

HERITAGE CANNABIS HOLDINGS CORP.

Unaudited Interim Condensed Consolidated Financial Statements

Three and Six Months Ended April 30, 2023 and April 30, 2022

(Stated in Canadian Dollars, Unaudited)



**NOTICE OF NO AUDITORS' REVIEW OF
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the interim condensed consolidated financial statements.

The accompanying unaudited interim condensed consolidated financial statements of Heritage Cannabis Holdings Corp. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada ("CPA Canada") for a review of interim financial statements by an entity's auditor.

HERITAGE CANNABIS HOLDINGS CORP.

HERITAGE CANNABIS HOLDINGS CORP.

Unaudited Interim Condensed Consolidated Financial Statements

Three and Six Months Ended April 30, 2023 and April 30, 2022

	Page
Unaudited Interim Condensed Consolidated Statements of Financial Position	1
Unaudited Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)	2
Unaudited Interim Condensed Consolidated Statements of Changes in Equity	3
Unaudited Interim Condensed Consolidated Statements of Cash Flows	4
Notes to Unaudited Interim Condensed Consolidated Financial Statements	5

HERITAGE CANNABIS HOLDINGS CORP.
Unaudited Interim Condensed Consolidated Statements of Financial Position
As at April 30, 2023 and October 31, 2022
(Stated in Canadian Dollars) (Unaudited)

	Notes	As at April 30, 2023	As at October 31, 2022
Assets			
Current			
Cash		\$ 3,973,763	\$ 5,107,617
Short-term investments	3	950,000	950,000
Sales tax recoverable		582,434	210,457
Accounts receivable	22(a)	6,722,314	7,488,117
Inventories	4	17,363,469	16,788,609
Prepaid expenses and deposits	5	1,634,123	2,013,977
Current portion of notes receivable	6	756,589	302,171
		31,982,692	32,860,948
Notes receivable	6	3,026,350	1,712,303
Other investments and deposits	7	835,551	799,812
Investment in associate	8	3,299,498	3,214,393
Intangible assets and goodwill	9	18,893,930	19,784,401
Property, plant and equipment	10	19,875,975	20,040,335
Total Assets		\$ 77,913,996	\$ 78,412,192
Liabilities			
Current			
Accounts payable and accrued liabilities	20(c),22(b)	\$ 18,418,696	\$ 15,197,496
Sales tax payable		491,585	519,275
Deferred revenue		592,093	681,548
Current portion of lease liabilities	11	170,069	89,591
Current portion of long-term debt	12	6,178	5,878
Current portion of derivative liabilities	14	2,540,730	1,636,766
		22,219,351	18,130,554
Lease liabilities	11	854,179	639,406
Long-term debt	12	16,897,984	16,815,481
Derivative liabilities	14	109,326	945,530
Deferred tax liability	18	1,908,000	1,931,000
Total Liabilities		41,988,840	38,461,971
Equity			
Share capital	15	148,372,495	147,746,456
Contributed surplus	16	6,972,532	6,902,629
Accumulated other comprehensive income	8,22(c)(i)	262,632	109,403
Accumulated deficit		(119,682,503)	(114,808,267)
Total Equity		35,925,156	39,950,221
Total Liabilities and Equity		\$ 77,913,996	\$ 78,412,192

Going Concern (Note 1(a))

Commitments (Note 20)

Subsequent Events (Note 27)

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

Approved on behalf of the Board of Directors:

"Clint Sharples"

Director

"David Schwede", CEO

Director

HERITAGE CANNABIS HOLDINGS CORP.
Unaudited Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
Three and Six Months Ended April 30, 2023 and April 30, 2022
(Stated in Canadian Dollars) (Unaudited)

	Notes	Three Months Ended April 30,		Six Months Ended April 30,	
		2023	2022	2023	2022
Gross Revenue	24	\$ 10,165,939	\$ 10,452,313	\$ 19,612,934	\$ 20,048,454
Excise taxes		(2,786,896)	(2,961,129)	(5,910,479)	(6,016,059)
Net Revenue		7,379,043	7,491,184	13,702,455	14,032,395
Cost of Sales	4	4,074,385	4,306,378	8,346,636	8,962,828
Gross Margin		3,304,658	3,184,806	5,355,819	5,069,567
General and Administrative Expenses					
Advertising, travel and promotion		211,937	220,112	476,640	375,995
Amortization and depreciation	4,9,10	576,351	1,264,921	1,060,112	2,544,655
Management and consulting fees	19	257,869	312,565	521,466	619,441
Occupancy, general and administrative		1,205,587	321,834	2,231,117	1,965,998
Professional fees		313,881	98,032	413,773	407,441
Share-based payments	15,16,19	34,372	104,319	453,578	213,144
Salaries, wages and benefits	19	2,451,955	1,762,717	4,542,813	3,118,324
		5,051,952	4,084,500	9,699,499	9,244,998
Other Income (Expense)					
Interest and other income	6	50,755	38,186	143,643	138,278
Interest and finance expense	11,12,14	(363,475)	(275,619)	(712,644)	(505,116)
Share of loss from investment in associate	8	(33,803)	(40,724)	(67,606)	(52,053)
Unrealized gain on other investments	7(i)	-	-	-	608,649
Unrealized gain (loss) on contingent consideration payable	13	-	(83,000)	-	8,415,429
Unrealized gain (loss) on derivative liabilities	14	(29,181)	175,644	83,051	(237,888)
		(375,704)	(185,513)	(553,556)	8,367,299
Income (Loss) Before Taxes		(2,122,998)	(1,085,207)	(4,897,236)	4,191,868
Income tax recovery					
Deferred income tax recovery	18	(88,000)	(554,000)	(23,000)	(1,450,000)
		(88,000)	(554,000)	(23,000)	(1,450,000)
Net Income (Loss)		\$ (2,034,998)	\$ (531,207)	\$ (4,874,236)	\$ 5,641,868
Other comprehensive income that may be reclassified to net loss					
Gain (loss) on foreign currency translation	22(c)	76,951	30,593	153,229	114,731
Comprehensive Income (Loss)		\$ (1,958,047)	\$ (500,614)	\$ (4,721,007)	\$ 5,756,599
Comprehensive Income (Loss) attributed to:					
Shareholders of the Company		\$ (1,958,047)	\$ (556,187)	\$ (4,721,007)	\$ 5,722,901
Non-controlling interest	17	-	55,573	-	33,698
		\$ (1,958,047)	\$ (500,614)	\$ (4,721,007)	\$ 5,756,599
Weighted average number of outstanding shares					
Basic	21	935,158,883	893,301,236	924,173,506	842,363,653
Diluted	21	935,158,883	893,301,236	924,173,506	894,331,689
Income (loss) per share					
Basic	21	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ 0.01
Diluted	21	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ 0.01

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

HERITAGE CANNABIS HOLDINGS CORP.
Unaudited Interim Condensed Consolidated Statements of Changes in Equity
Three and Six Months Ended April 30, 2023 and April 30, 2022
(Stated in Canadian Dollars) (Unaudited)

	Notes	Number of Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Non-controlling Interest	Total
Balance at October 31, 2021		786,128,570	\$ 140,482,057	\$ 5,779,474	\$ (197,307)	\$ (91,538,667)	\$ 694,882	\$ 55,220,439
Share-based payments - vesting of options		-	-	213,144	-	-	-	213,144
Exercise of warrants		29,809	20,866	-	-	-	-	20,866
Shares issued as contingent consideration for Premium 5 acquisition	13	107,142,857	6,428,571	-	-	-	-	6,428,571
Comprehensive income for the period		-	-	-	114,731	5,608,170	33,698	5,756,599
Balance at April 30, 2022		893,301,236	\$ 146,931,494	\$ 5,992,618	\$ (82,576)	\$ (85,930,497)	\$ 728,580	\$ 67,639,619
Balance at October 31, 2022		916,205,755	\$ 147,746,456	\$ 6,902,629	\$ 109,403	\$ (114,808,267)	-	\$ 39,950,221
Share-based payments - vesting of options	16	-	-	69,903	-	-	-	69,903
Share-based payments - issuance of shares	15	7,253,985	217,619	-	-	-	-	217,619
Issuance of compensation shares	15	11,699,143	408,420	-	-	-	-	408,420
Comprehensive loss for the period		-	-	-	153,229	(4,874,236)	-	(4,721,007)
Balance at April 30, 2023		935,158,883	\$ 148,372,495	\$ 6,972,532	\$ 262,632	\$ (119,682,503)	-	\$ 35,925,156

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

HERITAGE CANNABIS HOLDINGS CORP.
Unaudited Interim Condensed Consolidated Statements of Cash Flows
Three and Six Months Ended April 30, 2023 and April 30, 2022
(Stated in Canadian Dollars) (Unaudited)

	Notes	Six Months Ended April 30,	
		2023	2022
Operating Activities			
Net loss for the period		\$ (4,874,236)	\$ 5,641,868
Items not affecting cash:			
Amortization and depreciation	9,10	1,060,112	2,544,655
Loss on disposal of property, plant and equipment		-	2,849
Bad debt expense	22(a)	96,177	-
Capitalized depreciation recognized in cost of sales	4	-	103,341
Deferred income tax expense (recovery)	18	(23,000)	(1,450,000)
Non-cash items included in interest and other income	6	(131,087)	(26,635)
Non-cash interest and finance expense	15,16	236,480	132,027
Share-based payments	15,16	453,578	213,144
Share of loss from investment in associate	8	67,606	52,053
Unrealized loss (gain) on contingent consideration payable	13	-	(8,415,429)
Unrealized (gain) on derivative liabilities	14	(83,051)	237,888
Unrealized foreign exchange loss	22(c)	518	338
Unrealized (gain) on other investments	7(i)	-	(608,649)
		(3,196,903)	(1,572,550)
Net changes in non-cash working capital, net of business combination			
Sales tax recoverable		(371,977)	25,409
Accounts receivable		669,626	(2,823,701)
Inventories	4	207,029	(1,269,168)
Prepaid expenses and deposits		379,854	565,155
Other investments and deposits		(35,739)	(813)
Accounts payable and accrued liabilities	15	3,463,564	3,306,728
Sales tax payable		(27,690)	803,111
Deferred revenue		(89,455)	251,393
Net changes in non-cash working capital		4,195,212	858,114
Cash Flows Provided by (Used in) Operating Activities		998,309	(714,436)
Investing Activities			
Acquisition of property, plant and equipment	10	(329,570)	(771,742)
Proceeds from disposal of property, plant and equipment	10	-	28,690
Payments on right-of-use asset prior to lease commencement	10,11	(91,520)	-
Issuance of note receivable		-	(941,048)
Proceeds from sale of other investment		-	444,489
Advances of note receivable	6	(1,637,378)	-
Maturity of convertible promissory note receivable		-	259,481
Cash Flows (Used in) Investing Activities		(2,058,468)	(980,130)
Financing Activities			
Proceeds from exercise of options and warrants		-	20,866
Principal payments on lease obligation	11	(70,829)	(37,893)
Principal payments on long-term debt	12	(2,866)	(2,595)
Proceeds from long-term debt, net of cash-settled transaction costs	12	-	1,000,000
Proceeds from derivative liabilities	14	-	1,037,770
Cash Flows (Used in) Provided by Financing Activities		(73,695)	2,018,148
Net (Decrease) Increase in Cash During the Period		(1,133,854)	323,582
Cash, Beginning of Period		5,107,617	3,763,577
Cash, End of Period		\$ 3,973,763	\$ 4,087,159

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

Supplementary information

Interest received	3	\$ 7,232	\$ 3,060
Interest paid	12	\$ 416,450	\$ 373,089
Shares issued for Premium 5 acquisition		\$ -	\$ 6,428,571
Release of accrual for share-based payments	15	\$ (242,364)	\$ -
Capitalized depreciation expense during the period	4	\$ 781,889	\$ -
Right-of-use asset additions	11	\$ 366,080	\$ -

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

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, Heritage Cannabis West Corporation ("Heritage West") and Heritage Cannabis East Corporation ("Heritage East"), the Company holds licenses under the Cannabis Act (Canada) and its relevant regulations. Heritage West, 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. Heritage East, 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. ("CALYX"), a wholly-owned subsidiary, creates products and services aimed at providing an integrative approach to cannabinoid therapy for healthcare consumers and healthcare practitioners. On November 1, 2022, Purefarma and CALYX amalgamated, with Purefarma as the resulting amalgamated company. 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 unaudited interim condensed consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes that the Company will operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company generated net loss of \$2,034,998 and \$4,874,236 for the three and six month periods ended April 30, 2023 respectively (for the three and six month periods ended April 30, 2022 – net loss of \$531,207 and net income of \$5,641,868), and had an accumulated deficit of \$119,682,503 as at April 30, 2023 (as at October 31, 2022 - \$114,808,267). 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 unaudited interim condensed consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments other than in the normal course of business and at amounts different from those in these unaudited interim condensed consolidated financial statements.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

1. Basis of presentation (continued)

(b) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). The accounting policies adopted in preparing these unaudited interim condensed consolidated financial statements are consistent with those applied in the Company's audited annual consolidated financial statements and notes as at and for the year ended October 31, 2022, except for the adoption of new accounting standards and policies described in Note 2. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

These unaudited interim condensed consolidated financial statements do not conform in all respects to the requirements of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") for annual financial statements. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and notes as at and for the year ended October 31, 2022.

These unaudited interim condensed consolidated financial statements were approved by the Board of Directors on June 28, 2023.

(c) Basis of measurement

These unaudited interim condensed consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for notes receivable, acquisition-related contingent consideration payable, and derivative liabilities which are measured at fair value. These unaudited interim condensed consolidated financial statements have been prepared on an accrual basis except for cash flow information.

(d) Functional and presentation currency

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars ("CDN") unless otherwise noted. The functional currency of Heritage US Holdings Corp., Heritage (US) Cali Corp., Heritage (US) Oregon Corp., 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 unaudited interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries, with intercompany balances and transactions eliminated on consolidation. Subsidiaries are those entities over which the Company has control, which exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. As of April 30, 2023, subsidiaries over which the Company has control are listed below.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

1. Basis of presentation (continued)

(e) Basis of consolidation (continued)

Subsidiaries	Ownership Percentage	Jurisdiction of Incorporation
1005477 B.C. Ltd.	100%	British Columbia, Canada
333 Jarvis Realty Inc.	100%	Ontario, Canada
5450 Realty Inc.	100%	British Columbia, Canada
CALYX Life Sciences Corp.	100%	British Columbia, Canada
Heritage Cannabis East Corp. (formerly CannaCure Corp.)	100%	Ontario, Canada
Heritage Cannabis West Corp. (Note 17) (formerly Voyage Cannabis Corp.)	100%	British Columbia, Canada
Heritage Cannabis Exchange Corp.	100%	Ontario, Canada
Heritage (US) Cali Corp.	100%	California, United States
Heritage (US) Colorado Corp.	100%	Delaware, United States
Heritage US Holdings Corp.	100%	Delaware, United States
Heritage (US) Oregon Corp.	100%	Oregon, United States
Mainstrain Market Ltd. (Note 17)	100%	British Columbia, Canada
Opticann, Inc.	100%	Colorado, United States
Premium 5 Ltd.	100%	Alberta, Canada
Purefarma Solutions Inc.	100%	British Columbia, Canada

Certain subsidiaries are controlled, indirectly, through other subsidiaries.

(f) Estimates and critical judgements made by management

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

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

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

2. New accounting standards and pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after November 1, 2022. The Company has adopted these pronouncements as of their effective date, and many are not applicable or do not have a significant impact on the Company and have been excluded.

The following amendments were issued but not yet effective. The Company will adopt these amendments as of their effective dates. The Company is currently assessing the impacts of adoption.

(a) Amendments to IAS 1, Presentation of Financial Statements

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

In February 2021, the IASB issued ‘Disclosure of Accounting Policies’ with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

(b) Amendment to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the International Accounting Standards Board (“IASB”) issued ‘Definition of Accounting Estimates’ to help entities distinguish between accounting policies and accounting estimates. The amendment is effective for annual reporting periods beginning on or after January 1, 2023. Earlier adoption is permitted.

(c) Amendments to IAS 12, Income Taxes

In May 2021, the IASB issued ‘Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction’ that clarifies how entities account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for year ends beginning on or after January 1, 2023.

(d) Amendments to IFRS 10, Consolidated Financial Statements and IAS 28, Investments in Associates and Joint Ventures

IFRS 10 and IAS 28 were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

3. Short-term investments

As at April 30, 2023, short-term investments consisted of \$950,000 (October 31, 2022 - \$950,000) in guaranteed investment certificates maintained with a Canadian chartered bank. The carrying value of these short-term investments approximates their fair value as at April 30, 2023 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 (October 31, 2022 - \$50,000).

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

4. Inventories

	As at April 30, 2023	As at October 31, 2022
Supplies and packaging materials	\$ 3,930,532	\$ 3,795,521
Dried cannabis and hemp	942,183	1,356,397
Manufacturing work in progress	2,597,464	2,925,024
Finished goods	9,893,290	8,711,667
	\$ 17,363,469	\$ 16,788,609

During the three and six months ended April 30, 2023, inventories expensed to cost of sales was \$4,074,385 and \$8,346,636 respectively (during the three and six months ended April 30, 2022 - \$4,306,378 and \$8,962,828, respectively). As at April 30, 2023, \$781,890 (as at October 31, 2022 - \$1,288,859) of capitalized depreciation remained in inventories.

5. Prepaid expenses and deposits

	As at April 30, 2023	As at October 31, 2022
Inventory deposits	\$ 859,130	\$ 1,115,500
Prepaid insurance and consulting	223,796	46,071
Equipment deposits	145,477	309,929
Marketing	139,857	130,023
Other prepaid expenses	265,863	412,454
	\$ 1,634,123	\$ 2,013,977

6. Notes receivable

	Heritage Cannabis Holdings Corp. (a)	Heritage (US) Oregon Corp. (b)	Total
Balance as at October 31, 2022	\$ 1,711,451	\$ 303,023	\$ 2,014,474
Advances	1,041,491	595,887	1,637,378
Interest income	100,067	31,020	131,087
Balance as at April 30, 2023	\$ 2,853,009	\$ 929,930	\$ 3,782,939
Less: current portion	(570,602)	(185,987)	(756,589)
Long-term portion	\$ 2,282,407	\$ 743,943	\$ 3,026,350

- (a) On May 3, 2021, the Company entered into an agreement, pursuant to which the Company agreed to provide an aggregate principal amount of up to \$1,000,000 USD (“Operating Loan”) plus possible additional advances, if necessary. The Operating Loan bears an interest rate of 10% per annum and is payable over five years. Monthly payments are determined based on the gross margin collected and are due to begin once sales activities commence. As at April 30, 2023, the Company had disbursed \$2,655,368 (October 31, 2022 - \$1,613,877). (Note 27(a))
- (b) On September 9, 2021, Heritage (US) Oregon Corp. entered into an agreement, pursuant to which the Company agreed to provide an aggregate principal amount of up to \$1,000,000 USD (“Operating Loan”) plus possible additional advances, if necessary. The Operating Loan bears an interest rate of 10% per annum and is payable over five years. Monthly payments are determined based on the gross margin collected and are due to begin once sales activities commence. As at April 30, 2023, the Company had disbursed \$895,841 (October 31, 2022 - \$299,954).

The notes receivable are classified and measured at FVTPL. The Company applied a probability-weighted average valuation methodology, resulting in the notes receivable being valued at the present value of future payments discounted at the market rate of interest of 10%. No unrealized gain or loss was recognized during the six months ended April 30, 2023 (2022 - \$nil). The borrowers commenced sales during the six months ended April 30, 2023 and no repayments have been made as at April 30, 2023 and October 31, 2022 (Note 27(a)).

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

7. Other investments and deposits

	As at April 30, 2023	As at October 31, 2022
Investment in SPD (i)	\$ -	\$ -
Excise duty deposit	715,000	710,000
Security deposits	120,551	89,812
	\$ 835,551	\$ 799,812

(i) On April 30, 2020, the Company acquired 18% interest in SPD for total consideration of \$340,000. As at October 31, 2021, management determined the fair value of the investment in SPD as \$nil, given the investment was not in line with the Company's core business and therefore provided negligible value to the Company. On March 30, 2022, the Company sold its interest in SPD for total cash proceeds of \$608,649. Immediately preceding such sale, the investment was revalued to \$608,649, with the full amount recognized as an unrealized gain in profit or loss.

8. 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:

Balance at October 31, 2022	\$ 3,214,393
Share of net loss	(67,606)
Foreign currency translation	152,711
Balance as at April 30, 2023	\$ 3,299,498

9. Intangible assets and goodwill

	Licenses	Board Relationships	Intellectual property	Brand	Goodwill	Total
Cost						
At October 31, 2022	\$ 17,748,404	\$ 648,601	\$ 5,097,897	\$ 6,199,927	\$ -	\$ 29,694,829
At April 30, 2023	\$ 17,748,404	\$ 648,601	\$ 5,097,897	\$ 6,199,927	\$ -	\$ 29,694,829
Accumulated amortization						
At October 31, 2022	\$ 5,061,802	\$ 182,437	\$ 2,494,794	\$ 2,171,395	\$ -	\$ 9,910,428
Additions	393,198	28,896	215,199	253,178	-	890,471
At April 30, 2023	\$ 5,455,000	\$ 211,333	\$ 2,709,993	\$ 2,424,573	\$ -	\$ 10,800,899
Net book value at						
October 31, 2022	\$ 12,686,602	\$ 466,164	\$ 2,603,103	\$ 4,028,532	\$ -	\$ 19,784,401
Net book value at						
April 30, 2023	\$ 12,293,404	\$ 437,268	\$ 2,387,904	\$ 3,775,354	\$ -	\$ 18,893,930

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

9. Intangible assets and goodwill (continued)

The details of individually material intangible assets are as follows:

Description	Carrying Amount		Remaining Amortization Period
	As at April 30, 2023	As at October 31, 2022	
Heritage East cultivation, processing and sales licenses	\$ 10,143,152	\$ 10,467,574	Approximately 16 years
Purefarma intellectual property	2,387,903	2,603,103	Approximately 6 years
Premium 5 board relationships	437,268	466,163	Approximately 8 years
Premium 5 brand	3,771,331	4,020,549	Approximately 8 years
Heritage West processing and sales licenses	2,150,252	2,219,028	Approximately 16 years

10. Property, plant and equipment

	Equipment	Buildings and improvements	Land	Total
Cost				
At October 31, 2022	\$ 9,563,699	\$ 14,965,165	\$ 930,157	\$ 25,459,021
Additions	317,676	469,494	-	787,170
At April 30, 2023	\$ 9,881,375	\$ 15,434,659	\$ 930,157	\$ 26,246,191
Accumulated depreciation				
At October 31, 2022	\$ 2,837,102	\$ 2,581,584	\$ -	\$ 5,418,686
Additions	498,469	453,061	-	951,530
At April 30, 2023	\$ 3,335,571	\$ 3,034,645	\$ -	\$ 6,370,216
Net book value at October 31, 2022	\$ 6,726,597	\$ 12,383,581	\$ 930,157	\$ 20,040,335
Net book value at April 30, 2023	\$ 6,545,804	\$ 12,400,014	\$ 930,157	\$ 19,875,975

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:

	Right-of-use assets
Cost	
At October 31, 2022	\$ 832,800
Additions	457,600
At April 30, 2023	\$ 1,290,400
Accumulated depreciation	
At October 31, 2022	\$ 188,431
Additions	73,909
At April 30, 2023	\$ 262,340
Net book value at October 31, 2022	\$ 644,369
Net book value at April 30, 2023	\$ 1,028,060

As at April 30, 2023 and October 31, 2022, substantially all of the Company's property, plant and equipment was domiciled in Canada.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

11. Lease liabilities

In January 2021, as part of the Premium 5 acquisition, the Company acquired an office lease, with an escalating monthly lease payment of \$7,123 until April 22, 2031. 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.

In November 2022, the Company entered into an equipment lease for a sale price of \$457,600. The Company made a down payment of \$91,520. The terms of the lease include monthly payments of \$10,460 until November 1, 2026. The Company applied a discount rate of 17% in the calculation of lease liability.

The following is a continuity of lease liabilities:

Balance at October 31, 2022	\$	728,997
Additions		366,080
Interest		59,714
Lease payments		(130,543)
Balance at April 30, 2023		1,024,248
Less: current portion		(170,069)
Long-term portion	\$	854,179

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	Total
Contractual cash flows	\$ 284,394	\$ 832,892	\$ 269,500	\$1,386,786

During the three and six months ended April 30, 2023, the Company recognized rent expense of \$56,366 and \$111,685 respectively in relation to short-term leases, low-value leases and variable lease payments which were excluded from the measurement of lease liabilities (during three and six months ended April 30, 2022 - \$47,059 and \$88,830, respectively).

12. Long-term debt

	As at April 30, 2023	As at October 31, 2022
(a) Term loan - non-interest bearing, principal-only payments of \$585 per month, 6-year term, maturing on January 18, 2025	\$ 11,232	\$ 14,098
(b) Term loan – comprised of four credit facilities for up to \$19,760,000, with the facilities bearing variable interest disclosed in (b). The loan is monthly interest-only payments, 26-month term, maturing on November 30, 2024.	16,892,930	16,807,261
	\$ 16,904,162	\$ 16,821,359
Less: current portion	(6,178)	(5,878)
Long-term portion	\$ 16,897,984	\$ 16,815,481

- (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. As at April 30, 2023, the face value of the term loan was \$12,290 (as at October 31, 2022 - \$15,802).

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

12. Long-term debt (continued)

- (b) On March 31, 2021, the Company, along with its subsidiaries Heritage East, 333 Jarvis Realty Inc., Heritage West and 5450 Realty Inc., (together the “Borrowers”) entered into an 18-month loan 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.

On October 6, 2021, the Company amended the loan agreement (the “First Amendment”) by establishing three credit facilities for a maximum amount of \$14,775,000 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 of \$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.

As part of the First Amendment, 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 16(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.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

12. Long-term debt (continued)

- (b) On September 29, 2022, the Company amended the loan agreement for the 2nd time (the “Second Amendment”) by establishing four credit facilities for a maximum amount of \$19,760,000 (collectively the “Loan”) as follows:
- (i) Facility 1: \$7,175,000. The interest rate is a) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to July 31, 2023; b) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum;
 - (ii) Facility 2: \$2,600,000. The interest rate is a) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to July 31, 2023; b) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum;
 - (iii) Facility 3: A revolving line of credit up to a maximum of \$5,000,000. The interest rate is a) 15% per annum from October 1, 2022 to July 31, 2023; b) the greater of the Royal Bank of Canada rate plus 10% and 15% per annum from August 1, 2023 to November 30, 2024;
 - (iv) Facility 4: an additional loan of \$4,985,000, inclusive of the loan amendment fee of \$985,000. The interest rate is a) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to July 31, 2023; b) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum.

The Loan due date was extended to November 30, 2024, with an option to extend to November 30, 2025. If the Company exercises its extension option, all facilities will bear an interest rate at the maximum of either the Royal Bank of Canada prime rate plus 10% or 15% per annum during the one-year extension period. As at April 30, 2023 and October 31, 2022, the Company has received a total of \$16,807,261 in principal, with the remaining line of credit \$2,952,739 available for advance.

As part of the Second Amendment, the Company extended the expiry date of the initial 10,000,000 warrants, which are exercisable into one Heritage Common Share at an exercise price of \$0.25 per share, from October 8, 2023 to February 28, 2025. The Company also issued another 50,000,000 warrants which are exercisable into one Heritage Common Share at an exercise price of \$0.10 per share expiring on February 28, 2025. Provided that the Company exercises its option to extend the Loan by an extra 12 months, the expiry date of all 60,000,000 warrants shall be extended to February 28, 2026. The amendment to the initial 10,000,000 warrants was accounted for as a cancellation of old warrants and an issuance of new warrants. At the modification date, both the modified and newly issued warrants were considered exchangeable into a fixed number of Heritage Common Shares, and thus were classified as equity.

Based on management’s assessment, the Second Amendment 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 12% per annum implicit in the Loan. The difference between the fair value of consideration and the original loan, as well as the transaction costs incurred as part of the Second Amendment in the amount of \$1,793,251 including all 60,000,000 warrants issued as transaction costs with a value of \$747,260 (Note 16(a)), were recognized in profit or loss at the modification date during the year ended October 31, 2022.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

12. Long-term debt (continued)

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

Balance at October 31, 2022	\$	16,807,261
Interest expense		502,119
Interest payment		(416,450)
Balance at April 30, 2023	\$	16,892,930

13. Contingent Consideration Payable

Balance at October 31, 2022	\$	-
Balance at April 30, 2023	\$	-

(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 common shares, to former shareholders of Purefarma as additional purchase consideration. These payments were 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. 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 would issue 5,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of \$100,000,000 before December 31, 2022, an additional 1,100,000 common shares will be issued to the former shareholders of Purefarma.

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

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

13. Contingent Consideration Payable (continued)

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

The Company was 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 payment was based on 3% of extraction-generated gross margin for Purefarma's fiscal year 2022, immediately prior to the Company's settlement of total Purefarma contingent consideration payable during the year ended October 31, 2022 (the "Settlement") as disclosed below.

As at October 31, 2021 and immediately prior to the Settlement, \$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 was intended to be offset against the first payment made under the terms of the contingent consideration detailed above. The balance was unsecured, non-interest bearing, had no fixed terms of repayment and was included in other current asset in the unaudited interim condensed consolidated statement of financial position.

As at October 31, 2022, Heritage issued 14,728,762 shares to former shareholders of Purefarma and applied the aforementioned \$48,831 receivable against the contingent consideration payable, as intended, to settle all the outstanding equity-settled and cash-settled contingent consideration payable issued in Purefarma acquisition. The 14,728,762 shares were measured at a fair value of \$515,507 determined based on the quoted market price on the date of issuance. Immediately prior to the Settlement, the Company revalued the contingent consideration payable to \$564,338, representing the sum of the fair value of common shares to be issued and the other receivable settled described above, with a recognition of loss from remeasurement of \$319,162 in profit or loss.

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

In October of 2014, the Company entered into an agreement with the non-controlling shareholder of Heritage West, the terms of which state that the non-controlling shareholder had the right to require the Company to purchase from its certain preferred shares in Heritage West. The non-controlling shareholder had the ability to exercise this right upon Heritage West meeting certain license procurement and the cumulative earnings before interest, taxes, depreciation and amortization ("EBITDA") milestones of \$1,500,000 and \$2,500,000, 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 Heritage West from the non-controlling shareholder.

As at October 31, 2022, management settled all the contingent consideration payable issued in Heritage West acquisition as part of Heritage's purchase of additional non-controlling interest in Heritage West (the "NCI purchase") (Note 17). Immediately prior to the NCI purchase in Heritage West, management recognized the fair value of the contingent consideration payable in an amount of \$400,000, reflecting a high probability of meeting the remaining EBITDA milestones. At the NCI purchase date, the difference between the fair value of Heritage West contingent consideration payable settled, the fair value of the consideration paid and the carrying amount of the non-controlling interest was transferred into the retained earnings of the Company (Note 17).

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

13. Contingent Consideration Payable (continued)

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

The Company was required to issue additional Heritage Common Shares to former shareholders of Premium 5 for the First and Second Performance Milestone within the twenty-four months following the acquisition date.

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. As at October 31, 2022, the Company issued 107,142,857 Heritage Common Shares as full payment for First Performance Milestone, with a fair value of \$6,428,571 determined based on the quoted market price on the date of issuance. Immediately prior to such settlement, the Company revalued the First Performance Milestone to \$6,428,571, representing the fair value of common shares to be issued described above, with a recognition of gain from remeasurement of \$8,571,429 in profit or loss. The number of common shares issued reflected the intended maximum pay-out amount of \$15,000,000 divided by the deemed value of \$0.14 per share.

As at October 31, 2022, the Company re-valued the fair value of Second Performance Milestone payment to \$nil, and recorded a gain from remeasurement of \$940,000 in profit or loss, based on the probability of meeting gross margin targets across all recreational products by January 25, 2023.

As at April 30, 2023, the Second Performance Milestone payment expired at a value of \$nil.

As at April 30, 2023, there is no further contingent consideration payable.

14. Derivative Liabilities

	Heritage Cannabis Exchange Corp. (a)	Heritage Cannabis Holdings Corp. (b)	Total
Balance at October 31, 2022	\$ 10,819	\$ 2,571,477	\$ 2,582,296
Interest expense	-	150,811	150,811
Unrealized fair value gain	(6,438)	(76,613)	(83,051)
Balance at April 30, 2023	\$ 4,381	\$ 2,645,675	\$ 2,650,056
Less: current portion	(4,381)	(2,536,349)	(2,540,730)
Long-term portion	\$ -	\$ 109,326	\$ 109,326

(a) Heritage Cannabis Exchange Corp.

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 Inc. ("Opticann").

As part of the consideration for the acquisition of Opticann, Heritage Cannabis Exchange Corp. issued 7,919,493 warrants ("Class 1 Warrants"), 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 ("Class 2 Warrants"), 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 the Purchaser Sub are redeemable and retractable 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. These warrants were considered to be exchangeable into a variable number of Heritage Common Shares and were therefore classified as financial liabilities measured at FVTPL. As at October 31, 2022, the Class 1 Warrants expired unexercised and were revalued immediately prior to expiry.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

14. Derivative liabilities (continued)

(a) Heritage Cannabis Exchange Corp. (continued)

The Company re-valued the warrant derivative liabilities using a level 3 valuation technique, with the following inputs, assumptions and results, respectively:

	Class 1 warrants (immediately prior to expiry)	Class 2 warrants
October 31, 2022		
Number of warrants issued	7,919,493	3,511,110
Risk-free annual interest rate	3.92%	3.92%
Expected life (years)	0.00	0.93
Expected annualized volatility	122%	142%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.20	\$0.30
Share price	\$0.030	\$0.035
Calculated fair value per warrant at period-end	\$0.000	\$0.03
April 30, 2023		Class 2 warrants
Number of warrants issued		3,511,110
Risk-free annual interest rate		3.72%
Expected life (years)		0.44
Expected annualized volatility		252%
Expected annual dividend yield		0.00%
Exercise price		\$0.30
Share price		\$0.015
Calculated fair value per warrant at period-end		\$0.001

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 six months ended April 30, 2023:

	Number of warrants	Weighted average exercise price
Balance at October 31, 2022 and April 30, 2023	3,511,110	\$ 0.30

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

14. 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 was to be disbursed in four tranches from October 18, 2021 through December 31, 2021. At closing of each disbursement, the Company issued to the lender a convertible promissory note (each, a “Note” and together, the “Notes”) and a warrant (each, a “Warrant” and together, the “Warrants”).

The Notes mature in 24 months from the effective date and bear an interest rate of 15% per annum, which shall be paid in common shares of the Company (“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 Note 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. As at April 30, 2023, no Interest Shares have been issued.

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 is 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 are 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 April 30, 2023, the Company received all tranches of \$1,500,000 USD (equivalent to \$2,036,700 CDN) in total principal, and issued a Note and Warrant upon the cash receipt per tranche. At initial recognition of each tranche, 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 at April 30, 2023, the Company revalued all the Notes at fair value, calculated as the greater of the amount payable in equity and the amount payable in cash if no conversion right is exercised. The Warrants were re-valued at fair value using the same valuation technique as that used for initial recognition with the following inputs, assumptions and results:

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

14. Derivative liabilities (continued)

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

Tranche 1	As at April 30, 2023	As at October 31, 2022
Estimated number of Warrant Shares issuable	6,393,514	6,434,528
Risk-free interest rate	3.72%	3.92%
Expected life (years)	1.47	1.97
Expected annualized volatility	187%	114%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.015	\$0.035
Calculated standalone fair value of tranche	\$47,555	\$90,708

Tranche 2	As at April 30, 2023	As at October 31, 2022
Estimated number of Warrant Shares issuable	3,632,678	3,655,982
Risk-free interest rate	3.72%	3.92%
Expected life (years)	1.50	2.00
Expected annualized volatility	186%	113%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.015	\$0.035
Calculated standalone fair value per tranche	\$27,228	\$51,881

Tranche 3	As at April 30, 2023	As at October 31, 2022
Estimated number of Warrant Shares issuable	3,632,678	3,655,982
Risk-free interest rate	3.72%	3.92%
Expected life (years)	1.59	2.08
Expected annualized volatility	183%	116%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.015	\$0.035
Calculated standalone fair value per tranche	\$27,827	\$55,563

Tranche 4	As at April 30, 2023	As at October 31, 2022
Estimated number of Warrant Shares issuable	871,842	877,435
Risk-free interest rate	3.72%	3.92%
Expected life (years)	1.67	2.17
Expected annualized volatility	179%	114%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.015	\$0.035
Calculated standalone fair value per tranche	\$6,717	\$13,487

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

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

14. Derivative liabilities (continued)

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

Below is a reconciliation of changes in the fair value of the Notes and the Warrants:

	Notes	Warrants	Total
Balance at October 31, 2022	\$ 2,359,838	\$ 211,639	\$ 2,571,477
Interest expense	150,811	-	150,811
Unrealized fair value gain	25,699	(102,312)	(76,613)
Balance at April 30, 2023	\$ 2,536,348	\$ 109,327	\$ 2,645,675

15. 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 six months ended April 30, 2023, the following share issuances took place:

(i) Equity line of credit

On November 1, 2022, the Company entered into an equity line of credit, (the “Agreement”) whereby the Company offers to sell common shares on a private placement basis over a thirty-six month period, for aggregate gross proceeds of up to US\$20,000,000. Pursuant to the Agreement, the Company has the right, but not the obligation to direct the counterparty, and the counterparty shall have the obligation, to purchase the number of common shares specified (each such purchase, a “Drawdown”). Each drawdown takes place at either of the following options: (1) the amount of common shares the Company can demand the counterparty to purchase is equal to 30% of the aggregate trading volume of the common shares on the Canadian Securities Exchange (the “Exchange”) in the ten trading days prior to the Drawdown notice, with the price of such Drawdown being the greater of 95% of the lowest daily volume weighted average price (“VWAP”) of the common shares on the Exchange following the date a Drawdown notice is issued and \$0.05 per common share. (2) the amount of common shares the Company can demand the counterparty to purchase is equal to the average trading volume of the common shares on the Exchange during the three trading days prior to the Drawdown notice, the price of such drawdown being the greater of 90% of the lowest closing price of the common shares on the Exchange in the three trading days prior to the Drawdown notice and \$0.05 per common share. In either of the aforementioned options, if the closing price of the common shares on the trading day immediately preceding the date of the applicable Drawdown notice is less than \$0.0625, the Company will issue to the counterparty additional common shares equal to the difference between number of common shares issuable if the common shares had been issued using the pricing in (1) and (2) above, and the number of common shares issuable if the common shares had been issued at \$0.05 per common share.

During the six months ended April 30, 2023 (2022 - n/a), there were no shares issued pursuant to this Agreement.

As compensation for entering into this Agreement, the counterparty received 11,699,143 common shares, which have been recognized at the fair value of the services received, \$408,420. This amount has been recognized as an expense during the six months ended April 30, 2023 (six months ended April 30, 2022 – n/a).

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

15. Share capital (continued)

(ii) Shares issued as compensation

During the year ended October 31, 2022, the Company accrued \$217,619 related to compensation expense to be paid in shares. During the six month period ended April 30, 2023, 7,253,985 common shares were issued in satisfaction of this accrued liability. Of this amount 1,170,833 shares were issued to key members of management in satisfaction of \$35,125 in accrued compensation (Note 19).

(iii) Shares in escrow

Pursuant to the terms of the Agreement described in (i) above, there were 79,030,611 shares advanced in escrow. These shares are subject to statutory lock up and the contractual escrow terms per the equity line of credit. Subsequent to April 30, 2023, 3,641,546 common shares were released from escrow. See Note 27(a) and (b).

16. Contributed surplus

(a) Warrants

Movements in the number of warrants outstanding during the six months ended April 30, 2023 are as follows:

	Number of warrants	Weighted average exercise price
Balance October 31, 2022	165,823,000	\$ 0.18
Expired	(105,823,000)	0.21
Balance April 30, 2023	60,000,000	\$ 0.13

The following table summarizes the warrants outstanding and exercisable as at April 30, 2023:

Expiry date	Number of warrants	Weighted average exercise price
February 28, 2025	10,000,000	\$ 0.25
February 28, 2025	50,000,000	0.10
	60,000,000	\$ 0.13

Of the 60,000,000 warrants outstanding, nil are broker warrants and 60,000,000 are standard common share purchase warrants as at April 30, 2023 (October 31, 2022 – 6,923,000 broker warrants and 158,900,000 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 Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

16. Contributed surplus (continued)

(b) Stock options

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 during the six months ended April 30, 2023 are as follows:

	Number of options	Weighted average exercise price
Balance as at October 31, 2022	22,353,440	\$ 0.20
Expired	(2,491,000)	0.48
Balance as at April 30, 2023	19,862,440	\$ 0.17

The following table summarizes the options outstanding and exercisable at April 30, 2023:

Expiry date	Number of options outstanding	Number of options exercisable	Weighted average exercise price
August 20, 2023	254,964	254,964	\$ 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	1,250,000	1,250,000	0.36
September 17, 2026	13,715,000	9,143,333	0.10
	19,862,440	15,290,773	\$ 0.17

As at April 30, 2023, the weighted average remaining contractual life of all options outstanding was 2.66 years (as at October 31, 2022 – 2.85 years). The weighted average exercise price for exercisable options was \$0.19 (as at October 31, 2022 - \$0.23).

During the three and six months ended April 30, 2023, the Company recognized an expense of \$34,272 and \$69,903 respectively, relating to the vesting of options held by employees, directors, officers and consultants (during the three and six months ended April 30, 2022 - \$104,319 and \$213,144 respectively).

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

17. Non-controlling interest

On September 15, 2022, the Company paid \$50,000 in cash and issued 2,000,000 Heritage Common Shares measured at \$70,000 as total consideration for its purchase of 500 common shares and 400,000 preferred shares in Heritage West from the non-controlling shareholder. As a result of the NCI purchase, the entire contingent consideration payable issued in Heritage West acquisition was settled (Note 13), and the Company increased its interest in Heritage West and Mainstrain Market Ltd. ("Mainstrain") from 75% to 100%.

At the NCI purchase date, the difference of \$1,875,040 between the carrying amount of the non-controlling interest (the "NCI") at \$1,595,040, the fair value of contingent consideration payable settled at \$400,000 in Heritage West and the fair value of the consideration paid at \$120,000 was transferred into the retained earnings of the Company. As at April 30, 2023 and October 31, 2022, there was no longer any non-controlling interest.

18. Income taxes

The Company's combined Canadian federal and provincial statutory income tax rate is 26.5% for the six months ended April 30, 2023. The rate is expected to apply for the full year.

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

Balance at October 31, 2022	\$	1,931,000
Deferred income tax recovery		(23,000)
Balance at April 30, 2023	\$	1,908,000

19. Related party transactions and balances

All amounts either due to or from related parties, unless disclosed otherwise, are non-interest bearing, unsecured and due on demand. Transactions undertaken with related parties during the three and six months ended April 30, 2023 and 2022 are as follows:

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

	Three months ended April 30,	
	2023	2022
Management fees	\$ 15,000	\$ 5,000
Consulting fees	71,750	67,250
	\$ 86,750	\$ 72,250

	Six months ended April 30,	
	2023	2022
Management fees	\$ 30,000	\$ 20,000
Consulting fees	140,500	256,811
	\$ 170,500	\$ 276,811

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

19. Related party transactions and balances (continued)

(b) Key management compensation

	Three months ended April 30,	
	2023	2022
Salary and short-term benefits	\$ 98,250	\$ 98,763
Share-based payments	12,030	36,089
	\$ 110,280	\$ 134,852

	Six months ended April 30,	
	2023	2022
Salary and short-term benefits	\$ 196,500	\$ 197,256
Share-based payments	24,465	73,394
	\$ 220,965	\$ 270,650

(c) Related party balances

	As at April 30, 2023	As at October 31, 2022
Included in accounts payable and accrued liabilities	\$ 21,000	\$ 198,350

20. Commitments

Pursuant to the Company's acquisition of Opticann on October 6, 2020, the remaining purchase consideration payable for the acquisition includes:

- (a) 100,000,000 Class B exchangeable shares of Purchaser Sub, which were issued upon acquisition 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 Redemption/Retraction Price at the option of the exchangeable shareholders.
- (b) 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, partly upon the Company's ability to achieve certain cumulative sales or gross margin targets, and partly upon the acquisition of a supplier.

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. As at April 30, 2023 and October 31, 2022, no provision was recognized in relation to the above Class B exchangeable shares or contingent performance payments, given none of their payment milestones were met.

In addition, as consideration for the acquisition of Opticann license, the Company is committed to make the remaining payments, including:

- (a) \$2,600,000 USD payable upon the Company's achievement of certain milestones, including its receipt of first purchase order for certain goods and reaching \$2,000,000 USD and \$1,000,000 CDN 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.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

20. Commitments (continued)

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 April 30, 2023 and October 31, 2022, none of the payment milestones were met and, therefore, no provision was recognized.

21. Income (loss) per share

Basic income (loss) per share amounts are calculated by dividing the net income (loss) attributable to common shareholders for the period by the weighted average number of common shares outstanding during the periods.

Below is the calculation of basic and diluted income (loss) per share for the six months ended April 30, 2023:

	Six Months Ended April 30,	
	2023	2022
Basic income (loss) per share		
Issued shares, beginning of period	916,205,755	786,128,570
Weighted average issuances	7,967,751	56,235,083
Weighted average common shares, end of period	924,173,506	842,363,653
Net income (loss) attributed to common shareholders of the Company	\$ (4,874,236)	\$ 5,608,170
Basic income (loss) per share	\$ (0.01)	\$ 0.01

As at April 30, 2023, there were 79,030,611 common shares in escrow (Note 15) which are excluded from the weighted average common shares outstanding.

	Six months ended April 30,	
	2023	2022
Diluted income (loss) per share		
Weighted average common shares used in the computation of basic income (loss) per share, end of period	924,173,506	842,363,653
Dilutive effect of equity-settled contingent consideration payment and warrants exercised	-	50,937,583
Dilutive effect of convertible interest	-	1,030,453
Weighted average common shares used in the computation of diluted income (loss) per share	924,173,506	894,331,689
Net income (loss) attributed to common shareholders of the Company	\$ (4,874,236)	\$ 5,608,170
Diluted income (loss) per share	\$ (0.01)	\$ 0.01

The basic and diluted loss per share amounts are the same for the three months ended April 30, 2023 and April 30, 2022, as there were no instruments that had a dilutive effect.

22. 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.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

22. Financial instruments (continued)

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, 2022, 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 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 April 30, 2023	As at October 31, 2022
Trade accounts receivable from customers	\$ 6,909,116	\$ 7,798,057
Expected credit losses	(188,410)	(353,420)
Net trade receivables	6,720,706	7,444,637
Interest and other receivables	1,608	43,480
	<u>\$ 6,722,314</u>	<u>\$ 7,488,117</u>

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 April 30, 2023, the Company identified certain accounts that may result in a credit loss on its accounts receivable, for which expected credit losses were recognized.

The Company has assessed that there is a concentration of credit risk, as 64% of the Company's net trade accounts receivable is due from three customers as at April 30, 2023 (as at October 31, 2022 - 68% of the balance due from three customers).

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

	As at April 30, 2023	As at October 31, 2022
Current (30 days or less)	\$ 3,588,639	\$ 4,371,452
31-60 days	1,393,299	1,152,874
61-90 days	207,814	57,804
Greater than 90 days	1,530,954	1,862,507
	<u>\$ 6,720,706</u>	<u>\$ 7,444,637</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 April 30, 2023 the Company had working capital of \$9,763,341 (as at October 31, 2022 - \$14,730,394). 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.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

22. Financial instruments (continued)

(b) Liquidity risk (continued)

The Company has the following undiscounted contractual obligations subject to liquidity risk, in addition to those relating to lease liabilities disclosed in Note 11:

	<1 year	2-5years	> 5 years
Accounts payable and accrued liabilities	\$ 18,418,696	\$ -	\$ -
Long-term debt	7,023	16,898,197	-
Derivative liabilities with cash settlement option (Note 14(b))	2,036,700	-	-
Total	\$ 20,462,419	\$ 16,898,197	\$ -

(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 8), 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 income or loss. The Company is further exposed to the foreign currency risk through Opticann, a wholly owned subsidiary operating in United States (Note 1(e)), and through its derivative liabilities denominated in USD (Note 14(b)). As at April 30, 2023 and October 31, 2022, 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 April 30, 2023	As at October 31, 2022
Cash	\$ 6,633	\$ 4,030
Accounts receivable	659	659
Accounts payable and other liabilities	36,010	24,459
Investment in associate	2,303,969	2,355,039
Derivative liabilities	1,832,766	1,721,190

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by \$69,860 for the six months ended April 30, 2023. A 10% weakening of the Canadian dollar against the foreign currencies listed above would result in an equal, but opposite effect.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

22. Financial instruments (continued)

(c) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's short-term investments, and notes receivable earn fixed rates of interest in the range from 0.7% to 1.05% per annum, and 10% per annum respectively. The Company is exposed to this risk on its long-term debt, part of which bears variable interest as detailed in Note 12. As at April 30, 2023, 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 April 30, 2023 and October 31, 2022, the Company is exposed to this risk on the derivative liabilities payable in Heritage Common Shares (Note 14(b)).

23. Fair value of financial instruments

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

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

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

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

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

Financial instruments measured at fair value

Notes receivable	Market value (Level 3)
Derivative liabilities	Market value (Level 3) or Black-Scholes model (Level 3)
Contingent consideration payable	Discounted cash flow (Level 3) or Black-Scholes model (Level 3)

Financial instruments measured at amortized cost

Cash; Short-term investments; Accounts receivable;	Carrying amount (approximate fair value due to short-term nature)
Accounts payable and accrued liabilities	
Long-term debt	Carrying value at the effective interest rate which approximates fair value

During the six months ended April 30, 2023, there were no transfers of amounts between levels (six months ended April 30, 2022 – no transfers between levels).

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

24. Entity-wide disclosures

The Company's trade net revenue for the three and six months ended April 30, 2023 is comprised of the following:

	Three months ended		Six months ended	
	2023	2022	2023	2022
Net revenue from sale of Heritage branded products	\$ 7,334,038	\$ 7,491,184	\$ 13,561,679	\$ 14,032,395
Net revenue from sale of White Label products	45,005	-	140,776	-
	\$ 7,379,043	\$ 7,491,184	\$ 13,702,455	\$ 14,032,395

During the three and six months ended April 30, 2023, the Company earned 78% of its total trade revenue from five major customers and 79% from five major customers, respectively (during the three and six months ended April 30, 2022 – 86% from five major customers and 85% from five major customers, respectively).

25. Operating segment information

During the six months ended April 30, 2023 and 2022, the Company identified a single reportable operating segment.

26. Capital management

The Company manages its cash, short-term investments, common shares, stock options and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of a cannabis production business and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk level.

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

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

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

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

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the Three and Six Months Ended April 30, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

27. Subsequent events

- (a) On May 3, 2023, the Company issued a Drawdown notice to the counterparty and released 1,209,428 common shares from escrow in exchange for \$17,200, pursuant to the Agreement in Note 15(b)(i).
- (b) On May 12, 2023, the Company issued a Drawdown notice to the counterparty and released 2,432,118 common shares from escrow in exchange for \$23,319, pursuant to the Agreement in Note 15(b)(i).
- (c) On May 15, 2023, the counterparty of the note receivable in Note 6(a) made a repayment in the amount of \$300,000 USD (\$390,891 CAD).