estimates of cost of capital over the contractual term. If the discount rate decreased by 5%, the estimated fair value of the contingent consideration would increase by \$16,000. If the discount rate increased by 5%, the estimated fair value of the contingent consideration would decrease by \$14,000.

(d) Contingent consideration issued in Premium 5 acquisition, equity-settled

As detailed in Note 5, the Company is required to issue additional Heritage Common Shares upon the achievement of the First Performance Milestone and the Second Performance Milestone over the next twenty-four months. As at October 31, 2021, the Company recognized the fair value of the First Performance Milestone payment in an amount of \$15,000,000, which represented the maximum pay-out for such milestone given the Company has exceeded the milestone expectations by January 25, 2022. The Company re-valued the fair value of Second Performance Milestone payment using the Black-Scholes model with the following inputs, assumptions and results, respectively:

At October 31, 2021	Performance Milestone 2
Option type	Cash-or-nothing
Gross margin	\$13,977,287
Cash payment	\$5,000,000
Exercise price	\$20,218,202
Time period (years)	1.24
Volatility	100%
Dividend yield	0.00%
Risk-free rate	0.15%
Calculated fair value of earnout	\$940,000

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

**16. Contingent Consideration Payable (continued)**

(d) Contingent consideration issued in Premium 5 acquisition, equity-settled (continued)

The value of the potential First Performance Milestone and Second Performance Milestone pay-out is limited to \$20,000,000.

The following is a continuity of contingent consideration payable:

	Purefarma	Voyage	Premium 5	Total
<b>Balance at October 31, 2019</b>	\$ 4,684,000	\$ -	\$ -	\$ 4,684,000
Unrealized loss (gain) from changes in fair value	(3,573,689)	400,000	-	(3,173,689)
<b>Balance at October 31, 2020</b>	\$ 1,110,311	\$ 400,000	\$ -	\$ 1,510,311
Addition from Premium 5 acquisition (Note 5)	-	-	11,505,000	11,505,000
Unrealized loss (gain) from changes in fair value	(865,135)	(55,000)	4,435,000	3,514,865
<b>Balance at October 31, 2021</b>	\$ 245,176	\$ 345,000	\$ 15,940,000	\$ 16,530,176

As at October 31, 2021, the fair value of the liability to Purefarma reflects management's best estimates of cash-settled contingent consideration, with remote probability of meeting the cumulative gross margins up to December 31, 2023 for the equity-settled contingent consideration.

**17. Derivative liabilities**

	Heritage Cannabis Exchange Corp. (a)	Heritage Cannabis Holdings Corp. (b)	Total
<b>Balance at October 31, 2019</b>	\$ -	\$ -	\$ -
Addition from acquisition (Note 4)	753,000	-	753,000
Unrealized loss from changes in fair value	140,377	-	140,377
<b>Balance at October 31, 2020</b>	\$ 893,377	\$ -	\$ 893,377
Addition	-	817,500	817,500
Interest expense	-	4,364	4,364
Unrealized loss (gain) from changes in fair value	(600,168)	363,396	(236,772)
<b>Balance at October 31, 2021</b>	\$ 293,209	\$ 1,185,260	\$ 1,478,469

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

**17. Derivative liabilities (continued)**

(a) Heritage Cannabis Exchange Corp.

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.

At each reporting period end, the Company re-valued the warrant derivative liabilities using a level 3 valuation technique, as detailed in Note 26 with the following inputs, assumptions and results, respectively:

<b>At October 31, 2020</b>	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

<b>At October 31, 2021</b>	Class 1 warrants	Class 2 warrants
Number of warrants issued	7,919,493	3,511,110
Risk-free annual interest rate	1.08%	1.08%
Expected life (years)	0.93	1.93
Expected annualized volatility	89%	92%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.20	\$0.30
Share price	\$0.065	\$0.065
Calculated fair value per warrant at year-end	\$0.02	\$0.04

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 table summarizes warrant activities in Heritage Cannabis Exchange Corp. during the years ended October 31, 2021 and 2020:

	Number of warrants	Weighted average exercise price
Balance October 31, 2019	-	\$ -
Granted	11,430,603	0.23
Balance October 31, 2020 and 2021	11,430,603	\$ 0.23

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**17. Derivative liabilities (continued)**

(b) Heritage Cannabis Holdings Corp., the parent company

On October 18, 2021, the Company entered into a note and warrant purchase agreement (the “Agreement”) with two lenders, each to provide the Company \$750,000 USD for an aggregate funding of \$1,500,000 USD. The \$1,500,000 USD is to be disbursed in four tranches from October 18, 2021 through November 30, 2021. At closing of each disbursement, the Company will issue to the lender a convertible promissory note (each, a “Note” and together, the “Notes”) and a warrant (each, a “Warrant” and together, the “Warrants”). Subsequent to October 31, 2021, the Company amended the Note to extend the closing date for the fourth tranche to December 31, 2021.

The Notes mature in 24 months from the effective date and bear an interest rate of 15% per annum, which shall be paid in Heritage Common Shares (such shares issuable as interest payment, the “Interest Shares”). The price per Interest Share shall be the greater of: (i) 90% of the volume weighted average price per Heritage Common Share for the five consecutive trading days preceding such issuance, and (ii) the minimum price per Heritage Common Share permitted pursuant to applicable securities laws and the requirements of the Canadian Securities Exchange (“CSE”). The Interest Shares shall be issued on a quarterly basis, beginning on January 18, 2022. The principal amount is due and payable upon maturity in cash or Heritage Common Shares (the “Conversion Shares”) at the option of Notes holders. The conversion price per Conversion Share shall be the greater of: (i) the closing market share price of the Heritage Common Shares on the trading day prior to a news release or the posting of notice to the CSE website, and (ii) \$0.07 CDN.

The Warrants issuable are exercisable for a period of 36 months from the issuance dates. Each Warrant is exercisable into Heritage Common Shares (the “Warrant Shares”), equal to 50% of the aggregate number of Conversion Shares that would be received upon the holder’s conversion of 100% of the aggregate amount of principal outstanding under the Note. Exercise price per Warrant Shares shall be the greater of: (i) the closing market share price of the Heritage Common Shares on the trading day prior to a news release or the posting of notice to the CSE website, and (ii) \$0.083 CDN.

Both the Notes and Warrants were considered to be exercisable into a variable number of Heritage Common Shares due to the variable conversion price, and therefore were classified together as a financial liability at FVTPL.

As at October 31, 2021, the Company received the first tranche of \$660,000 USD (equivalent to \$817,500 CDN), and issued a Note and Warrant upon the cash receipt. At initial recognition, the Company allocated the proceeds received to the Note and the Warrant based on their relative fair value at the issuance date. The standalone fair value of the Note was calculated using the effective interest rate of 15% implicit in the Note. The standalone fair value of the Warrant was calculated using a level 3 valuation technique as detailed in Note 26. As at October 31, 2021, the Company revalued the Note at fair value, calculated as the greater of the amount payable in cash if no conversion right is exercised, and the amount payable in equity. The Warrant was re-valued at fair value using the same valuation technique with the following inputs, assumptions and results:

	At October 18, 2021, the issuance date	At October 31, 2021
Estimated number of Warrant Shares issuable	5,833,928	5,834,400
Risk-free annual interest rate	0.88%	1.14%
Expected life (years)	3	2.97
Expected annualized volatility	90%	91%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.055	\$0.065
Calculated standalone fair value per Warrant	\$290,835	\$363,637

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**17. Derivative liabilities (continued)**

(b) Heritage Cannabis Holdings Corp., the parent company (continued)

Expected annualized volatility was estimated using the Company's average historical volatility for a time period equal to the Warrant's remaining terms at valuation dates.

Below is a reconciliation of changes in the fair value of the Note and the Warrant:

	Note	Warrant	Total
<b>Balance at inception</b>	\$ 602,837	\$ 214,663	\$ 817,500
Interest expense	4,364	-	4,364
Unrealized loss from changes in fair value	214,422	148,974	363,396
<b>Balance at October 31, 2021</b>	<b>\$ 821,623</b>	<b>\$ 363,637</b>	<b>\$ 1,185,260</b>

The following table summarizes warrant activities for warrants classified as financial liabilities at FVTPL during the year ended October 31, 2021:

	Number of warrant
Balance October 31, 2020	-
Granted	1
Balance October 31, 2021	1

In connection with the Agreement, the Company paid commitment fees of \$76,663 through an issuance of 1,393,884 Heritage Common Shares at initial closing. See Note 18(b).

**18. 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, 2021, the following share issuances took place:

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. Total proceeds of \$250,000 were credited to share capital, in addition to the transfer of \$578,259 from contributed surplus. Refer to Note 19(b).

On January 15, 2021, the Company issued 5,076,628 restricted shares, of which 2,191,831 were issued as compensation bonus with a fair value of \$350,693, determined based on the closing share price of Heritage Common Shares at the issuance date, and 2,884,797 of which were issued as settlement of key management compensation in the amount of \$342,142. There was no gain or loss recognized on the debt settlement, as the key management are also shareholders of the Company. All of the restricted shares vested immediately, resulting in an issuance of 5,076,628 Heritage Common Shares.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**18. Share capital (continued)**

On January 31, 2021 and April 11, 2021, as part of the purchase consideration for the Premium 5 acquisition as described in Note 5, the Company issued a total of 150,000,000 and 30,156,643 Heritage Common Shares, respectively. The fair value of these shares was measured at \$30,626,629, determined based on the closing share price of the Company at the acquisition date.

On March 17, 2021, the Company issued 98,900,000 units (each, a “Unit”), at a price of \$0.14 per unit for aggregated gross proceeds of \$13,846,000. 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 ending on March 17, 2023 at an exercise price of \$0.21 per Warrant. The proceeds were first allocated to the Heritage Common Shares in accordance with the residual method, resulting in \$nil being allocated to the warrants. The Company paid issuance costs of \$1,344,665 in cash and \$598,392 through the issuance of 6,923,000 broker warrants (each, “Broker Warrants”). Each Broker Warrant is exercisable into one Unit at a price of \$0.14 per unit, expiring on March 17, 2023. The value of the Broker Warrants was measured based on the fair value of the equity instruments granted.

On April 15, 2021, the Company issued 170,000 Heritage Common Shares to a financing agent for the services rendered in relation to the refinance agreement described in Note 15(c). Upon the issuance, the Company recognized a gain on the debt settlement of \$5,900, arising from the difference between the service fees of \$28,000 settled and the value of shares measured based on the quoted market price on the date of issuance.

On May 4, 2021, the Company issued 495,049 Heritage Common Shares in consideration for certain advisory services received. The fair value of these shares was measured at \$54,455, determined based on the quoted market price on the date of issuance.

On September 29, 2021, the Company issued 1,250,000 Heritage Common Shares in consideration for certain marketing services received. The fair value of these shares was measured at \$75,000, determined based on the quoted market price on the date of issuance.

On October 19, 2021, the Company issued 1,393,884 Heritage Common Shares for commitment fees related to the Agreement detailed in Note 17(b). The fair value of these shares was measured at \$76,663, determined based on the quoted market price on the date of issuance.

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 12.

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.



**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

**19. Contributed surplus**

(a) Warrants

Movements in the number of outstanding warrants classified as equity during the year ended October 31, 2021 and 2020 are as follows:

	Number of Warrants	Weighted average exercise price
<b>Balance at October 31, 2019 and 2020</b>	31,281,960	\$ 0.54
Issued as part of March 2021 private placement (Note 18(b))	98,900,000	0.21
Issued as settlement of share issuance costs (Note 18(b))	6,923,000	0.14
Issued as part of loan amendment (Note 15(c))	10,000,000	0.25
Expired	(12,666,260)	0.35
<b>Balance at October 31, 2021</b>	<b>134,438,700</b>	<b>\$ 0.27</b>

The fair value of warrants issued during the year ended October 31, 2021 for issuance costs was determined at the time of issuance using the Black-Scholes option pricing model with the following weighted average inputs, assumptions and results:

Risk-free annual interest rate	0.27%
Expected life (years)	2
Expected annualized volatility	91%
Expected annual dividend yield	0.00%
Exercise price	\$0.14
share price	\$0.14
Calculated fair value per warrant at grant date	\$0.09

Expected annualized volatility was estimated using the Company's average historical volatility for a time period equal to the warrants' expected life.

See Note 15(c) and Note 18(b) for the valuation of warrants issued as part of loan amendment and private placement, respectively.

The following table summarizes the outstanding and exercisable warrants classified as equity as at October 31, 2021:

Expiry date	Number of warrants	Weighted average exercise price
November 8, 2021 (Note 32(a))	16,329,500	\$ 0.70
May 7, 2022	2,286,200	0.53
March 17, 2023	98,900,000	0.21
March 17, 2023	6,923,000	0.14
October 8, 2023	10,000,000	0.25
	<b>134,438,700</b>	<b>\$ 0.27</b>

Of the 134,438,700 warrants outstanding, 9,209,200 are Broker Warrants and 125,229,500 are standard common share purchase warrants. Broker 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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**19. Contributed surplus (continued)**

(b) 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.

Movements in the number of options outstanding for the year ended October 31, 2021 are as follows:

	Number of options	Weighted average exercise price
<b>Balance October 31, 2020</b>	13,838,084	\$ 0.28
Granted (Note 22(b))	13,875,000	0.10
Exercised (Note 18(b))	(2,549,644)	0.10
Expired	(400,000)	0.34
<b>Balance October 31, 2021</b>	<b>24,763,440</b>	<b>\$ 0.19</b>

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

	Number of Options	Weighed average exercise price
<b>Balance October 31, 2019</b>	15,650,584	\$ 0.28
Forfeited	(625,000)	0.36
Expired	(1,187,500)	0.31
<b>Balance October 31, 2020</b>	<b>13,838,084</b>	<b>\$ 0.28</b>

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**19. Contributed surplus (continued)**

(b) Stock options (continued)

The fair value of stock options issued during the year ended October 31, 2021 was determined at the time of issuance using the Black-Scholes option pricing model with the following weighted average inputs, assumptions and results:

Risk-free annual interest rate	1.11%
Expected life (years)	5
Expected annualized volatility	146%
Expected annual dividend yield	0.00%
Exercise price	\$0.10
Share price at grant date	\$0.07
Calculated fair value per option at grant date	\$0.06

Expected annualized volatility was estimated using the Company's average historical volatility for a time period equal to the options' expected life terms.

The following table summarizes the options outstanding and exercisable at October 31, 2021:

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
August 20, 2023	254,964	191,223	0.20
April 10, 2025	892,476	892,476	0.20
February 8, 2024	3,750,000	3,750,000	0.34
September 20, 2024	1,500,000	1,500,000	0.36
September 17, 2026	13,875,000	4,625,000	0.10
	24,763,440	15,449,699	\$ 0.19

As at October 31, 2021, the weighted average remaining contractual life of all options outstanding was 3.60 years (2020 – 2.43 years). The weighted average exercise price for exercisable options was \$0.25 (2020 - \$0.28).

(ii) Amounts arising from share-based payment transactions

During the year ended October 31, 2021, the Company recognized an expense of \$342,123 relating to the vesting of options held by employees, directors, officers and consultants (2020 - \$339,568).

(c) Restricted shares

During the year ended October 31, 2021, the Company granted 5,076,628 restricted common shares to key management. These restricted shares vested immediately at the grant date, resulting in the issuance of 5,076,628 Heritage Common Shares detailed in Note 18(b).

During the year ended October 31, 2021, the Company recorded share-based payments of \$350,693 (2020 - \$28,664) for the vesting of restricted shares.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

**20. 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, 2021. NCI is measured at fair value at the acquisition date.

	Voyage	Mainstrain
Current assets	\$ 11,075,121	\$ -
Non-current assets	6,730,549	-
Current liabilities	14,627,465	145,436
Non-current liabilities	14,098	-
Net revenue	18,672,625	-
Net income (loss) and comprehensive income (loss)	472,617	(483)

The following table presents the summarized financial information before intercompany eliminations for the year ended and as at October 31, 2020.

	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	-
Net revenue	4,401,467	-
Net income (loss) and comprehensive income (loss)	739,159	(12,529)

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

	Voyage	Mainstrain	Total
<b>Balance at October 31, 2019</b>	\$ 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 combination (Note 12)	(126,675)	-	(126,675)
<b>Balance at October 31, 2020</b>	\$ 627,521	\$ 12,665	\$ 640,186
Share of income (loss)	118,154	(120)	118,034
Share of amortization of Voyage licenses acquired through business acquisitions (Note 12)	(63,338)	-	(63,338)
<b>Balance at October 31, 2021</b>	\$ 682,337	\$ 12,545	\$ 694,882

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

**21. Income taxes**

The Company's combined Canadian federal and provincial statutory income tax rate is 26.5% for the year ended October 31, 2021 and 2020. The Company's provision for income taxes for the years ended October 31, 2021 and 2020 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:

	2021	2020 (Note 31)
<b>Income tax recovery at statutory rate</b>	\$ (5,244,000)	\$ (1,910,000)
Non-deductible and non-taxable permanent differences	103,000	195,000
Financing fees charged to equity and debt	(458,000)	(185,000)
Unrealized gain or loss on contingent consideration payable and derivative liabilities	888,000	(820,000)
Income tax benefits not recognized and other	1,692,040	1,501,700
<b>Provision for income taxes</b>	<b>\$ (3,018,960)</b>	<b>\$ (1,218,300)</b>

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.

<b>Balance at October 31, 2019</b>	<b>\$ 6,554,300</b>
Deferred income tax recovery	(1,218,300)
<b>Balance at October 31, 2020</b>	<b>5,336,000</b>
Deferred tax liability assumed from business combination (Note 5)	2,288,960
Deferred income tax recovery	(3,018,960)
<b>Balance at October 31, 2021</b>	<b>\$ 4,606,000</b>

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, 2021 and 2020 were as follows:

	2021	2020
<b>Deferred tax assets (liabilities)</b>		
Non-capital loss carry forward	\$ 12,081,000	\$ 7,956,000
Inventories	(28,000)	(201,000)
Property, plant and equipment	60,000	196,000
Lease liabilities	197,000	-
Financing costs	371,000	-
Intangible assets	(10,153,000)	(8,666,000)
Share issuance costs	772,000	535,000
Resource deductions	280,000	280,000
Contingent consideration payable	(705,000)	(559,000)
Other	367,000	300,000
	3,242,000	(159,000)
Less: Tax assets not recognized	(7,848,000)	(5,177,000)
<b>Deferred tax liability</b>	<b>\$ (4,606,000)</b>	<b>\$ (5,336,000)</b>

The Company has accumulated non-capital losses for Canadian tax purposes of approximately \$45,525,000 which may be carried forward and used to reduce taxable income in future years. The accumulated non-capital losses expire as follows:

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**21. Income taxes (continued)**

<b>Year of Expiry</b>	<b>Amount</b>
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	7,322,000
2041	15,701,000
	<hr/>
	\$ 45,525,000

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.

**22. 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 years ended October 31, 2021 and 2020 are as follows:

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

	Year ended October 31,	
	2021	2020
Management fees	\$ 194,000	\$ 180,000
Consulting fees	391,311	697,574
	\$ 585,311	\$ 877,574

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

**22. Related party transactions and balances (continued)**

(b) Key management compensation

	Year ended October 31,	
	2021	2020
Salary and short-term benefits	\$ 432,299	\$ 309,384
Share-based payments	116,511	156,356
	<b>\$ 548,810</b>	<b>\$ 465,740</b>

During the year ended October 31, 2021, the Company issued 5,076,628 restricted common shares to key management, partly as settlement of unpaid compensation and partly as compensation bonus. Refer to Note 18(b). The Company also issued 13,875,000 options, of which 4,800,000 options were issued to key management. Refer to Note 19(b).

(c) Related party balances

	As at October 31, 2021	As at October 31, 2020
Included in accounts payable and accrued liabilities	\$ 27,229	\$ 338,906
Included in other current assets (Note 16(b))	48,831	48,831

**23. Commitments**

As at October 31, 2021 and 2020, no provision was recognized in relation to the Class B Exchangeable Shares or contingent performance payments in relation to the acquisition of Opticann as detailed in Note 4, given none of their payment milestones were met.

In addition, as consideration for the acquisition of Opticann license (Note 4), the Company is committed to make the following payments, including:

- (a) 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;
- (b) Royalty payment of 20% on all gross margins from the sale of certain goods, payable quarterly;
- (c) 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
- (d) 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 of certain goods from a supplier over 3 years from the first day of the month in which the Company received the purchase order for certain goods from any customer.

As at October 31, 2021 and 2020, none of the payment milestones were met and, therefore, no provision was recognized.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**24. 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.

**25. 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, 2020, unless otherwise stated.

(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, 2021	As at October 31, 2020
Trade accounts receivable from customers	\$ 4,621,574	\$ 948,367
Expected credit losses	(91,194)	(358,250)
Net trade receivables	4,530,380	590,117
Interest and other receivables (Note 30)	242,905	473,651
	<b>\$ 4,773,285</b>	<b>\$ 1,063,768</b>

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, 2021, the Company identified certain accounts that may result in a credit loss on its accounts receivable, for which expected credit losses are recognized.



**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**25. Financial instruments (continued)**

(a) Credit risk (continued)

The Company has assessed that there is a concentration of credit risk, as 77% of the Company's trade accounts receivable is due from 3 customers as at October 31, 2021 (2020 - 91% 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, 2021	As at October 31, 2020
Current (30 days or less)	\$ 2,397,231	\$ 495,414
31-60 days	1,558,194	6,482
61-90 days	93,189	8
Greater than 90 days	481,766	88,213
	<u>\$ 4,530,380</u>	<u>\$ 590,117</u>

(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, 2021, the Company had working capital of \$20,304,906 (2020 – \$11,390,534). 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, in addition to those relating to lease liabilities disclosed in Note 14:

	<1 year	2-5years	> 5 years
Accounts payable and accrued liabilities	\$ 7,785,461	\$ -	\$ -
Long-term debt	7,023	10,838,063	-
Derivative liabilities with cash settlement option (Note 17(b))	-	816,816	-
Contingent consideration payable, cash settled	645,176	-	-
<b>Total</b>	<u>\$ 8,437,660</u>	<u>\$11,654,879</u>	<u>\$ -</u>

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**25. Financial instruments (continued)**

(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 11), 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 11). The Company is further exposed to the foreign currency risk through Opticann, a wholly owned subsidiary operating in United States (Note 1(e) and Note 4), and through its derivative liabilities denominated in USD (Note 17(b)). As at October 31, 2021 and 2020, 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 foreign currency exchange rates.

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

	As at October 31, 2021	As at October 31, 2020
Cash	\$ 3,579	\$ 3,724
Accounts receivable	659	-
Other current assets	-	9
Accounts payable and other liabilities	39,484	204,658
Investment in associate	2,459,747	2,645,529
Derivative liabilities	663,526	-

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by \$382,481 (2020 - \$324,839). 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 is exposed to this risk on its long-term debt, part of which bears interest at a Canadian prime rate plus 1.25% per annum as detailed in Note 15. As at October 31, 2021 and 2020, 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, 2021 and 2020, 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 16(a)), and the derivative liabilities payable in Heritage Common Shares (Note 17(b)).

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**26. Fair value of financial instruments**

Assets recorded at fair value in the consolidated 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).

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.

<b>Financial Instruments measured at fair value</b>	
Contingent consideration payable	Discounted cash flow (Level 3) or Black-Scholes model (Level 3)
Convertible promissory note receivable	Amount due on demand (Level 3)
Derivative liabilities	Market value (Level 3) or Black-Scholes model (Level 3)
Other investments	Discounted cash flow (Level 3)
<b>Financial instruments measured at amortized cost</b>	
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, 2021 and 2020, there were no transfers of amounts between levels.

**27. Entity-wide disclosures**

The Company's trade net revenue for the year ended October 31, 2021 is comprised of the following:

	Domestic (Canada)
Net revenue from sale of Heritage branded products	\$ 13,635,825
Net revenue from sale of White Label products	218,696
Net revenue from provision of services	204,609
	\$ 14,059,130

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**27. Entity-wide disclosures (continued)**

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

	Domestic (Canada)
Net revenue from sale of Heritage branded products	\$ 747,772
Net revenue from sale of White Label products	4,516,088
Net revenue from provision of services	2,992,575
	<hr/>
	\$ 8,256,435

During the year ended October 31, 2021, the Company earned 75% of its total trade revenue from four major customers (2020 – 96% from four major customers).

**28. Operating segment information**

For the year ended October 31, 2021 and 2020, the Company identified a single reportable operating segment.

**29. 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.

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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2021 and 2020**  
**(Stated in Canadian Dollars)**

---

**30. 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.

During 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.

During the year ended October 31, 2021, the Company had not applied for any additional CEWS. As a result of CEWS applied in prior year, \$133,243 (2020 - \$299,436) was included in accounts receivable as at October 31, 2021. See Note 25(a).

**31. Comparative figures**

Certain comparative figures have been reclassified to conform with the basis of presentation applied for the year ended October 31, 2021.

**32. Subsequent events**

(a) Sale of interest in SPD

On March 30, 2022, the Company announced it had sold its interest in SPD for total cash proceeds of \$608,649. Proceeds from the sale paid to the Company were in two tranches, with the first amount for \$444,489 already received and the remaining \$164,160 anticipated to take place within six months.

(b) Subsequent issuance of convertible promissory notes and warrants

Subsequent to October 31, 2021, the Company received the remaining three tranches of \$840,000 USD in total from two lenders pursuant to the Agreement as described in Note 17(b). Upon its cash receipt of each tranche, the Company issued a Note and Warrant to the respective lender. See Note 17(b) for the terms of the Notes and Warrants.