



HERITAGE CANNABIS HOLDINGS CORP.
(formerly Umbral Energy Corp.)

AMENDED AND RESTATED
Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods ended July 31, 2018

(Stated in Canadian Dollars)

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED**Condensed Interim Consolidated Statements of Financial Position**

(Stated in Canadian Dollars)

(UNAUDITED)

	AS AT JULY 31, 2018	AS AT OCTOBER 31, 2017
Assets		
Current		
Cash	\$ 611,089	\$ 1,647,781
GST and accounts receivable	244,492	35,927
Prepaid expenses and deposits (Note 3)	318,149	113,807
Marketable securities at fair value (Note 4)	-	97,500
Total Current Assets	1,173,730	1,895,015
Deposit (Note 5)	250,000	-
Intangible asset (Note 6)	5,067,000	5,067,000
Property, buildings and equipment (Note 7)	5,060,738	1,114,330
Total Assets	\$ 11,551,468	\$ 8,076,345
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 1,027,415	\$ 328,150
Provision for flow-through liability	69,927	69,927
Total Liabilities	1,097,342	398,077
Equity		
Share capital (Note 8)	17,120,171	11,420,360
Share-based payment reserve (Note 8)	4,272,503	1,063,882
Shares reserved for issuance (Note 8)	-	380,000
Deficit	(11,928,972)	(6,330,157)
Equity attributable to shareholders	9,463,702	6,534,085
Non-controlling interest	990,424	1,144,183
Total equity	10,454,126	7,678,268
Total Liabilities and Equity	\$ 11,551,468	\$ 8,076,345

Nature of Operations and Going Concern (Note 1)

Subsequent Events (Note 12)

Approved on behalf of the Board of Directors:

"Brad Culver"

Director

"Clint Sharples"

Director

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

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Stated in Canadian Dollars)

(UNAUDITED)

	THREE MONTH PERIOD ENDED JULY 31,		NINE MONTH PERIOD ENDED JULY 31,	
	2018	2017	2018	2017
General and Administrative Expenses				
Advertising, travel and promotion	\$ 32,065	\$ 17,068	\$ 50,148	\$ 100,793
Amortization	2,375	-	7,126	-
Consulting fees (Note 9)	360,418	130,517	752,636	337,864
Management fees (Note 9)	40,000	15,000	130,000	60,390
Office expense and miscellaneous	57,266	1,617	153,657	3,482
Professional fees	23,435	4,391	143,276	27,054
Regulatory fees	3,234	1,757	23,095	7,497
Shareholder communications	10,295	4,984	19,578	15,784
Stock based compensation (Notes 8 and 9)	822,370	278,662	4,513,104	744,972
Transfer agent and shareholder information	6,511	8,596	13,604	12,952
Total general and administrative expenses	(1,357,969)	(462,592)	(5,806,224)	(1,310,788)
Other Items				
Equity loss on investment in joint venture	-	(38,380)	-	(60,495)
Loss on sale of mineral properties	-	45	-	(69,051)
Gain on sale of marketable securities (Note 4)	-	(60,000)	53,650	20,000
Total Other Items	-	(98,335)	53,650	(109,546)
Net Loss and Comprehensive Loss for the Period	\$ (1,357,969)	\$ (560,927)	\$ (5,752,574)	\$ (1,420,334)
Loss and Comprehensive Loss for the Period attributed to:				
Shareholders of the Company	\$ (1,281,279)	\$ (560,927)	\$ (5,598,815)	\$ (1,420,334)
Non-Controlling Interest	(76,690)	-	(153,759)	-
Loss and Comprehensive Loss for the Period	\$ (1,357,969)	\$ (560,927)	\$ (5,752,574)	\$ (1,420,334)
Basic and Diluted Loss Per Share	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.02)
Weighted Average Number Of Shares Outstanding	170,124,373	78,080,291	157,724,321	71,292,826

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

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Condensed Interim Consolidated Statements of Changes in Equity

(Stated in Canadian Dollars)

(UNAUDITED)

Nine Month Periods Ended July 31, 2018, 2017 and Year Ended October 31, 2017

	SHARE CAPITAL		SHARE-BASED	SHARE	DEFICIT	NON-	TOTAL
	NUMBER	AMOUNT	PAYMENT RESERVE	SUBSCRIPTION RECEIVABLE		CONTROLLING INTEREST	
Balance, October 31, 2016	63,342,146	\$ 6,067,501	\$ 674,170	\$ -	\$ (6,372,508)	\$ -	\$ 369,163
Issued for cash							
Share options exercised	12,730,000	1,729,904	(868,404)	-	-	-	861,500
Warrants exercised	2,419,826	165,333	-	-	-	-	165,333
Shares issued for mineral property	1,500,000	112,500	-	-	-	-	112,500
Share subscription receivable	-	-	-	193,200	-	-	193,200
Stock based compensation	-	-	744,972	-	-	-	744,972
Net loss for the period	-	-	-	-	(1,420,334)	-	(1,420,334)
Balance, July 31, 2017	79,991,972	8,075,238	550,738	193,200	(7,792,842)	-	1,026,334
Issued shares for cash							
Non-brokered private placement	43,700,000	2,622,000	-	-	-	-	2,622,000
Share options exercised	300,000	42,672	(21,672)	-	-	-	21,000
Warrants exercised	5,283,125	316,988	-	-	-	-	316,988
Share issue costs	-	(301,538)	199,580	-	-	-	(101,958)
Shares issued for acquisition	7,000,000	665,000	-	-	-	1,165,000	1,830,000
Stock based compensation – options granted	-	-	190,430	-	-	-	190,430
Stock based compensation – RSU's granted	-	-	144,806	-	-	-	144,806
Shares subscribed/reserved for issuance (Note 8)	-	-	-	186,800	-	-	186,800
Net income (loss) for the period	-	-	-	-	1,462,685	(20,817)	1,441,868
Balance, October 31, 2017	136,275,097	11,420,360	1,063,882	380,000	(6,330,157)	1,144,183	7,678,268
Issued shares for cash							
Share options exercised	6,559,000	2,200,046	(1,095,186)	-	-	-	1,104,860
Warrants exercised	30,304,686	3,119,765	(209,297)	-	-	-	2,910,468
Shares issued for acquisition	4,000,000	380,000	-	(380,000)	-	-	-
Stock based compensation – options granted	-	-	2,976,919	-	-	-	2,976,919
Stock based compensation – RSU's granted	-	-	1,536,183	-	-	-	1,536,183
Net loss for the period	-	-	-	-	(5,598,815)	(153,759)	(5,752,574)
Balance, July 31, 2018	177,138,783	\$ 17,120,171	\$ 4,272,503	\$ -	\$ (11,928,972)	\$ 990,424	\$ 10,704,126

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

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

(UNAUDITED)

	NINE MONTH PERIODS ENDED JULY 31,	
	2018	2017
Operating Activities		
Net loss for the period	\$ (5,752,574)	\$ (1,440,334)
Adjustments for non-cash expenses and income		
Amortization	7,126	-
Gain on sale of marketable securities	(53,650)	-
Loss on investment in joint venture	-	60,495
Loss on sale of exploration and evaluation properties	-	69,096
Stock based compensation	4,513,104	744,972
Changes in non-cash operating assets and liabilities		
GST and accounts receivable	(208,565)	(790)
Prepaid expenses and deposits	(204,342)	(87,626)
Accounts payable and accrued liabilities	699,265	(50,408)
Cash Used In Operating Activities	(999,636)	(704,595)
Investing Activities		
Acquisition of property, plant and equipment	(3,953,534)	-
Advances	-	(327,705)
Proceeds from sale of marketable securities	151,150	-
Advances in long-term investment	(250,000)	-
Mineral property acquisition and exploration costs	-	39,754
Cash Used In Investing Activities	(4,052,384)	(287,951)
Financing Activities		
Due to related parties	-	(1,700)
Share subscriptions	-	193,200
Share capital proceeds	4,015,328	1,026,833
Cash Provided By Financing Activities	4,015,328	1,218,333
Net Change In Cash	(1,036,692)	225,787
Cash, Beginning Of Period	1,647,781	85,057
Cash, End Of Period	\$ 611,089	\$ 310,844
Supplementary Information		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

Non-cash Investing and Financing Transactions (Note 10)

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

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods Ended July 31, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

1. Nature of Operations and Going Concern

Heritage Cannabis Holdings Corp. (formerly Umbral Energy Corp.) (the "Company") is a development stage 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 929 Mainland Street, Vancouver, British Columbia, Canada V6C 2B3 and the registered and records office of the Company is located at Suite 1500-1055 West Georgia St., Vancouver, B.C., V6E 4N7.

The Company is principally engaged in the acquisition of a Health Canada license under the Access to Cannabis for Medical Purposes Regulations ("ACMPR") for the purpose of entering the medical marijuana industry through its investment in PhyeinMed Inc., a 75% owned subsidiary of the Company.

During the period ended July 31, 2018, the Company was awarded a license to grow medical marijuana. As the Company does not yet have cash flow from operations, it must rely on equity 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 and through public offering to institutional investors. The Company has historically raised operating capital from the sale of equity, and will continue to do so.

The condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes 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 has incurred operating losses since inception, does not have positive operating cash flow, and there can be no assurances that sufficient funding, including adequate financing, will be available to develop its ACMPR business plans and to cover general and administrative expenses necessary for the maintenance of a public company. The ability of the Company to arrange additional financing in the future depends in part, on the prevailing capital market conditions and its success on generating positive cash flows as a result of receiving an ACMPR license. These factors may cast significant doubt on the Company's ability to continue as a going concern. Accordingly, the condensed interim 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 condensed interim consolidated financial statements.

2. Basis of Presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of condensed interim consolidated financial statements, including International Accounting Standard ("IAS") 34 - Interim Financial Reporting. The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in the Company's audited annual financial statements for the year ended October 31, 2017.

These condensed interim consolidated financial statements were approved and authorized for issue by the board of directors on December 7, 2018

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods Ended July 31, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

2. Basis of Presentation (Continued)

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 1005477 B.C. Ltd. and Umbral Energy LLC (Washington State) and a 75% interest in PhyeinMed Inc. The condensed interim financial statements of the subsidiaries are prepared using consistent accounting policies and reporting dates of the Company. All inter-company transactions and accounts have been eliminated upon consolidation.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 31, 2018, the date the Audit Committee approved the statements. Any subsequent changes to IFRS after this date could result in changes to the condensed interim consolidated financial statements for the period ended July 31, 2018. The condensed interim consolidated financial statements do not contain all disclosures required under IFRS and should be read in conjunction with Company's annual financial statements and the notes thereto for the year ended October 31, 2017.

The preparation of condensed interim 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 condensed interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim 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. Actual results could differ from those estimates. Significant accounts that require estimates as the basis for determining the stated amounts include but are not limited to share-based payments, allocation of financing proceeds and income taxes. Differences may be material.

3. Prepaid Expenses and Deposits

The Company's current prepaid expenses and advances consist of the following:

	July 31, 2018	October 31, 2017
ACMPR growing, marketing and distribution consulting fees	\$ -	\$ 97,917
Cannabis Compliance Inc. - Alberta license application	40,000	-
Calgary, AB retail lease deposit	27,413	-
Clearview, Ontario property deposit	130,000	-
Falkland property greenhouse construction advances	42,380	-
Shaw fibre optic deposit	50,000	-
Others	28,356	15,890
	\$ 318,149	\$ 113,807

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods Ended July 31, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

4. Marketable Securities

During the year ended October 31, 2017, the Company received 2,000,000 common shares of Equitorial Exploration Corp. ("Equitorial") in accordance with the assignment agreement of the Tule Valley and Gerlach Mineral Exploration Projects. As at October 31, 2017, the Company held 1,300,000 common shares of Equitorial with a fair market value of \$97,500. During the period ended July 31, 2018, the Company sold 1,300,000 for net proceeds of \$151,150 resulting in a realized gain of \$53,650.

5. Deposit

During the period ended July 31, 2018, the Company signed a Letter of Intent ("LOI") to acquire 20% of the issued and outstanding shares of Stanley Park Digital Ltd. ("SPD"), a blockchain developer based in Vancouver, British Columbia.

Per the terms of the LOI, the purchase price is \$500,000, of which \$250,000 is to be paid in cash while the additional \$250,000 is to be paid via the issuance of 833,333 common shares of the Company upon completion of a definitive share purchase agreement.

As at July 31, 2018, \$250,000 has been advanced to SPD in relation to the LOI, the amount is non-refundable. A definitive share purchase agreement has yet to be completed and therefore no common shares of the Company have been transferred.

6. Intangible Asset

	License Acquisition Costs
Cost	
As October 31, 2016	\$ -
Acquired through business combination	5,067,000
As at October 31, 2017 and July 31, 2018	5,067,000
Amortization	
As at October 31, 2016	-
Additions	-
As at October 31, 2017 and July 31, 2018	-
Net Book Value as at October 31, 2016	-
Net Book Value as at October 31, 2017 and July 31, 2018	\$ 5,067,000

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods Ended July 31, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

7. Property, Buildings and Equipment

	Equipment	Buildings	Land	Total
Cost				
As October 31, 2016	\$ -	\$ -	\$ -	\$ -
Additions	-	854,076	255,000	1,109,076
Acquired through business combination	-	6,449	-	6,449
As at October 31, 2017	-	860,525	255,000	1,115,525
Additions	408,842	3,544,692	-	3,953,534
July 31, 2018	408,842	4,405,217	255,000	5,069,059
Amortization				
As at October 31, 2016	-	-	-	-
Additions	-	1,195	-	1,195
As at October 31, 2017	-	1,195	-	1,195
Additions	-	7,126	-	7,126
July 31, 2018	-	8,321	-	8,321
Net Book Value as at October 31, 2017	-	859,330	255,000	1,114,330
Net Book Value as at July 31, 2018	\$ 408,842	\$ 4,396,896	255,000	\$ 5,060,738

8. Share Capital and Reserve

a) Authorized

Unlimited number of common shares without par value

b) Issued

Period ended July 31, 2018:

The Company issued 6,559,000 common shares for the exercise of 6,559,000 stock options between \$0.065 and \$0.59 per share for total proceeds of \$1,104,860 which resulted in a transfer from share-based payment reserve to share capital of \$1,095,186. The Company also issued 30,304,686 common shares for the exercise of 30,304,686 warrants at \$0.06 and \$0.10 per share for total proceeds of \$2,910,468 which resulted in a transfer from share-based payment reserve to share capital of \$209,297.

In accordance with the Share Purchase Agreement to acquire an additional 25% controlling interest in PhyeinMed Inc., the Company issued to 4,000,000 common shares at a deemed price of \$0.095 upon ACMPR License receipt.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods Ended July 31, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

8. Share Capital and Reserve (Continued)

b) Issued (Continued)

Year ended October 31, 2017:

The Company issued 13,030,000 common shares for the exercise of 13,030,000 stock options between \$0.05 and \$0.08 per share for total proceeds of \$882,500 which resulted in a transfer from share-based payment reserve to share capital of \$890,076. The Company also issued 7,702,951 common shares for the exercise of 7,702,951 warrants at \$0.06 and \$0.10 per share for total proceeds of \$482,321.

The Company issued 7,000,000 common shares in accordance with the share purchase agreement for the acquisition of an additional 25% interest in PhyeinMed Inc. The common shares had a fair value of \$665,000 measured on the acquisition date. In accordance with the purchase agreement the seller entered a voluntary escrow agreement whereby the shares would be escrowed and released as to 10% on the acquisition date and 15% on the date that is every six months thereafter.

The Company completed a non-brokered private placement of 43,700,000 units for gross proceeds of \$2,622,000. Each unit consists of one common share and one common share purchase warrant entitling the holder to purchase one additional common share at \$0.10 per share for two years. A cash finders' fee of \$90,459 was paid. The Company also issued 1,515,413 broker warrants exercisable at \$0.10 per warrant for a period of two years from closing. The broker warrants were valued at \$199,580 using a Black Scholes option pricing model using the following assumptions: dividend yield of \$nil, a risk-free interest rate of 1.24%, annualized volatility of 224% and an expected life of two years. The Company also incurred a total of \$11,499 in legal fees required to close the transaction.

c) Warrants

The following is a summary of the changes in warrants:

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, October 31, 2016	11,845,226	\$0.06
Granted	45,215,413	0.10
Exercised	(7,702,951)	0.06
Balance, October 31, 2017	49,357,688	0.10
Exercised	(30,304,686)	0.10
Expired	(40,286)	0.10
Balance, July 31, 2018	19,012,716	\$0.10

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods Ended July 31, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

8. Share Capital and Reserve (Continued)

c) Warrants (Continued)

The following table summarizes the warrants outstanding and exercisable at July 31, 2018:

NUMBER OF WARRANTS	EXERCISE PRICE	EXPIRY DATE
429,089	\$0.06	December 20, 2018
18,583,627	\$0.10	August 30, 2019
19,012,716		

As at July 31, 2018, the weighted average remaining contractual life of all warrants outstanding was 1.07 years (July 31, 2017 – 0.82 years). On July 23, 2018, the Company announced its intention to accelerate the expiry date of the warrants from August 30, 2019 to August 27, 2018 as per the terms of the non-brokered private placement financing.

d) 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 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 issued and outstanding common shares in any twelve-month period. Further, 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 30 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.

During the period ended July 31, 2018, stock-based compensation in the amount of \$2,976,919 (July 31, 2017 – \$744,972) was recognized on the issuance of stock options to directors, officers and consultants.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods Ended July 31, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

8. Share Capital and Reserve (Continued)

d) Stock Options (continued)

The following is a summary of the changes in options:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, October 31, 2016	4,765,000	\$0.08
Granted	13,280,000	0.07
Exercised	(13,030,000)	0.07
Cancelled	(1,815,000)	0.08
Balance, October 31, 2017	3,200,000	\$0.09
Granted	11,050,000	0.27
Exercised	(6,559,000)	0.16
Balance, July 31, 2018	7,691,000	\$0.29

The following table summarizes the options outstanding and exercisable at July 31, 2018:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY DATE
2,000,000	\$0.10	August 16, 2022
2,130,000	\$0.14	November 15, 2022
700,000	\$0.59	January 22, 2023
1,461,000	\$0.54	March 19, 2023
1,400,000	\$0.35	April 30, 2023
7,691,000		

As at July 31, 2018, the weighted average remaining contractual life of all options outstanding was 4.40 years (July 31, 2017 – 4.33 years).

The Company uses the Black-Scholes option pricing model to estimate the fair value of the options granted using the following assumptions:

	NINE MONTH PERIODS ENDED JULY 31,	
	2018	2017
Dividend yield	Nil	Nil
Annualized volatility	222% - 231%	216%
Risk-free interest rate	1.63% - 2.11%	0.91%
Expected life	5 years	5 years

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods Ended July 31, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

8. Share Capital and Reserve (Continued)

e) Restricted Share Units

The Company has adopted a restricted share unit 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, restricted share units ("RSU's"), provided that the number of common shares reserved will not exceed 10% of the issued and outstanding common shares of the Company. The Board of Directors of the Company will establish performance conditions for the vesting of RSU's granted based on the conditions of individual grants. RSU's will be settled as either one common share per vested RSU or a cash amount equal to the vesting date value at the discretion of the Board of Directors of the Company.

For equity-settled awards, the fair value of the RSUs is recognized as compensation expense over the period that related services are rendered with a corresponding increase in equity. The total amount expensed is recognized over the vesting period on a tranche basis, which is the period over which all the specified vesting conditions should be satisfied.

During the year ended October 31, 2017, the Company granted 4,000,000 RSU's to consultants of the Company. These RSUs had a grant-date fair value of \$380,000.

During the period ended July 31, 2018, the Company granted 2,400,000 RSU's to directors and consultants of the Company. These RSU's had a grant-date fair value of \$1,440,000. 400,000 RSU's were also forfeited in the period.

During the period ended July 31, 2018, stock-based compensation in the amount of \$1,536,183 (July 31, 2017 – \$Nil) was recognized on the issuance of RSU's.

The following table summarizes continuity of restricted share units for the year ended July 31, 2018:

	Number of RSU's
Balance, October 31, 2016	-
Issued	<u>4,000,000</u>
Balance, October 31, 2017	<u>4,000,000</u>
Forfeited	<u>(400,000)</u>
Issued	<u>2,400,000</u>
Balance, July 31, 2018	<u>6,000,000</u>
Vested, July 31, 2018	<u>-</u>

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods Ended July 31, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

8. Share Capital and Reserve (Continued)

f) Earnings (Loss) Per Share

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

	THREE MONTH PERIODS ENDED JULY 31,		NINE MONTH PERIODS ENDED JULY 31,	
	2018	2017	2018	2017
Issued shares at beginning of period	168,273,650	76,748,146	136,275,097	63,342,146
Weighted average issuances	1,850,693	1,332,145	21,449,224	7,950,680
Basic weighted average common shares	170,124,343	78,080,291	157,724,321	71,292,826

g) Nature and Purpose of Reserve

The 'Share-based Payment Reserve' is used to recognize the fair value of stock option grants, RSU grants, and warrants prior to exercise, expiry or cancellation.

Shares Reserved for Issuance

During the year ended October 31, 2017, the Company entered into a Share Purchase Agreement to issue 4,000,000 common shares at a deemed price of \$0.095 per share upon final award of an ACMPR production license. During the period ended July 31, 2018, the Company issued 4,000,000 common shares at a deemed price of \$380,000.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods Ended July 31, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

9. Related Party Transactions

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All amounts either due from or due to related parties other than specifically disclosed are non-interest bearing, unsecured and have no fixed terms of repayments.

a) Related party transactions with directors and companies with a director in common.

	THREE MONTH PERIODS ENDED JULY 31,		NINE MONTH PERIODS ENDED JULY 31,	
	2018	2017	2018	2017
Management fees	\$ 40,000	\$ 15,000	\$ 130,000	\$ 60,390
Consulting fees	\$ 22,500	\$ 15,400	\$ 52,500	\$ 18,810
Share-based payments	\$ 891,547	\$ 28,269	\$ 1,736,909	\$ 238,830

b) Advances payable

	JULY 31, 2018	OCTOBER 31, 2017
Advances from directors are unsecured, non-interest bearing and is repayable on demand	\$ -	\$ 100,578

10. Commitments

As at July 31, 2018, the Company is committed to the following:

- A five-year commercial lease agreement for a 5,900 square foot retail store located in Calgary, Alberta until May 2023 for an annual commitment of \$120,960. The Company's subsidiary has advanced a \$27,413 deposit. Subsequent to July 31, 2018, management of the Company determined that a retail business license was unattainable in a timely manner and forfeited its deposit to the landlord and the lease agreement was terminated.
- An agreement to purchase a four bay greenhouse totaling 16,632 square feet for \$337,157 of which \$42,380 has been advanced;
- An agreement to excavate the foundation for 4 greenhouses for \$222,495.
- Subsequent to period end, the Company entered into a 12-month investor relations agreement with Hybrid Financial Ltd. to engage in marketing and brand awareness. The Company is committed to pay \$14,000 per month and has granted an option to purchase 1,000,000 shares of the Company to be awarded in two instalments, 50% within one week of the agreement and 50% in April 2019. The options will be exercisable at the market price when awarded for a period of 5 years from the date of grant.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods Ended July 31, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

11. Non-Cash Investing and Financing Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

Nine month period ended July 31, 2018:

\$1,095,186 was transferred from share-based payment reserves to share capital as a result of the exercise of 6,559,000 stock options. \$209,297 was transferred from share-based payment reserve to share capital as a result of the exercise of 1,957,353 broker warrants.

In accordance with the Share Purchase Agreement to acquire an additional 25% controlling interest in PhyeinMed Inc., the Company issued to 4,000,000 common shares at a deemed price of \$0.095 upon ACMPR License receipt.

Nine month period ended July 31, 2017:

\$868,404 was transferred from share-based payment reserves to share capital as a result of the exercise of 12,730,000 stock options at prices between \$0.05 and \$0.08.

12. Subsequent Events

Subsequent to July 31, 2018, the Company:

- Issued 18,780,667 common shares for the exercise of 18,780,667 warrants at \$0.10 per share for total proceeds of \$1,878,067;
- Issued 2,000,000 common shares for the exercise of 2,000,000 stock options at prices between \$0.14 and \$0.54 for total proceeds of \$391,500 which resulted in a transfer from share-based payment reserve to share capital of \$386,741.
- Issued 6,000,000 common shares under the terms of the RSU plan that was ratified and approved by shareholders at the Company's AGM held August 10, 2018.
- Issued 30,000,000 Special Warrants at a price of \$0.25 per Special Warrant for gross proceeds of \$7,500,000. Each Special Warrant entitles the holder to receive, without additional payment, one Unit of the Company. Each Unit of the Company is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.35 until the earlier of May 7, 2021 or the date specified in the warrant acceleration notice. In consideration for completion of the financing, the Company paid a cash commission of \$387,825 and issued 1,551,300 broker warrants. Each broker warrant is exercisable into one Unit at an exercise price of \$0.25 for a period of 30 months from the date of closing.
- Acquired 100% of the issued and outstanding shares of Cannacure Corporation ("Cannacure"), a private Ontario corporation holding a license under the Cannabis Act Regulations. Under the terms of the purchase agreement shareholders of Cannacure will receive 133,333,326 common shares of the Company at a deemed price of \$0.30. The Company also issued 4,000,000 common shares to an arms-length third party at a deemed price of \$0.30 as an advisory fee.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

AMENDED AND RESTATED

Notes to the Condensed Interim Consolidated Financial Statements

Three and Nine Month Periods Ended July 31, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

12. Subsequent Events (Continued)

- Entered into a binding Letter of Intent to acquire 100% of the issued and outstanding shares of Purefarma Solutions Inc. ("Purefarma"). Under the terms of this arms-length agreement, shareholders of Purefarma will receive 33,333,333 common shares of Heritage at a deemed price of \$0.30 per share. Additionally, shareholders of Purefarma have a potential to earn an additional 16,000,000 common shares of the Company subject to an earn-out based upon certain gross margin milestones achieved on an annual basis over the next four years. In addition, Purefarma will receive certain royalties for years ended 2019 through 2022 on a diminishing basis, based upon achieving certain gross margin milestones.