

FORM 5

QUARTERLY LISTING STATEMENT

Name of Listed Issuer: **Heritage Cannabis Holdings Corp.** (the “Issuer”).

Trading Symbol: **CANN**

This Quarterly Listing Statement must be posted on or before the day on which the Issuer’s unaudited interim financial statements are to be filed under the *Securities Act*, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer’s first, second and third fiscal quarters. This statement is not intended to replace the Issuer’s obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the Exchange website.

General Instructions

- (a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.
- (b) The term “Issuer” includes the Listed Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

SCHEDULE A: FINANCIAL STATEMENTS

Financial statements are required as follows:

For the first, second and third financial quarters interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

The interim condensed consolidated financial statements of the Issuer for the three months ended January 31, 2023 are attached as Schedule “A”.

SCHEDULE B: SUPPLEMENTARY INFORMATION

The supplementary information set out below must be provided when not included in Schedule A.

1. Related party transactions

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

- (a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.
- (b) A description of the transaction(s), including those for which no amount has been recorded.
- (c) The recorded amount of the transactions classified by financial statement category.
- (d) The amounts due to or from Related Persons and the terms and conditions relating thereto.
- (e) Contractual obligations with Related Persons, separate from other contractual obligations.
- (f) Contingencies involving Related Persons, separate from other contingencies.

All related party transactions have been disclosed in the Issuer’s financial statements for the three month interim period ended January 31, 2023 and are attached to this Form 5 as Schedule “A”. For supplementary information describing the related party transactions, please refer to page 16 of the Management Discussion & Analysis for the same period, which is attached to this Form 5 as Schedule “B”.

2. Summary of securities issued and options granted during the period.

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

- (a) summary of securities issued during the period,

Date of Issue	Type of Security (common shares, convertible debentures, etc.)	Type of Issue (private placement, public offering, exercise of warrants, etc.)	Number	Price	Total Proceeds	Type of Consideration (cash, property, etc.)	Describe relationship of Person with Issuer (indicate if Related Person)	Commission Paid
November 1, 2022	Common Shares	Private Placement	79,030,611 ⁽¹⁾	\$0.05	N/A ⁽¹⁾	Cash at future date ⁽¹⁾	N/A	11,699,143 Common Shares ⁽²⁾
January 16, 2023	Common Shares	Private Placement	7,253,985	\$0.03	\$217,619.55	Compensation for services (employee bonuses)	See below	N/A

Notes:

- (1) In accordance with the terms of an equity line of credit agreement dated November 1, 2022 between Obsidian Global Partners LLC (“**Obsidian**”) and the Issuer (the “**ELOC Agreement**”), 79,030,611 Common shares continue to be held in escrow (the “**Escrow Shares**”) and will be released to Obsidian in tranches as and when the Issuer requests that Obsidian purchase Common shares. Any Escrow Shares that are not purchased by Obsidian will be subject to cancellation at the end of the term of the ELOC Agreement.
- (2) 11,699,143 Common shares were issued to Obsidian as an investor fee in connection with the private placement.

Related Person details:

Full Name & Municipality of Residence of Placee	Number of Securities Purchased or to be Purchased	Purchase price per Security (CDN\$)	Conversion Price (if Applicable) (CDN\$)	Prospectus Exemption	Total Securities Previously Owned, Controlled or Directed	Payment Date(1)	Describe relationship to Issuer (2)
2087053 Alberta Ltd. 466 Rockview Lane, Kelowna, BC V1W 5K2	687,500	\$0.03	N/A	NI 45-106, s. 2.24	48,771,422 ⁽¹⁾	N/A	Director and executive officer of the Issuer
Daniel Phaure 151 Westminster Ave Toronto, ON M6R 1N8	483,333	\$0.03	N/A	NI 45-106, s. 2.24	5,201,187 ⁽²⁾	N/A	Executive officer of the Issuer

FORM 5 – QUARTERLY LISTING STATEMENT

Notes:

- (3) David Schwede's Common Shares are owned indirectly by 2087053 Alberta Ltd., a private company owned and controlled by Mr. Schwede. Mr. Schwede holds a total of 1,250,000 Options at an exercise price of \$0.10 expiring on September 17, 2026. Mr. Schwede also owns 166,666 RSUs.
- (4) Daniel Phaure holds a total of 1,250,000 Options at an exercise price of \$0.10 expiring on September 17, 2026, and 500,000 Options at an exercise price of \$0.34 expiring on February 8, 2024.

- (b) summary of options granted during the period,

No options were granted during the three months ended January 31, 2023.

3. Summary of securities as at the end of the reporting period.

Provide the following information in tabular format as at the end of the reporting period:

- (a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,

Type of Security	Number Authorized	Preferred Dividend	Redemption Rights	Conversion Rights
Common	Unlimited	N/A	N/A	N/A

- (b) number and recorded value for shares issued and outstanding,

Type of Security	Issued & Outstanding	Recorded Value
Common	1,014,189,494	\$20,283,789.88

- (c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and

Type of Security	Number	Exercise Price	Expiry Date	Recorded Value
Options	850,000	\$0.35	April 30, 2023	N/A

Options	254,964	\$0.20	August 20, 2023	N/A
Options	892,476	\$0.20	April 10, 2025	N/A
Options	3,750,000	\$0.34	February 8, 2024	N/A
Options	1,500,000	\$0.36	September 20, 2024	N/A
Options	13,875,000	\$0.10	September 17, 2026	N/A
Restricted Share Units	266,666	N/A	N/A	N/A
Restricted Share Units	5,076,628	N/A	N/A	N/A
Restricted Share Units	6,000,000	N/A	N/A	N/A
Warrants	10,000,000	\$0.25	February 28, 2025	N/A
Warrants	50,000,000	\$0.10	February 28, 2025	N/A

- (d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

Type of Security	Number of securities subject to escrow, pooling or other restrictions on transfer
Common	79,030,611

4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.

Name	Title
Clint Sharples	Chairman

David Schwede	President, Chief Executive Officer, Director
Daniel Phaure	Chief Financial Officer
Celine Arsenaault	Director
Eoin Hegarty	Chief Operational Officer
Cory Larsen	Chief Commercial Officer

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

Provide Interim MD&A if required by applicable securities legislation.

The interim MD&A of the Issuer for the three months ended January 31, 2023 is attached to this Form 5 as Schedule "B".

Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.
2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated March 29, 2023.

Daniel Phaure
Name of Director or Senior Officer

(Signed) "Daniel Phaure"
Signature

Chief Financial Officer _____
Official Capacity _____

Issuer Details Name of Issuer Heritage Cannabis Holdings Corp.	For Quarter Ended 23/01/31	Date of Report YY/MM/D 23/03/29
Issuer Address 77 Bloor Street West, Suite 600		
City/Province/Postal Code Toronto, Ontario M5S 1M2	Issuer Fax No. N/A	Issuer Telephone No. 1 (888) 940-5925
Contact Name Owens Wright LLP (Erin Duncan)	Contact Position Legal Counsel	Contact Telephone No. (416) 486-9800
Contact Email Address eduncan@owenswright.com	Web Site Address www.heritagecann.com	

Schedule "A"
Financial Statements

HERITAGE CANNABIS HOLDINGS CORP.
Interim Condensed Consolidated Financial Statements
Three Months Ended January 31, 2023 and 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.

Interim Condensed Consolidated Financial Statements

Three Months Ended January 31, 2023 and 2022

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

	Notes	As at January 31, 2023	As at October 31, 2022
Assets			
Current			
Cash		\$ 6,257,753	\$ 5,107,617
Short-term investments	3	950,000	950,000
Sales tax recoverable		146,513	210,457
Accounts receivable	23(a)	5,243,476	7,488,117
Inventories	4	18,202,222	16,788,609
Prepaid expenses and deposits	5	1,970,868	2,013,977
Current portion of notes receivable	6	522,109	302,171
		33,292,941	32,860,948
Notes receivable	6	2,088,434	1,712,303
Other investments and deposits	7	837,100	799,812
Investment in associate	8	3,256,946	3,214,393
Intangible assets and goodwill	9	19,331,787	19,784,401
Property, plant and equipment	10	20,282,746	20,040,335
Total Assets		\$ 79,089,954	\$ 78,412,192
Liabilities			
Current			
Accounts payable and accrued liabilities	20(c),23(b)	\$ 18,191,555	\$ 15,197,496
Sales tax payable		34,459	519,275
Deferred revenue		506,504	681,548
Current portion of lease liabilities	11	163,829	89,591
Current portion of long-term debt	12	6,026	5,878
Current portion of derivative liabilities	15	2,384,953	1,636,766
		21,287,326	18,130,554
Lease liabilities	11	897,832	639,406
Long-term debt	12	16,898,371	16,815,481
Derivative liabilities	15	161,594	945,530
Deferred tax liability	19	1,996,000	1,931,000
Total Liabilities		41,241,123	38,461,971
Equity			
Share capital	19	148,372,495	147,746,456
Contributed surplus	20	6,938,160	6,902,629
Accumulated other comprehensive income (loss)	11,26(c)(i)	185,681	109,403
Accumulated deficit		(117,647,505)	(114,808,267)
Total Equity		37,848,831	39,950,221
Total Liabilities and Equity		\$ 79,089,954	\$ 78,412,192

Going Concern (Note 1(a))
Commitments (Note 24)
Subsequent Events (Note 34)

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.
Interim Condensed Consolidated Statements of Operations and Comprehensive Loss
Three Months Ended January 31, 2023 and 2022
(Stated in Canadian Dollars) (Unaudited)

	Notes	Three Months Ended January 31,	
		2023	2022
Gross Revenue	25	\$ 9,446,995	\$ 9,596,141
Excise taxes		(3,123,583)	(3,054,930)
Net Revenue		6,323,412	6,541,211
Cost of Sales	4	4,272,251	4,656,450
Gross Margin		2,051,161	1,884,761
General and Administrative Expenses			
Advertising, travel and promotion		264,703	155,883
Amortization and depreciation	4,9,10	483,761	1,279,734
Management and consulting fees	19	263,597	306,876
Occupancy, general and administrative		1,025,530	1,644,164
Professional fees		99,892	309,409
Share-based payments	15,16,19	419,206	108,825
Salaries, wages and benefits	19	2,090,858	1,355,607
		4,647,547	5,160,498
Other Income (Expense)			
Interest and other income	6	92,888	100,092
Interest and finance expense	11,12,14	(349,169)	(229,497)
Share of loss from investment in associate	8	(33,803)	(11,329)
Unrealized gain on other investments	7(i)	-	608,649
Unrealized gain (loss) on contingent consideration payable	13	-	8,498,429
Unrealized gain (loss) on derivative liabilities	15	112,232	(413,532)
		(177,852)	8,552,812
Income (Loss) Before Taxes		(2,774,238)	5,277,075
Income tax recovery			
Deferred income tax recovery	18	65,000	(896,000)
		65,000	(896,000)
Net Income (Loss)		\$ (2,839,238)	\$ 6,173,075
Other comprehensive income that may be reclassified to net loss			
Gain (loss) on foreign currency translation	23(c)	76,278	84,138
Comprehensive Income (Loss)		\$ (2,762,960)	\$ 6,257,213
Comprehensive Income (Loss) attributed to:			
Shareholders of the Company		\$ (2,762,960)	\$ 6,279,088
Non-controlling interest	17	-	(21,875)
		\$ (2,762,960)	\$ 6,257,213
Weighted average number of outstanding shares			
Basic	21	919,552,059	794,309,581
Diluted	21	919,552,059	893,673,594
Income (loss) per share			
Basic	21	\$ (0.00)	\$ 0.01
Diluted	21	\$ (0.00)	\$ 0.01

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

HERITAGE CANNABIS HOLDINGS CORP.
Interim Condensed Consolidated Statements of Changes in Equity
Three Months Ended January 31, 2023 and 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		-	-	108,825	-	-	-	108,825
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 (loss) for the year		-	-	-	84,138	6,194,950	(21,875)	6,257,213
Balance at January 31, 2022		893,301,236	\$ 146,931,494	\$ 5,888,299	\$ (113,169)	\$ (85,343,717)	\$ 673,007	\$ 68,035,914
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	-	-	35,531	-	-	-	35,531
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 income (loss) for the year		-	-	-	76,278	(2,839,238)	-	(2,762,960)
Balance at January 31, 2023		935,158,883	\$ 148,372,495	\$ 6,938,160	\$ 185,681	\$ (117,647,505)	\$ -	\$ 37,848,831

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

HERITAGE CANNABIS HOLDINGS CORP.
Interim Condensed Consolidated Statements of Cash Flows
Three Months Ended January 31, 2023 and 2022
(Stated in Canadian Dollars) (Unaudited)

	Notes	Three Months Ended January 31,	
		2023	2022
Operating Activities			
Net loss for the year		\$ (2,839,238)	\$ 6,173,075
Items not affecting cash:			
Amortization and depreciation	9,10	483,761	1,279,734
Bad debt expense	23(a)	-	248,699
Capitalized depreciation recognized in cost of sales	4	-	103,341
Deferred income tax expense (recovery)	18	65,000	(896,000)
Non-cash interest income	6	(60,705)	-
Non-cash interest and finance expense	15,16	160,936	62,516
Share-based payments	15,16	419,206	108,825
Share of loss from investment in associate	8	33,803	11,329
Unrealized loss (gain) on contingent consideration payable	13	-	(8,498,429)
Unrealized (gain) on derivative liabilities	14	(112,232)	413,532
Unrealized foreign exchange loss	23(c)	(78)	(179)
Unrealized (gain) on other investments	7(i)	-	(608,649)
		(1,849,547)	(1,602,206)
Net changes in non-cash working capital, net of business combination			
Sales tax recoverable		63,944	242,195
Accounts receivable		2,244,641	(2,807,817)
Inventories	4	(967,178)	542,423
Prepaid expenses and deposits		43,109	(25,594)
Other investments and deposits		(37,288)	-
Accounts payable and accrued liabilities	15	3,236,423	1,671,792
Sales tax payable		(484,816)	285,191
Deferred revenue		(175,044)	(71,078)
Net changes in non-cash working capital		3,923,791	(162,888)
Cash Flows (Used in) Operating Activities		2,074,244	(1,765,094)
Investing Activities			
Acquisition of property, plant and equipment	10	(262,393)	(441,558)
Payments on right-of-use asset prior to lease commencement	10,11	(91,520)	-
Advances of note receivable	6	(535,364)	(608,692)
Maturity of convertible promissory note receivable		-	259,481
Cash Flows (Used in) Provided by Investing Activities		(889,277)	(790,769)
Financing Activities			
Proceeds from exercise of options and warrants	16	-	20,866
Principal payments on lease obligation	11	(33,416)	(19,057)
Principal payments on long-term debt	12	(1,415)	(1,281)
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 Provided by Financing Activities		(34,831)	2,038,298
Net Increase in Cash During the Year		1,150,136	(517,565)
Cash, Beginning of Year		5,107,617	3,763,577
Cash, End of Year		\$ 6,257,753	\$ 3,246,012

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

Supplementary information

Interest received	3	\$ 4,915	\$ 3,058
Interest paid	12	\$ 160,349	\$ 166,981
Shares issued for Premium 5 acquisition		\$ -	\$ 6,428,571
Release of accrual for share-based payments	15	\$ (242,364)	\$ -
Capitalized depreciation expense during the year	4	\$ 446,435	\$ -
Right-of-use asset additions	11	\$ 366,080	\$ -

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Interim Condensed Consolidated Financial Statements
For the Three Months Ended January 31, 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 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 \$2,839,238 for the three months ended January 31, 2023 (for the three months ended January 31, 2022 – net income of \$6,173,075), and had an accumulated deficit of \$117,647,505 as at January 31, 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 interim condensed consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments other than in the normal course of business and at amounts different from those in these interim condensed consolidated financial statements.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Interim Condensed Consolidated Financial Statements
For the Three Months Ended January 31, 2023 and 2022
(Stated in Canadian Dollars, Unaudited)

1. Basis of presentation (continued)

(b) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). The accounting policies adopted in preparing these interim condensed consolidated financial statements are consistent with those applied in the Company's 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 interim condensed consolidated financial statements do not conform in all respects to the requirements of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") for annual financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and notes as at and for the year ended October 31, 2022.

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

(c) Basis of measurement

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

(d) Functional and presentation currency

These interim condensed consolidated financial statements are presented in Canadian dollars ("CDN") unless otherwise noted. The functional currency of Heritage US Holdings Corp., Heritage (US) Cali Corp., Heritage (US) Oregon Corp., 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 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 January 31, 2023, subsidiaries over which the Company has control are listed below.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Interim Condensed Consolidated Financial Statements
For the Three Months Ended January 31, 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 interim condensed consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The interim condensed consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the interim condensed consolidated financial statements, and may require accounting adjustments based on future occurrences.

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

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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 January 31, 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 January 31, 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).

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4. Inventories

	As at January 31, 2023	As at October 31, 2022
Supplies and packaging materials	\$ 4,174,359	\$ 3,795,521
Dried cannabis and hemp	1,357,991	1,356,397
Manufacturing work in progress	2,543,832	2,925,024
Finished goods	10,126,040	8,711,667
	\$ 18,202,222	\$ 16,788,609

During the three months ended January 31, 2023, inventories expensed to cost of sales was \$4,375,693 (during the three months ended January 31, 2022 - \$4,656,450). As at January 31, 2023, \$1,735,294 (as at October 31, 2022 - \$1,288,859) of capitalized depreciation remained in inventories.

5. Prepaid expenses and deposits

	As at January 31, 2023	As at October 31, 2022
Inventory deposits	\$ 1,310,039	\$ 1,115,500
Prepaid insurance and consulting	316,961	46,071
Equipment deposits	37,860	309,929
Marketing	123,167	130,023
Other prepaid expenses	182,841	412,454
	\$ 1,970,868	\$ 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	153,381	381,983	535,364
Interest income	44,820	15,885	60,705
Balance as at January 31, 2023	\$ 1,909,652	\$ 700,891	\$ 2,610,543
Less: current portion	(381,930)	(140,179)	(522,109)
Long-term portion	\$ 1,527,722	\$ 560,712	\$ 2,088,434

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

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 January 31, 2023, the Company had disbursed \$153,381 CDN (equivalent to \$114,898 USD) in total.

(b) Heritage (US) Oregon Corp.

On September 9, 2021, Heritage (US) Oregon Corp. entered into an equipment purchase and service agreement with another company, with the same terms as those of (a) above. As at January 31, 2023, the Company had disbursed \$381,983 CDN (equivalent to \$288,442 USD) in total.

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 as a result of changes in fair value of the notes receivable during the three months ended January 31, 2023

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(January 31, 2022 - \$nil). The borrowers commenced sales during the three months ended January 31, 2023 and no repayments have been made as at January 31, 2023 and October 31, 2022.

7. Other investments and deposits

	As at January 31, 2023	As at October 31, 2022
Investment in SPD (i)	\$ -	\$ -
Long-term deposits	837,100	799,812
	\$ 837,100	\$ 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.

(ii) As at January 31, 2023, the long-term deposits were comprised of an excise duty deposit of \$710,000 (As at October 31, 2022 - \$710,000) and security deposits of \$127,100 (As at October 31, 2022 - \$89,812).

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	(33,803)
Foreign currency translation	76,356
Balance as at January 31, 2023	\$ 3,256,946

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 January 31, 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	199,857	14,687	109,383	128,687	-	452,614
At January 31, 2023	\$ 5,261,659	\$ 197,124	\$ 2,604,177	\$ 2,300,082	\$ -	\$ 10,363,042
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						
January 31, 2023	\$ 12,486,745	\$ 451,477	\$ 2,493,720	\$ 3,899,845	\$ -	\$ 19,331,787

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9. Intangible assets and goodwill (continued)

The details of individually material intangible assets are as follows:

Description	Carrying Amount		Remaining Amortization Period
	As at January 31, 2023	As at October 31, 2022	
Heritage East cultivation, processing and sales licenses	\$ 10,302,675	\$ 10,467,574	Approximately 16 years
Purefarma intellectual property	2,493,719	2,603,103	Approximately 6 years
Premium 5 board relationships	451,477	466,163	Approximately 8 years
Premium 5 brand	3,893,875	4,020,549	Approximately 8 years
Heritage West processing and sales licenses	2,184,071	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	248,214	471,779	-	719,993
At January 31, 2023	\$ 9,811,913	\$ 15,436,944	\$ 930,157	\$ 26,179,014
Accumulated depreciation				
At October 31, 2022	\$ 2,837,102	\$ 2,581,584	\$ -	\$ 5,418,686
Additions	252,444	225,138	-	477,582
At January 31, 2023	\$ 3,089,546	\$ 2,806,722	\$ -	\$ 5,896,268
Net book value at October 31, 2022	\$ 6,726,597	\$ 12,383,581	\$ 930,157	\$ 20,040,335
Net book value at January 31, 2023	\$ 6,722,367	\$ 12,630,222	\$ 930,157	\$ 20,282,746

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 January 31, 2023	\$ 1,290,400
Accumulated depreciation	
At October 31, 2022	\$ 188,431
Additions	46,943
At January 31, 2023	\$ 235,374
Net book value at October 31, 2022	\$ 644,369
Net book value at January 31, 2023	\$ 1,055,026

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

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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		27,884
Lease payments		(61,300)
Balance at January 31, 2023		1,061,661
Less: current portion		(163,829)
Long-term portion	\$	897,832

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

	<1 year	2-5 years	> 5 years
Contractual cash flows	\$ 283,935	\$ 880,890	\$ 292,600

During the three months ended January 31, 2023, the Company recognized rent expense of \$55,319 in relation to short-term leases, low-value leases and variable lease payments which were excluded from the measurement of lease liabilities (three months ended January 31, 2022 - \$41,771).

12. Long-term debt

	As at January 31, 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	\$ 12,683	\$ 14,098
(b) Term loan – comprised of four credit facilities for up to \$19,760,000, with the facilities bearing variable interest disclosed in Note 15(b). The loan is monthly interest-only payments, 26-month term, maturing on November 30, 2024.	16,891,714	16,807,261
	\$ 16,904,397	\$ 16,821,359
Less: current portion	(6,026)	(5,878)
Long-term portion	\$ 16,898,371	\$ 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 January 31, 2023, the face value of the term loan was \$14,046 (as at October 31, 2022 - \$15,802).

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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.

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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 January 31, 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.

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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		244,802
Interest payment		(160,349)
Balance at January 31, 2023	\$	16,891,714

13. Contingent Consideration Payable

Balance at October 31, 2022	\$	-
Balance at January 31, 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 are based on Purefarma's ability to meet certain extraction-related cumulative gross margin targets, as follows:

Upon Purefarma achieving a cumulative gross margin of \$25,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 2,500,000 common shares to the former shareholders of Purefarma. Upon Purefarma achieving a cumulative gross margin of \$50,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 3,500,000 common shares to the former shareholders of Purefarma. Upon Purefarma achieving a cumulative gross margin of \$75,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 4,500,000 common shares to the former shareholders of Purefarma. 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.

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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 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 18). 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 18).

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13. Contingent Consideration Payable (continued)

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

The Company is 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 January 31, 2023, the Second Performance Milestone payment has expired at a value of \$nil.

As at January 31, 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	-	76,483	76,483
Unrealized fair value gain	(2,119)	(110,113)	(112,232)
Balance at January 31, 2023	\$ 8,700	\$ 2,537,847	\$ 2,546,547

(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.

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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:

October 31, 2022	Class 1 warrants (immediately prior to expiry)	Class 2 warrants
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

January 31, 2023	Class 2 warrants
Number of warrants issued	3,511,110
Risk-free annual interest rate	3.76%
Expected life (years)	0.68
Expected annualized volatility	187%
Expected annual dividend yield	0.00%
Exercise price	\$0.30
Share price	\$0.025
Calculated fair value per warrant at period-end	\$0.002

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 three months ended January 31, 2023:

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

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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 January 31, 2023, no Interest Shares have been issued.

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

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 January 31, 2023, the Company received all tranches of \$1,500,000 USD (equivalent to \$2,002,500 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 January 31, 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:

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14. Derivative liabilities (continued)

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

Tranche 1	As at October 31, 2022	As at January 31, 2023
Estimated number of Warrant Shares issuable	6,434,528	6,293,571
Risk-free interest rate	3.92%	3.76%
Expected life (years)	1.97	1.72
Expected annualized volatility	114%	146%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.035	\$0.025
Calculated standalone fair value of tranche	\$90,708	\$70,930

Tranche 2	As at October 31, 2022	As at January 31, 2023
Estimated number of Warrant Shares issuable	3,655,982	3,575,892
Risk-free interest rate	3.92%	3.76%
Expected life (years)	2.00	1.75
Expected annualized volatility	113%	144%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.035	\$0.025
Calculated standalone fair value per tranche	\$51,881	\$40,317

Tranche 3	As at October 31, 2022	As at January 31, 2023
Estimated number of Warrant Shares issuable	3,655,982	3,575,892
Risk-free interest rate	3.92%	3.76%
Expected life (years)	2.08	1.83
Expected annualized volatility	116%	141%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.035	\$0.025
Calculated standalone fair value per tranche	\$55,563	\$40,568

Tranche 4	As at October 31, 2022	As at January 31, 2023
Estimated number of Warrant Shares issuable	877,435	858,214
Risk-free interest rate	3.92%	3.76%
Expected life (years)	2.17	1.92
Expected annualized volatility	114%	138%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.035	\$0.025
Calculated standalone fair value per tranche	\$13,487	\$9,779

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.

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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	76,483	-	76,483
Unrealized fair value gain	(60,068)	(50,045)	(110,113)
Balance at January 31, 2023	\$ 2,376,253	\$ 161,594	\$ 2,537,847

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 three months ended January 31, 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 three months ended January 31, 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 three months ended January 31, 2023 (three months ended January 31, 2022 – n/a).

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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 three month period ended January 31, 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. As the terms of release from escrow have not been met, these shares are not outstanding as at January 31, 2023.

16. Contributed surplus

(a) Warrants

Movements in the number of warrants outstanding during the three months ended January 31, 2023 are as follows:

	Number of warrants	Weighted average exercise price
Balance, October 31, 2022 and January 31, 2023	165,832,000	\$ 0.18

The following table summarizes the warrants outstanding and exercisable as at January 31, 2023:

Expiry date	Number of warrants	Weighted average exercise price
March 17, 2023 (Note 28)	98,900,000	\$ 0.21
March 17, 2023 (Note 28)	6,923,000	0.14
February 28, 2025	10,000,000	0.25
February 28, 2025	50,000,000	0.10
	165,823,000	\$ 0.18

Of the 165,823,000 warrants outstanding, 6,923,000 are broker warrants and 158,900,000 are standard common share purchase warrants. Broker warrants are exercisable into units of the Company; in turn, each unit comprises one common share and either a whole or partial common share purchase warrant.

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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 three months ended January 31, 2023 are as follows:

	Number of options	Weighted average exercise price
Balance as at October 31, 2022	22,353,440	\$ 0.20
Expired	(780,000)	0.54
Balance as at January 31, 2023	21,573,440	\$ 0.19

The following table summarizes the options outstanding and exercisable at January 31, 2023:

Expiry date	Number of options outstanding	Number of options exercisable	Weighted average exercise price
March 19, 2023 (Note 28)	861,000	861,000	\$ 0.54
April 30, 2023	850,000	850,000	0.35
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
	21,573,440	17,001,773	\$ 0.19

As at January 31, 2023, the weighted average remaining contractual life of all options outstanding was 2.69 years (as at October 31, 2022 – 2.85 years). The weighted average exercise price for exercisable options was \$0.21 (as at October 31, 2022 - \$0.23).

During the three months ended January 31, 2023, the Company recognized an expense of \$35,531, relating to the vesting of options held by employees, directors, officers and consultants (during the three months ended January 31, 2022 - \$108,825).

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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 (Note 14) and the fair value of the consideration paid at \$120,000 was transferred into the retained earnings of the Company. As at January 31, 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 three months ended January 31, 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 expense		65,000
Balance at January 31, 2023	\$	1,996,000

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 months ended January 31, 2023 and 2022 are as follows:

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

	Three months ended January 31,	
	2023	2022
Management fees	\$ 15,000	\$ 15,000
Consulting fees	68,750	67,250
	\$ 82,250	\$ 82,250

(b) Key management compensation

	Three months ended January 31,	
	2023	2022
Salary and short-term benefits	\$ 98,250	\$ 98,763
Share-based payments	12,435	37,305
	\$ 110,685	\$ 136,068

(c) Related party balances

	As at January 31, 2023	As at October 31, 2022
Included in accounts payable and accrued liabilities	\$ 20,000	\$ 198,350

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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 January 31, 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.

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

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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 three months ended January 31, 2023:

Basic income (loss) per share	Three Months Ended January 31,	
	2023	2022
Issued shares, beginning of period	916,205,755	786,128,570
Weighted average issuances	3,346,304	8,181,011
Weighted average common shares, end of period	919,552,059	794,309,581
Net income (loss) attributed to common shareholders of the Company	\$ (2,839,238)	\$ 6,194,950
Basic income (loss) per share	\$ (0.003)	\$ 0.008

As at January 31, 2023, there were 79,030,611 common shares in escrow (Note 16) which are excluded from the weighted average common shares outstanding.

Diluted income (loss) per share	Three Months Ended January 31,	
	2023	2022
Weighted average common shares used in the computation of basic income (loss) per share, end of period	919,552,059	794,309,581
Dilutive effect of convertible debenture	-	99,364,013
Weighted average common shares used in the computation of diluted income (loss) per share, end of period	919,552,059	893,673,594
Net income (loss) attributed to common shareholders of the Company	\$ (2,839,238)	\$ 6,194,950
Diluted income (loss) per share	\$ (0.003)	\$ 0.01

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.

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.

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22. Financial instruments (continued)

(a) Credit risk (continued)

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

	As at January 31, 2023	As at October 31, 2022
Trade accounts receivable from customers	\$ 5,596,896	\$ 7,798,057
Expected credit losses	(353,420)	(353,420)
Net trade receivables	5,243,476	7,444,637
Interest and other receivables	-	43,480
	<u>\$ 5,243,476</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 January 31, 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 56% of the Company's net trade accounts receivable is due from three customers as at January 31, 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 January 31, 2023	As at October 31, 2022
Current (30 days or less)	\$ 2,357,622	\$ 4,371,452
31-60 days	1,498,107	1,152,874
61-90 days	325,110	57,804
Greater than 90 days	1,062,637	1,862,507
	<u>\$ 5,243,476</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 January 31, 2023 the Company had working capital of \$12,005,615 (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.

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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	\$ 18,191,555	\$ -	\$ -
Long-term debt	7,023	16,898,737	-
Derivative liabilities with cash settlement option (Note 14(b))	1,402,425	630,075	-
Total	\$ 19,601,003	\$ 17,528,812	\$ -

(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 15(b)). As at January 31, 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 January 31, 2023	As at October 31, 2022
Cash	\$ 5,611	\$ 4,030
Accounts receivable	819	659
Accounts payable and other liabilities	13,652	24,459
Investment in associate	2,328,864	2,355,039
Derivative liabilities	1,777,903	1,721,190

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by \$76,234 for the three months ended January 31, 2023. A 10% weakening of the Canadian dollar against the foreign currencies listed above would result in an equal, but opposite effect.

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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 January 31, 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 January 31, 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; Accounts payable and accrued liabilities	Carrying amount (approximate fair value due to short-term nature)
Long-term debt	Carrying value at the effective interest rate which approximates fair value

During the three months ended January 31, 2023, there were no transfers of amounts between levels (three months ended January 31, 2022 – no transfers between levels).

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24. Entity-wide disclosures

The Company's trade net revenue for the three months ended January 31, 2023 is comprised of the following:

	Domestic (Canada)
Net revenue from sale of Heritage branded products	\$ 6,227,641
Net revenue from sale of White Label products	95,771
	<hr/> \$ 6,323,412

During the three months ended January 31, 2023, the Company earned 76% of its total trade revenue from five major customers (three months ended January 31, 2022 – 88% from five major customers).

25. Operating segment information

During the three months ended January 31, 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.

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27. Subsequent events

- (a) Pursuant to the Agreement in Note 15(b)(i), the Company issued a Drawdown notice to the counterparty, and 1,209,428 common shares were released from escrow.
- (b) On March 17, 2023, 98,900,000 warrants with an exercise price of \$0.21 and 6,923,000 warrants with an exercise price of \$0.14 expired unexercised.
- (c) On March 19, 2023, 861,000 stock options with an exercise price of \$0.54 expired unexercised.

Schedule “B”

Interim MD&A



HERITAGE CANNABIS HOLDINGS CORP.

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS

QUARTERLY HIGHLIGHTS

For the Three-Month Period Ended January 31, 2023

March 29, 2023

This Management Discussion and Analysis for Heritage Cannabis Holdings Corp. provides analysis of the Company's unaudited interim condensed consolidated financial results for the three-month period ended January 31, 2023. The following information should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements and related notes for the three-month period ended January 31, 2023, and the audited annual consolidated financial statements and related notes for the year ended October 31, 2022.



Introduction

This Management Discussion and Analysis (“MD&A”) focuses on significant factors that have affected the performance of Heritage Cannabis Holdings Corp. (the “Company” or “Heritage”) and such factors that may affect its future performance. This MD&A should be read in conjunction with the Company’s unaudited condensed consolidated financial statements and related notes for the three-month period ended January 31, 2023 and the audited annual consolidated financial statements and related notes for the years ended October 31, 2022 and October 31, 2021, which were prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). Unless otherwise noted, all currency amounts are in Canadian dollars. This MD&A is dated March 29, 2023.

Forward-Looking Statements

This MD&A contains forward-looking statements that relate to the Company’s current expectations and views of future events. In some cases, these forward-looking statements can be identified by words or phrases such as “may”, “might”, “will”, “expect”, “anticipate”, “estimate”, “intend”, “plan”, “indicate”, “seek”, “believe”, “predict” or “likely”, or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- the Company’s expectations regarding its revenue, expenses and research and development operations;
- the Company’s anticipated cash needs and its needs for additional financing;
- the Company’s intention to grow the business and its operations;
- expectations with respect to future production costs, capacity and yield;
- expectations regarding growth rates, growth plans and strategies;
- expectations with respect to the approval and/or amendment of the Company’s licenses;
- expectations with respect to the future growth of its medical and recreational cannabis products;
- the medical benefits, safety, efficacy, dosing, and social acceptance of cannabis;
- the Company’s competitive position and the regulatory and legal environment in which the Company operates;
- the Company’s expected business objectives for the next twelve months;
- the Company’s plans with respect to the payment of dividends;
- the Company’s ability to obtain additional funds through the sale of equity or debt commitments;
- the future growth of the cannabis industry;
- the general level of consumer demand for the Company’s products;
- the ability for the Company to access consumer markets for its products;
- the Company’s ability to expand into international markets and further across domestic markets;
- the Company’s relationship with its distribution partners;
- cannabis and cannabidiol oil processing efficiency and sales;
- impact of scientific findings regarding long-term impacts of Cannabis use or ability to cure medical issues;
- the ability of the Company to access sufficient power for generation of greenhouses;
- the efficiency of mechanical processing for hemp;

- the Company's ability to sustainably and effectively source the necessary materials to produce its products; and
- the variability of hemp farming.

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate and are subject to risks and uncertainties. In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to (i) that regulatory requirements will be maintained; (ii) general business and economic conditions; (iii) the Company's ability to successfully execute its plans and intentions; (iv) the availability of financing on reasonable terms; (v) the Company's ability to attract and retain skilled staff; (vi) market competition; (vii) the products and technology offered by the Company's competitors; and (viii) that the Company's current good relationships with its suppliers, service providers and other third parties will be maintained. Although the Company believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and the Company cannot assure that actual results will be consistent with these forward-looking statements. Given these risks, uncertainties and assumptions, investors should not place undue reliance on these forward-looking statements. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including those listed under the heading "Risks and Uncertainties", included in this MD&A.

If any of these risks or uncertainties stated herein materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in those forward-looking statements. The assumptions referred to above and described in greater detail under "Risks and Uncertainties" should be considered carefully by readers.

The Company's forward-looking statements are based on the reasonable beliefs, expectations, and opinions of the senior management of the Company ("Management") on the date of this MD&A (or as of the date they are otherwise stated to be made). Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There is no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update or revise any forward-looking statements, except as, and to the extent required by applicable securities laws in Canada.

United States Cannabis and Hemp Oil Industry Activities

In the future, the Company may be involved, directly or indirectly, in the cannabis and hemp oil industry in the United States where local state laws permit such activities, and has ancillary involvement at present.

The U.S. federal government regulates drugs through the Controlled Substances Act (21 U.S.C § 811), as amended (the "CSA") including cannabis. Cannabis is classified as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use under medical supervision. The U.S. Food and Drug Administration has not approved marijuana as a safe and effective drug for any indication.

In the U.S., cannabis is largely regulated at the state level. State laws regulating cannabis are in direct conflict with the federal CSA. Although certain states authorize, medical or recreational cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation and transfer of cannabis and any related drug paraphernalia is illegal. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between

federal and state law, the federal law shall apply.

On January 4, 2018, U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the U.S., including the August 2013 memorandum by then Deputy Attorney General, James Cole (the "Cole Memorandum"). With the Cole Memorandum rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law.

There remains no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdiction. Unless and until the U.S. Congress amends the CSA with respect to medical and/or adult-use cannabis, there is a risk that federal authorities may enforce current federal law. To the extent that the Company or any of its subsidiaries becomes involved in the cannabis industry in the United States in a manner which, although legal in a particular state, is illegal under the federal laws of the United States and the federal government elects to enforce such laws, or if existing applicable laws in such state are repealed or curtailed in such a manner as would result in the activities of the Company or any of its subsidiaries becoming illegal, the Company and its subsidiaries may be materially adversely affected by such enforcement measures. See "Risks and Uncertainties" of this MD&A for additional information.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the Canadian Securities Administrators published Canadian Securities Administrators Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities ("Staff Notice 51-352") setting out the Canadian Securities Administrator's disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S., Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide ancillary goods and services to third parties involved in the U.S. cannabis industry.

Management's Responsibility for Financial Statements

The information provided in this MD&A, including the unaudited condensed consolidated financial statements and related notes for the three months ended January 31, 2023 and 2022, are the responsibility of Management. In the preparation of the accompanying unaudited interim condensed consolidated financial statements and related notes for the three-months ended January 31, 2023, estimates are sometimes necessary to make a determination of the future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been reflected in the accompanying unaudited condensed consolidated financial statements and related notes.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Company Overview

The Company was incorporated on October 25, 2007 under the Business Corporations Act of British Columbia as Trijet Mining Corp. The Company was called for trading on the TSX Venture Exchange on January 6, 2010. Effective March 8, 2013, Trijet Mining Corp. consolidated its share capital on a two-old-for-one-new basis and changed its name to Umbral Energy Corp. On October 20, 2014, the common shares of the Company (the "Common Shares") commenced trading on the Canadian Securities Exchange ("CSE") under the symbol "UMB.C" and delisted its Common Shares from the TSX Venture Exchange. On January 9, 2018, the Company completed a Fundamental Change of Business pursuant to CSE Policy 8 (as such term is defined in the CSE Policy 8), changed its name to Heritage Cannabis Holdings Corp., and began trading under the symbol "CANN.C". No consolidation of capital was

completed. The Company currently operates as a cannabis issuer.

The Company's head office is located at 77 Bloor Street West, Suite 600, Toronto, Ontario, M5S 1M2. At its August 9, 2019 annual general and special meeting of the shareholders of the Company, the shareholders approved a continuance into Ontario, which was effective on November 4, 2019.

Heritage is a leading cannabis products company operating two licensed manufacturing facilities in Canada, and offers innovative products to both the medical and recreational legal cannabis markets in Canada, the U.S., and internationally. Heritage focuses on extraction and the creation of extract and extract-derivative products and brands for adult use and cannabis-based medical solutions. The Company has an extensive portfolio of high-quality cannabis products under the brands Purefarma, Pura Vida, Really Awesome Dope ("RAD"), Premium 5, feelgood., ArthroCBD, and CB4. In pursuit of its vision, Heritage has built an infrastructure and platform to advance its products to compete in domestic and international markets.

In Canada, Heritage operates through its wholly owned subsidiaries Heritage Cannabis West Corporation ("Heritage West") and Heritage Cannabis East Corporation ("Heritage East"), both regulated under the Cannabis Act Regulations. Heritage West holds a Health Canada issued cultivation, processing, and medical and adult use sales license, as well as an industrial hemp license, a cannabis oil sales license, and a cannabis research license. Heritage West operates out of a 15,500 square foot processing facility in Falkland, British Columbia, which has been outfitted with extraction, downstream processing, formulation and packaging areas and an approved security-level vault. Heritage East holds a Health Canada cultivation, processing, and medical sales license, as well as industrial hemp, cannabis oil sales, and dried cannabis sales licenses under the Cannabis Act Regulations. Heritage East operates out of a 122,000 square foot facility in Fort Erie, Ontario, which formerly operated as a manufacturing plant for a pharmaceutical white labeler. Presently, approximately 24,260 square feet has been retrofitted for cannabis activities, and Management believes that the size and layout of the facility offer significant advantages in terms of expansion and diversification of product offerings and services. Management has earmarked the remainder of the facility for extraction and strategic partnerships, including related storage requirements.

On July 26, 2019, through a series of transactions, Heritage, through its subsidiary Heritage (US) Cali Corp. ("Cali Corp") acquired a 30% interest in EndoCanna Health, Inc. ("EndoCanna"), the Company's first investment in the United States.

In the U.S., Heritage operates primarily through its wholly owned subsidiary, Opticann Inc. ("Opticann"), a Colorado-based oral and topical cannabinoid company with the rights to sell non-psychoactive cannabinoids Cannabidiol ("CBD") and Cannabigerol ("CBG"), products made with the patented VESIsorb® drug delivery system for optimized absorption and stability. The Company indirectly owns 100% of the issued and outstanding shares of Opticann, which was incorporated on May 5, 2019.

The Company incorporated four wholly-owned subsidiaries: 5450 Realty Inc. (November 1, 2019), Heritage (US) Oregon Corp. (March 23, 2020), Heritage (US) Colorado Corp. (September 24, 2020) and Heritage Cannabis Exchange Corp. (October 6, 2020), in each of which the Company owns or controls 100% of the issued and outstanding shares. On November 1, 2022, Purefarma Solutions Inc. ("Purefarma") and CALYX Life Sciences Inc. amalgamated, with Purefarma as the resulting amalgamated company. The Company also acquired a 100% interest in Premium 5 Ltd. ("Premium 5") on January 25, 2021.

Heritage Brands

Purefarma

Purefarma is a brand that offers medicinal-grade cannabis formulations for the pharmaceutical, recreational, and cosmeceutical markets. Purefarma develops its products using its own proprietary modifications to industry-standard machinery and has industrialized a variety of proprietary production processes with in-house design-built

equipment.

Pura Vida

Heritage developed the Pura Vida product line, which is altruistically medicinal but recreationally focused, by leveraging the know-how of the Purefarma offerings. Pura Vida gained national recognition after entering several competitions and winning multiple awards for concentrates in the CBD, Indica, Sativa, and Hybrid categories at the Emerald Cup, High Times and Cannabis Cup prior to its acquisition by Heritage.

Premium 5

Premium 5 is dedicated to creating high-quality, full-spectrum concentrates, selling a premium high-THC experience, and providing a healthier and more discrete way to medicate and consume.

Products offered under the Premium 5 brand are crafted from indoor-grown, fresh-frozen whole bud that have been carefully selected for optimal cannabinoid and terpene profiles to offer customers only the most exceptional quality. Premium 5 is a consumer-driven brand focused on providing high-demand products to their partners, consumers, and communities.

RAD

RAD offers high-quality products at affordable prices, delivering quality concentrates and competitive price points to meet the needs and preferences of all types of cannabis consumers while effectively harnessing the captivating power of nostalgia in our brand messaging.

Products being offered under RAD are made from high quality flower inputs selected specifically for their Indica, Sativa, and Hybrid profiles, and excellent terpene profiles, offering consumers a high-quality choice while delivering on an affordable price point.

Thrifty

Thrifty provides consumers with affordable, fun and effective products with the some of the most competitive pricing in Canada. As a brand, Thrifty embodies the values of thrifting, like social responsibility and reducing environmental impact, and enacts these values through the use of biodegradable packaging. Additionally, Heritage has introduced a new initiative with a portion of proceeds going directly to a charitable organization through Heritage Helps.

feelgood.

feelgood. is a health and wellness brand dedicated to providing consumers with affordable, high-potency products while still maintaining the highest quality standards possible. With feelgood's safe and effective skin care and wellness products, Heritage acts through the brand to offer a variety of natural alternative options to help consumers find confidence in the products they use.

ArthroCBD

ArthroCBD is an innovative hemp formulation that has 4x higher absorption of other products, as proven by a published human clinical trial. ArthroCBD delivers ingredients in effective levels for maximum, fast and lasting effect. ArthroCBD is also backed by extensive safety testing and human clinical data. ArthroCBD provides relief with no THC and without unwanted side-effects.

CB4

CB4 medical cannabis products are based on trusted pharmaceutical technology platforms that are optimized for the effective delivery of cannabinoids – for maximum effect and to minimize unwanted effects. The CB4 suite of products are familiar to most medical patients and their caregivers: oral capsules, sublingual filmstrips, and topically administered products in the form of gels and creams. CB4 products are based on innovative pharmaceutical

technology that deliver the best results consistently, safely, and in convenient dosage forms. These dosage forms are tested and optimized to deliver active ingredients for effective results. CB4 products also contain the highest quality ingredients and are thoroughly quality tested for consistency.

First Quarter Corporate Developments

The Company reports financial results on a consolidated basis and presents the following information to provide a more detailed description of the developments in the business.

Corporate

During the quarter, Heritage further advanced the relationship with Harvest Care Medical, LLC, (“Harvest Care”), a leading grower, processor, and provider of top-quality medical cannabis products in the state of West Virginia, with ten dispensary licenses. Under the relationship, Heritage has supplied production equipment to Harvest Care as well as training and supervision of staff on the proprietary methods of extraction and manufacturing of Heritage developed and branded products. During the quarter, Heritage completed its first production run in the United States and shipped products to Harvest Care dispensaries, and they became available for purchase.

Additionally, through a similar relationship with Como Health LLC, doing business as 3Fifteen Primo Cannabis (“3Fifteen”), Heritage completed its first production run and shipment of products to dispensaries in the State of Missouri during the quarter. This marked the start of Heritage product sales in the second state in the United States, with products in both Missouri and West Virginia. Products available to purchase in Missouri include 12 stock keeping units (“SKUs”) including RAD distillate vapes, RAD live resin and live rosin, with additional products planned including pre-rolls and blunts, infused pre-rolls and blunts as well as concentrate dispensers.

Equity and Debt Transactions

On November 1, 2022, Heritage entered into an equity line of credit agreement (the “ELOC Agreement”) with Obsidian Global Partners, LLC (the “Investor”) whereby the Investor agreed to purchase Common Shares for the aggregate gross proceeds of up to US\$20 million by private placement, at Heritage’s discretion (the “Offering”). On closing, Heritage paid the Investor an initial fee in an amount equal to 1.5% of US\$20 million, which was satisfied by the issuance of Common Shares. These Common Shares are subject to a statutory lock-up of four months plus one day from closing (the “Statutory Lock-Up”). An additional fee equal to 1.5% of US\$20 million is due after 50% of the total Offering amount has been drawn by the Company, which amount may be satisfied by cash or the delivery of Common Shares at the option of the Company.

Heritage also advanced 79,030,611 Common Shares to the Investor in escrow (the “Escrow Shares”). The Escrow Shares are subject to the Statutory Lock-Up and will only be released to the Investor in tranches as and when Heritage requests that the Investor purchase Common Shares pursuant to the ELOC Agreement. Any Escrow Shares that are not purchased by the Investor will be subject to cancellation at the end of the term of the ELOC Agreement.

Heritage will use the proceeds of the equity line of credit for general corporate purposes and expenses of the Offering. In accordance with the terms of the ELOC Agreement, at no time shall the Investor be issued Common Shares which would result in the Investor beneficially owning in aggregate greater than 9.99% of the outstanding Common Shares of the Company.

Recreational and Med-Rec Products

During the quarter, the Heritage team focused on further product innovation and the rationalization of SKUs in order to maximize distribution of high performing SKUs. The Heritage innovation team continued to deliver new products and with completed upgrades to the Cannacure facility that enable the manufacturing of gummies Heritage entered the edibles category with the launch of RAD Razzlers, Mad Hatter and White Rabbit.

Heritage launched many new products across the country in Ontario, BC, Saskatchewan, Manitoba, Nova Scotia, and Newfoundland. Heritage has also focused on growing provincial portfolios with existing products and added SKUs in Manitoba and Saskatchewan.

Heritage has transitioned to a true product and brand company, creating “forever SKUs” that have seen solid uptake in the Canadian cannabis market. Now with in-house expertise in production, manufacturing, white labelling, pick and pack, and distribution, Heritage has developed several relationships to leverage this expertise. The Company has entered distribution relationships with a number of well known companies and brands including Aurora Medical, Canopy Growth Corp, Violet Tourist, OMG, White Rabbit, Panacea, North 40, and Mad Hatter. To extend Heritage’s capabilities in the cannabis market, the Company will consider opportunities to extend in other areas of the supply chain that will provide vertical integration and positively impact margins.

Corporate Developments Subsequent to the end of the First Quarter

On February 6, 2023, the Company appointed Eoin Hegarty as Chief Operating Officer, and Cory Larsen as Chief Commercial Officer. Dan Phaure has retained his position as Chief Financial Officer, following his resignation from the role of Chief Operating Officer. Both Mr. Hegarty and Mr. Larsen are current employees of Heritage, and their promotions follow on their achievements in advancing the Company’s strategy to not only successfully expand across Canada, but also in Heritage’s entry into the United States.

Results of Operations

Selected financial highlights for the three months ended January 31, 2023 and January 31, 2022 include the following:

<i>(in \$CDN)</i>	Jan 31, 2023	Jan 31, 2022
	\$	\$
Gross revenue	9,446,995	9,596,141
Net revenue (net of excise tax)	6,323,412	6,541,211
Cost of sales	4,272,251	4,656,450
Gross margin	2,051,161	1,884,761
General and administrative expenses	4,647,547	5,160,498
Other Income (Expenses)	(177,852)	8,552,812
Comprehensive Income (Loss)	(2,762,960)	6,257,213

The Company reported gross revenue of \$9,446,995 for the three months ended January 31, 2023, a decrease of \$149,146 compared to the gross revenue of \$9,596,141 for the three months ended January 31, 2022. The decrease in gross revenue was primarily due to negative pricing movements in the period by the provincial boards which impacted the results by over \$125,000.

See table below for additional details on total gross revenue.

<i>(in \$CDN)</i>	Three months ended		Change %
	Jan 31, 2023 \$	Jan 31, 2022 \$	
Revenue Category			
Vape and Concentrates	7,150,208	7,464,382	(4%)
Flower	1,387,439	1,081,179	28%
Tincture Sales	573,997	884,157	(35%)
Edibles	360,881	114,516	215%
Other	(25,530)	51,907	n.m.
Total Gross Revenue	9,446,995	9,596,141	(1%)

Cost of sales for the three months ended January 31, 2023 was \$4,272,251, a decrease of \$384,199, compared to \$4,656,450 for the three months ended January 31, 2022. The decrease represented a 3% improvement, as a percentage of sales, in the current period. The improvement was a result of a continued production refinements to enable more efficient production.

Gross margin for the three months ended January 31, 2023 was \$2,051,161 compared to gross margin of \$1,884,761 for the three months ended January 31, 2022. The increase of \$166,400 was primarily a result of improved production efficiencies which were partially offset by a higher excise percentage which increased to 33.1% from 31.8% in the prior period this was driven by reduction in provincial board pricing previously mentioned.

For the three months ended January 31, 2023, the Company recorded a comprehensive loss of \$2,762,960 or \$0.00 loss per share compared to a comprehensive income of \$6,257,213 or \$0.01 income per share for the three months ended January 31, 2022. The increase in losses during this period were attributable to the prior period benefiting from unrealized gains which more than offset the improved operational performance by the Company in the current period.

General and administrative expenses for the three months ended January 31, 2023 were \$4,647,547, a decrease of \$512,951 from \$5,160,498 for the comparable period in 2022. The net changes in general and administrative expenses were attributable to the following:

- a) Advertising, travel and promotion for the three months ended January 31, 2023 was \$264,703, an increase of \$108,820 from \$155,883 for the comparable period in 2022. Travel expense increased in the period as a result of the Company increasing its market presence through trade shows and site visits for future growth as well as increased costs resulting from the US launch.
- b) Amortization expense for the three months ended January 31, 2023 was \$483,761, a decrease of \$795,973 from \$1,279,734 for the comparable period in 2022. The decrease was due the impact of the goodwill and intangible impairment in the fourth quarter of 2022 which decreased the overall depreciable asset base.
- c) Management and consulting fees for the three months ended January 31, 2023 were \$263,597, a decrease of \$43,279 from \$306,876 for the comparable period in 2022 as a result of a continued focus to remain lean to manage its cash position.
- d) Occupancy, general and administrative expense for the three months ended January 31, 2023 was \$1,025,530, a decrease of \$618,634 from \$1,644,164 for the comparable period in 2022. The decrease was primarily a result of an increase in absorbed overhead as result of operational execution, a decrease in merchant fees and a reduction in analytics resulting from in-house testing.
- e) Professional fees for the three months ended January 31, 2023 were \$99,892, a decrease of \$209,517 from \$309,409 for the comparable period in 2022. Spending declined primarily as result of a reduction in audit fees

from the auditor change as well as lower legal fees.

- f) Share-based payments for the three months ended January 31, 2023 were \$419,206, an increase of \$310,381 from \$108,825 for the comparable period in 2022. The increase was a result of bonus payments across the Company in the form of shares instead of cash.
- g) Salaries, wages and benefits for the three months ended January 31, 2023, were \$2,090,858, an increase of \$735,251 from \$1,355,07 for the comparable period in 2022. The increase is a result increased head count which grew over 25% as the Company expanded its product offering, international platform and built additional internal processes to keep up with regulations.

Other Income and Expenses

Interest and other income for the three months ended January 31, 2023 was \$92,888, a decrease of \$7,204 compared to \$100,092 for the same period in 2022. The interest and other income during the three months ended January 31, 2023 is comprised primarily of \$60,705 in interest income on the notes receivable compared to \$nil for the same period in 2022. During the three months ended January 31, 2022, the interest and other income is primarily comprised of \$66,360 in miscellaneous services revenue compared to \$nil for three months ended January 31, 2023. This balance was essentially flat period over period.

Interest and finance expenses for the three months ended January 31, 2023 were \$349,169, an increase of \$119,672 compared to \$229,497 for the same period in 2022. The increase was due to the Company carrying a higher debt balance in 2023 compared to 2022.

The share of loss from investment in associate for the three months ended January 31, 2023 was \$33,803, an increase of \$22,474 compared to \$11,329 for the same period in 2022. The increase was a result of a decline in EndoCanna's performance during the current period based on recent results.

The unrealized gain on other investments for the three months ended January 31, 2023 was \$nil compared to \$608,649 for the same period in 2022. The decrease was due to the Stanley Park sale occurring in 2022 and the corresponding revaluation.

During the three months ended January 31, 2023, the Company had an unrealized gain on contingent consideration payable of \$nil, a decrease of \$8,498,429 compared to unrealized gain of \$8,498,429 for the comparable period in 2022. The decrease was due to the completion or expiration of the remaining milestones related to the Heritage West, Purefarma and Premium5 acquisitions.

The unrealized gain on derivative liabilities for the three months ended January 31, 2023 was \$112,232, an increase of \$525,764 compared to a loss of \$413,532 for the same period in 2022. The increase in gain mainly related to the revaluation of the note and warrants issued to Merida Fund III.

Summary of Quarterly Results

The following tables set out selected consolidated financial information for the last eight quarters, which were prepared in accordance with IFRS accounting standards. More details and explanations on each of the quarterly financial data below can be found in the corresponding Management Discussion and Analysis.

HERITAGE CANNABIS HOLDINGS CORP.
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	January 31, 2023 \$	October 31, 2022 \$	July 31, 2022 \$	April 30, 2022 \$
Net revenues ⁽¹⁾	6,323,412	8,038,105	7,495,885	7,491,184
Comprehensive (loss) income	(2,762,960)	(26,895,045)	(2,799,327)	(500,614)
Basic and fully diluted (loss) income per share ⁽²⁾	(0.00)	(0.03)	(0.00)	(0.00)

	January 31, 2022 \$	October 31, 2021 \$	July 31, 2021 \$	April 30, 2021 \$
Net revenues ⁽¹⁾	6,541,211	4,649,025	4,314,314	3,575,175
Comprehensive (loss) income	6,257,213	(42,685,990)	(6,637,449)	(5,151,011)
Basic and fully diluted (loss) income per share ⁽²⁾	0.01	(0.06)	(0.01)	(0.01)

(1) Revenues are net of excise tax.

(2) Basic loss per share equals fully diluted loss per share as any potential dilutive instruments are anti-dilutive.

During the second quarter of 2021, the Company incurred higher losses as a result of higher amortization of intangible assets, as the Company continued to fund and build its platform to support future sales activity.

During the third quarter of 2021, the Company incurred higher losses as a result its increased spending to support future sales and potential market share gains. The Company continues to fund and build its platform to support future sales activity.

During the fourth quarter of 2021, the Company continued to experience record sales growth with the net revenues being partially offset by an accrual catch up for excise taxes. Increased losses were primarily due to impairment charges for intangible assets and goodwill.

During the first quarter of 2022, the Company recorded its 5th consecutive sequentially quarterly growth period. The continued growth has been a combination of commercial focus to lead with product innovation and products as consumers want as well operational improvements to maintain quality.

During the second quarter of 2022, the Company recorded a 15% increase in net revenues as the Company continued to see increasing demands for its product lines as well the loss was reduced significantly compared to prior periods as cost control and improved efficiencies positively impacted the results.

During the third quarter of 2022, the Company continued to record sequential increased revenue albeit the increase was offset by higher excise tax in the current quarter, while the bottom line improved year over year as a result of improved efficiency and cost control.

During the fourth quarter of 2022, the Company continued its sequential revenue increase for the 8th consecutive quarter while the quarterly losses were primarily a result of the impairment charges for intangible assets and goodwill.

During the first quarter of 2023, the Company recorded revenues that were negatively impacted by provincial pricing movements which more than offset further cost control initiatives which created the loss for the period.

Outlook

The Company anticipates growth over the near-term through increased penetration into its core markets with additional SKUs and the launch of its Thrifty brand, which will land on shelves in the coming months. While the current period was negatively impacted by the provincial price movements, the expectation is that most of the negative impact has occurred. Since early 2021, the Company has quadrupled its quarterly revenue run rate and continues to be a leading innovator in the market, which will remain a core focus for the foreseeable future while

the Company analyzes its SKU portfolio. The Company expects to see continued growth in its flower and edible segments as well as expansion in its concentrate portfolio with the inclusion of the new SKUs.

The Company has moved through a cost rationalization initiative and remains focused on reducing the cash burn to offset potential SKU changes or market volatility as the target of consistent cash flow neutrality/positive in the coming quarters is the target.

Early indications are Heritage's U.S. strategy is performing well as initial sales from both facilities, which began early in the calendar year, have been better than expected. The Company anticipates beginning to see the positive financial impact from this investment in the coming months.

Beyond the United States, the Company remains active in exploring select international markets by leveraging its Canadian skillset and operations to gain an entry point into new markets.

Long Term Debt

On March 31, 2021, the Company entered into a refinance agreement with BJK Holdings Ltd. (the "BJK Loan Agreement") in the amount of \$7,000,000, with an implicit interest rate of 10%. Pursuant to the BJK Loan Agreement, BJK Holdings Ltd. advanced the Company \$7,000,000 on April 1, 2021. The loan was originally payable in full upon maturity of the loan, on October 1, 2022, with monthly interest only payments made based on the outstanding balance of the loan, calculated monthly, in arrears. Monthly interest is calculated at the Royal Bank of Canada prime lending rate plus 1.25% per annum. A one-time setup fee of \$965,000 was paid to BJK Holdings Ltd. on April 1, 2021. The loan may be prepaid in full at any time without penalty. The 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 Company and certain material subsidiaries (collectively, 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 certain subsidiaries guarantors of the Company 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.

Furthermore, on March 31, 2021, the Company repaid the outstanding balance of its term loan with Trichome Financial Corp. (the "Trichome Credit Facility") of \$4,863,163 in full.

On October 6, 2021, the Company amended the loan agreement by establishing three credit facilities for a maximum amount of \$14,775,000 (collectively the "Loan") as follows:

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- (i) Facility 1: the initial loan is increased from \$7,000,000 to \$7,175,000, with the increase of \$175,000 to be used by the Company to pay to the lender an extension fee of \$175,000 to extend the due date to February 1, 2023;
- (ii) Facility 2: an additional loan \$2,600,000 will be advanced at the Royal Bank of Canada prime rate plus 1.25% per annum;
- (iii) Facility 3: a revolving line of credit up to maximum of \$5,000,000 shall be established at an interest rate of 18% per annum.

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. 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.

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 hereinafter 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 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 (2021 - \$1,361,338), including all 60,000,000 warrants issued as transaction costs with a value of \$747,260 were recognized in profit or loss at the modification date.

Liquidity

Managing the Company's liquidity and capital structure requires maintaining sufficient working capital to fund the Company's operating and strategic growth requirements.

The table below sets out the Company's current assets, short-term liabilities and working capital as at January 31, 2023 and October 31, 2022.

	January 31, 2023	October 31, 2022
	\$	\$
Current Assets	33,292,941	32,860,948
Current Liabilities	21,287,326	18,130,554
Working Capital	12,005,615	14,730,394

As at January 31, 2023, the Company had cash and short-term investments of \$7,207,753 compared to \$6,057,617 at October 31, 2022.

The table below summarizes the Company's use of cash for the three-month periods ended January 31, 2023 and January 31, 2022.

	Three-month periods ended	
	January 31, 2023	January 31, 2022
	\$	\$
Cash Flows Provided by (Used in):		
Operating Activities	2,074,244	(1,765,094)
Investing Activities	(889,277)	(790,769)
Financing Activities	(34,831)	2,038,298

During the three-month period ended January 31, 2023, cash flows provided by operating activities was \$2,074,244 compared to cash flows used in operating activities of \$1,765,094 for the three months ended January 31, 2022. The inflows increased by \$3,839,338 as the Company continued increased its receivable receipts while furthering matching its payment cycles to cash receipts.

During the three-month period ended January 31, 2023, cash flows used in investing activities were \$889,277 compared to cash flows used in investing activities of \$790,769 for the three months ended January 31, 2022. The increase primarily a result of equipment lease for pre-roll equipment.

During the three months ended January 31, 2023, cash provided by financing activities was \$2,038,298 compared to cash provided by financing activities of \$34,831 for the three months ended January 31, 2022. The decrease of \$2,073,129 was primarily due to a financings occurring in the prior period.

The progression of the COVID-19 pandemic may impact the Company's cash position and ability to raise funds to maintain the Company's planned growth and development activities.

Capital Resources

The combination of the current inflationary period and rising interest rate environment creates additional risks and pressures on the Company's liquidity and capital resources. The Company has \$33,292,941 of current assets, which is primarily comprised of \$7,207,753 in cash and short-term investments, \$5,243,476 in accounts receivable and \$18,202,222 in inventory with an additional \$2,952,739 of an available line of credit. If the Company assumes zero growth, the combination of the Company's usual net working capital and the funds received is sufficient to fund the Company's operations. The combination of continued growth and/or the impact of COVID-19 constraints could require additional capital resources.

At the reporting date, the Company had long-term financial debts amounting to \$17,957,797, including \$16,898,371 of long-term debt (as detailed under the "Long-Term Debt" heading of this MD&A), \$897,832 of lease liabilities (as described more particularly under Note 11 of the interim condensed consolidated financial statements), and \$161,594 relating to derivative liabilities issued as part of the consideration for the acquisition of Opticann and issued to Merida Fund III (as described more particularly under Note 14 of the interim condensed consolidated financial statements).

Outstanding Share Capital

The Company has the following shares outstanding as of March 29, 2023:

	Number of shares outstanding
Balance, October 31, 2019	473,718,024
Shares issued for acquisition – Opticann	21,918,698
Shares issued for acquisition – Pura Vida brand	500,000
Balance, October 31, 2020	496,136,722
Shares issued for acquisition – Premium 5 Ltd.	150,000,000
Exercise of stock options	2,549,644
Shares issued for RSU's	5,076,628
Balance, January 31, 2021	653,762,994
Shares issued for public offering	98,900,000
Shares issued for acquisition (net working capital) – Premium 5 Ltd.	30,156,643
Shares issued for BJK facility – broker fee	170,000
Balance, April 30, 2021	782,989,637
Shares issued for advisory services – Merida Capital	495,049
Balance, July 31, 2021	783,484,686
Shares issued for marketing services – Zoomer Media Ltd.	1,250,000
Shares issued for Merida loan – commitment fee	1,393,884
Balance, October 31, 2021	786,125,570
Shares issued for warrant exercise	29,809
Shares issued for Premium 5 milestone	107,142,857
Balance, January 31, 2022	893,301,236
-	-
Balance, April 30, 2022	893,301,236
Indemnity Share Cancellation – Opticann	(933,333)

Shares issued for management performance	7,109,090
Balance, July 31, 2022	899,476,993
Shares issued for Voyage and Purefarma settlements	16,728,762
Balance, October 31, 2022	916,205,755
Shares issued for corporate bonuses	7,253,985
Balance, January 31, 2023	923,459,740
-	-
Balance, March 29, 2023	923,459,740
Warrants	60,009,000
Outstanding Options	20,712,440
Balance including unexercised warrants and options, March 29, 2023	1,004,181,180

Pursuant to the terms of the equity line of financing, 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. As the terms of release from escrow have not been met, these shares are not outstanding as at January 31, 2023.

Off-Balance Sheet Arrangements

As of the date of this MD&A, there are no off-balance sheet arrangements to which the Company is committed.

Transactions with Related Parties

All related party transactions are in the normal course of operations and pertain to compensation of Management. The related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Management compensation transactions for the three-month periods ended January 31, 2023 and January 31, 2022 are summarized as follows:

Transactions with directors, officers and companies controlled by directors, officers and/or their families. ⁽¹⁾

	Three months ended	
	January 31, 2023	January 31, 2022
	\$	\$
Management fees	15,000	15,000
Consulting fees	68,750	67,250
	82,250	82,250
Key Management Compensation		
Salary and short-term benefits	98,250	98,763
Share-based payments	12,435	37,305
	110,685	136,068

(1) Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors.

As at January 31, 2023 the Company was owed \$Nil (January 31, 2022 - \$48,831) from related parties and owed \$20,000 (January 31, 2022 - \$9,000) to related parties.

Critical Accounting Estimates

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.

(i) Share-based payment transactions

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

(ii) Business combinations

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

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

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

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

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

(iv) Determination of CGUs

Management is required to use judgement in determining which assets or group of assets make up appropriate CGUs for the level at which goodwill and intangible assets with indefinite lives are tested for impairment. A CGU is defined as the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

(v) Valuation of financial instruments

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

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

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

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

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

(viii) Inventory

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

(ix) Expected credit losses on financial assets

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

(x) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. Management monitors future cash requirements to assess the Company's ability to meet these future funding requirements. This is addressed in Note 1 of the unaudited interim condensed consolidated financial statements.

(xi) Provisions

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

estimate of the expected future cash flows.

(xii) Discount rates and lease terms used in application of IFRS 16, Leases

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

Changes in Accounting Policies Including Initial Adoption

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) Amendment 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) 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.

(d) 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.

(e) 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.

Financial Instruments and Risk Management

The Company is exposed to risks that arise from its use of financial instruments. This section 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 the interim condensed consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them since October 31, 2021, unless otherwise stated.

(a) Credit risk

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

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

	January 31, 2023	October 31, 2022
	\$	\$
Trade accounts receivable from customers	5,596,896	7,798,057
Expected credit losses	(353,420)	(353,420)
Net trade receivables	5,243,476	7,444,637
Interest and other receivables	-	43,480
Total	5,243,476	7,488,117

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 January 31, 2023, the Company did not identify certain accounts that may result in a credit losses on its accounts receivable given the provincial nature of their receivables.

The Company has assessed that there is a concentration of credit risk, as 56% of the Company's trade accounts receivable is due from three customers as at January 31, 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:

	January 31, 2023	October 31, 2022
	\$	\$
Current (30 days or less)	2,357,622	4,371,452
31-60 days	1,498,107	1,152,874
61-90 days	325,110	57,804
Greater than 90 days	1,062,637	1,862,507
	5,243,476	7,444,637

(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 January 31, 2023, the Company had working capital of \$12,005,615 (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. The Company has the following undiscounted contractual obligations subject to liquidity risk:

	<1 year	2-5years	> 5 years
	\$	\$	\$
Accounts payable and accrued liabilities	18,191,555	-	-
Long-term debt	7,023	16,898,373	-
Derivative liabilities with cash settlement option	1,402,425	630,075	-
Total	19,601,003	17,528,812	-

(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, an associate that bears the U.S. dollar as its functional currency. The Company is required to translate the financial position and operating results of EndoCanna into Canadian dollars and to recognize its share of the resulting translation gain or loss in other comprehensive loss. The Company is further exposed to the risk through Opticann, a wholly owned subsidiary operating in United States and through its derivative liabilities denominated in USD. As at January 31, 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 currency exchange rates.

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

	January 31, 2023	October 31, 2022
	\$	\$
Cash	5,611	4,030
Accounts receivable	819	659
Accounts payable and other liabilities	13,652	24,459
Investment in associate	2,328,864	2,355,039
Derivative liabilities	1,777,903	1,721,190

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by \$76,234 for the three-month period ended January 31, 2023 (for the year ended October 31, 2022 - \$90,492). A 10% weakening of the Canadian dollar against the foreign currencies listed above would result in an equal, but opposite effect.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's short-term investments and finance lease earn fixed rates of interest in the range from 0.7% to 1.05% per annum and 10.00% per annum respectively. The Company is exposed to this risk on its long-term debt, part of which bears interest at a Canadian prime rate plus 1.25% per annum. As at January 31, 2023 and October 31, 2022, 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 January 31, 2023 and October 31, 2022, the Company is exposed to this risk on its contingent consideration payable in Common Shares pursuant to the acquisition of Opticann, Purefarma and Premium 5, and the derivative liabilities payable in Common Shares.

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

Financial instruments measured at amortized cost

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

During the three-month period ended January 31, 2023 and 2022, there were no transfers of amounts between levels.

Conflicts of Interest

Certain officers and directors of the Company are officers and/or directors of or are associated with other cannabis companies. Such associations may give rise to conflicts of interest. The directors are required by law, however, to act honestly and in good faith with a view to the best interests of the Company and its shareholders and to disclose any personal interest which they may have in any material transaction which is proposed to be entered into with the Company and to abstain from voting as a director for the approval of any such transaction. As of the date of this MD&A, no conflict of interest has been disclosed by the Company's directors and officers, or identified by the Company.

Subsequent Events

- (a) On February 6, 2023, Heritage announced the appointment of Eoin Hegarty as Chief Operating Officer, and Cory Larsen as Chief Commercial Officer. Both Mr. Hegarty and Mr. Larsen are current employees of Heritage, and their promotions follow on their achievements in advancing the Company's strategy to not only successfully expand across Canada, but also in Heritage's entry into the United States.
- (b) Pursuant to the Agreement in Note 15(b)(i), the Company issued a Drawdown notice to the counterparty, and 1,209,428 common shares were released from escrow.
- (c) On March 17, 2023, 98,900,000 warrants with an exercise price of \$0.21 and 6,923,000 warrants with an exercise price of \$0.14 expired unexercised.
- (d) On March 19, 2023, 861,000 stock options with an exercise price of \$0.54 expired unexercised.

United States Operations and Regulatory Framework

As of October 31, 2022, the Company has material ancillary involvement in the United States cannabis industry and accordingly is subject to Staff Notice 51-352. The Company currently has immaterial ancillary exposure to US cannabis operations in connection with its non-controlling 30% ownership interest in EndoCanna and through its subsidiary, Opticann. The material ancillary involvement in the United States arises in connection with (a) its equipment loan and consulting agreement with Como Health LLC; and (b) the equipment purchase and service agreement with Harvest Care.

EndoCanna concentrates in endocannabinoid DNA testing. EndoCanna has developed a home-based DNA test kit using a saliva collection. The test kit analyzes over 500 genes and more than 550,000 single nucleotide polymorphisms in the human body and provides a personalized "EndoDecoded" report, identifying how an individual's specific genetic makeup interacts with cannabinoids and terpenes. The custom report helps customers select cannabis with the right cannabinoid profile and assist with choosing the formulation, dosage, and best delivery method for their needs.

The Company has an agreement to use the patented VESIsorb® drug delivery system for absorption into the system. OptiCann launched an eCommerce site for ArthroCBD, a CBD 25 mg softgel brand formulated using VESIsorb.

OptiCann developed arthrocbd.com as an e-commerce platform to sell CBD-based products in compliance with the Farm Bill (as hereinafter defined). The Company anticipates that the platform will utilize plug-ins from WooCommerce to power e-commerce functionality and Slate Payment software for payment processing, both of which were selected following a thorough diligence process undertaken by Opticann. The Company operationalized the site in May 2021.

The ArthroCBD branded products produced by Opticann are derived from industrial hemp, which may be sold legally under U.S. federal law, whether through retail sales or online, pursuant to the Agriculture Improvement Act of 2018, Pub. L. 115-334 (the "Farm Bill").

The passage of the Farm Bill materially altered federal law governing hemp by removing hemp from the CSA and establishing a federal regulatory framework for hemp production in the United States. Among other provisions, the Farm Bill: (a) explicitly amends the CSA to exclude all parts of the cannabis plant (including its cannabinoids, derivatives, and extracts) containing a delta-9 tetrahydrocannabinol concentration of not more than 0.3% on a dry weight basis from the CSA's definition of "marihuana"; (b) permits the commercial production and sale of hemp; (c) precludes states, territories, and Indian tribes from prohibiting the interstate transport of lawfully-produced hemp through their borders; and (d) establishes the United States Department of Agriculture ("USDA") as the primary federal agency regulating the cultivation of hemp in the United States, while allowing states, territories, and Indian tribes to obtain (or retain) primary regulatory authority over hemp activities within their borders after receiving approval of their proposed hemp production plan from the USDA. Any such plan submitted by a state, territory, or Indian tribe to the USDA must meet or exceed minimum federal standards and receive USDA approval. Any state, territory, or Indian tribe that does not submit a plan to the USDA, or whose plan is not approved by the USDA, will be regulated by the USDA; provided that states retain the ability to prohibit hemp production within their borders. The Farm Bill will remain in effect until December 2023.

On October 31, 2019, the USDA issued an interim final rule (the "IFR") to implement the Farm Bill and on March 22, 2021, the final rule (the "Final Rule") implementing the Farm Bill became effective. The Final Rule established regulations governing commercial hemp production in the United States and provides the framework for state departments of agriculture and Indian tribes to begin implementing commercial hemp production programs. In addition, following the issuance of the IFR, the USDA stated that it will begin, and has since begun, reviewing hemp production plans submitted by states, territories, and Indian tribes. Pursuant to the Farm Bill, the USDA has 60 days from the date a plan is submitted to approve or disapprove it. As of the date hereof, several states and Indian tribes have submitted plans to the USDA, some of which have been approved or disapproved.

The Farm Bill neither affects nor modifies the Federal Food, Drug and Cosmetic Act, thus expressly preserving the U.S. Food and Drug Administration's (the "FDA") authority to regulate food, drugs, dietary supplements, and cosmetics containing cannabis and/or cannabis-derived compounds, such as CBD. On the same date that the Farm Bill was signed into law, the FDA issued a statement (i) reaffirming its jurisdiction over products containing cannabis and/or cannabis-derived compounds and (ii) restating its position that "it [is] unlawful to introduce food containing added CBD into interstate commerce, or to market CBD products as, or in, dietary supplements, regardless of whether the substances are hemp-derived," because CBD is an active ingredient in an FDA-approved drug and was the subject of substantial clinical investigations that were made public before it was marketed as a food or dietary supplement. Following the passage of the Farm Bill, the FDA has also acknowledged that "there is substantial public interest in marketing and accessing CBD in food, including dietary supplements . . . [and] [t]he statutory provisions that currently prohibit marketing CBD in these forms also allow the FDA to issue a regulation creating an exception, and some stakeholders have asked that the FDA consider issuing such a regulation to allow for the marketing of CBD in conventional foods or as a dietary supplement, or both." The FDA held a public hearing in May 2019 to obtain scientific data and information about the safety, manufacturing, product quality, marketing, labeling, and

sale of products containing cannabis or cannabis-derived compounds, and also established a high-level internal working group to explore potential pathways for various types of CBD products to be lawfully marketed. Since the passage of the Farm Bill, the FDA has issued numerous warning letters to companies for illegally selling CBD products in interstate commerce.

Como Health facility is now operational in the State of Missouri. As a result of an equipment and consulting arrangement with Como Health, the Company has material ancillary involvement in the U.S. cannabis industry and cannabis products from the facility financed by the Company are available for purchase in the U.S., including RAD distillate vapes, RAD live resin and live rosin.

Regulatory Cannabis Framework in Missouri

Missouri initially permitted medical cannabis with the passage of “Amendment 2” in 2018, which allowed qualifying patients to access medical cannabis in a variety of forms including flower. Its voter have further elected to allow adult-use cannabis sales by passage of “Amendment 3” in 2022. 60 cultivation, 84 manufacturing and 192 dispensary licenses were granted in 2019 and early 2020, numbers which have increased only slightly since. Vertical integration is permitted but not required, and the state limits the aggregate number of cannabis licenses which may be held by any given person. Local control is mostly limited beyond standard time, manner and place restrictions.

In 2023 and 2024, new “microbusiness” licenses will be granted to qualified persons, subject to limits of one per person of any type, with vertical integration prohibited. Two dispensary and four production licenses will be granted per congressional district in each of up to three tranches, subject to certain market and other factors. Primary regulatory authority is granted to the Division of Cannabis Regulation within the Department of Health and Senior Services.

Harvest Care has also commenced operations in the State of West Virginia in October, 2022. As a result of the the equipment purchase and service agreement with Harvest Care, the Company has material ancillary involvement in the U.S. cannabis industry.

Regulatory Medical Cannabis Framework in West Virginia

On April 19, 2017, West Virginia Governor Jim Justice signed into law Senate Bill 386, which created a medical cannabis program for West Virginia residents with serious medical conditions, and permits medical cannabis to be cultivated, processed, and dispensed to registered patients in the several forms including pills, oils, topical forms (gels, creams or ointments), a form medically appropriate for administration by vaporization or nebulization, dry leaf or plant form, tincture, liquid, or dermal patch. The program is administered by the West Virginia Department of Health and Human Resources’ Bureau for Public Health, Office of Medical Cannabis (“OCM”).

The OCM has authority to issue and oversee permits that authorize businesses to grow, process, dispense, and test medical cannabis in compliance with state law and regulations, register medical practitioners who certify patients as having qualifying serious medical conditions as defined by the state law, and register and oversee patients with qualifying conditions.

In addition to Senate Bill 386, codified in Chapter 16A of the West Virginia Code, the Office of Medical Cannabis has also promulgated regulations governing the activities of growers, processors, laboratories, dispensaries, and general provisions of West Virginia’s medical cannabis program in Title 64 of the Bureau for Public Health’s Legislative Rules which were most recently amended following 2022 statutory changes.

There is current legislation pending in the West Virginia State House that proposes to amend and expand the state’s medical cannabis program including permitting medical cannabis to be dispensed in edible form and medical patients to be permitted to smoke their medicine. There is another bill pending which would strike the list of qualifying serious medical conditions and otherwise grant authority to attending physicians to use their professional

judgment to certify whether a patient's serious medical condition would benefit from the use of medical cannabis. (See House Bills 2219, 2267, and 2318).

The Issuer is not aware of any non-compliance resulting from the operations of EndoCanna or its subsidiary Opticann.

In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding cannabis regulation.

Risks and Uncertainties

The following are certain factors relating to the Company's business which prospective investors should carefully consider before deciding whether to purchase Common Shares. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A. These risks and uncertainties are not the only ones the Company is facing or may ever face. Additional risk and uncertainties not presently known to the Company, or that are currently deemed immaterial, may also impair operations. If any such risks actually occur, the business, financial condition, liquidity and results of operations could be materially adversely affected.

Additional Financing

From time to time, the Company may require additional financing. The Company's ability to obtain additional financing, if and when required, will depend on investor demand, operating performance, the condition of the capital markets and other factors. If the Company raises additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of holders of Common Shares, and existing holders of such shares may experience dilution.

Reliance on Licenses

Failure to comply with the Health Canada licensing requirements, pursuant to the Cannabis Act and Cannabis Act Regulations, including any failure to apply for and secure the requisite licenses from Health Canada and maintain the Company's existing licenses would have a material, adverse impact on the business, financial condition and operating results of the Company as a whole, including all subsidiaries, whether or not the subsidiaries are license holders.

Reliance on Facilities

The Company's existing facilities in Falkland, British Columbia and Fort Erie, Ontario are integral to the Company's operations, as is the Company's ability to outfit its existing facilities to integrate the extraction capabilities of Purefarma. Any adverse changes or developments affecting either facility may impact the Company's ability to produce cannabis and cannabis products, its business, its financial condition, and the results of its operations.

Volatile Market Price for Common Shares

The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Company operates;
- addition or departure of the Company's executive officers and other key personnel;

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- release or expiration of transfer restrictions on outstanding Common Shares;
- sales or perceived sales of additional Common Shares;
- operating and financial performance that vary from the expectations of management, securities analysts, and investors;
- regulatory changes affecting the Company's industry generally and its business and operations;
- announcements of developments and other material events by the Company or its competitors;
- fluctuations to the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates and price volatility of CBD and THC as active product ingredients;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Such volatility has been particularly evident with regards to the share prices of cannabis companies that are reporting issuers in Canada. Accordingly, the market price of Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are lasting and not temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in share price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of Common Shares may be materially adversely affected.

Limited Market for Securities

There can be no assurance that an active and liquid market for the Common Shares will be maintained and an investor may find it difficult to resell any securities of the Company.

Licensing Requirements Under the Cannabis Regulations

The market for cannabis (including medical cannabis) in Canada is regulated by the Controlled Drug and Substances Act, the Cannabis Act and Cannabis Act Regulations, the Narcotic Control Regulations, and other applicable laws. Any applicant seeking to become a licensed cultivator, producer and/or seller under the Cannabis Act Regulations is subject to stringent Health Canada licensing requirements. The government of Canada has only issued to date a limited number of licenses under the Cannabis Regulations to cultivate, process and/or sell cannabis. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. If the number of users of cannabis in Canada increases, the demand for products will increase, and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued level of investment in research and development, marketing, sales, and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales, and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Holding Company Status

The Company is a holding company, and essentially, all of its operating assets are the capital stock of its subsidiaries. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to the Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations, which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the Company.

Force Majeure Events - COVID 19

In December 2019, the novel coronavirus COVID-19 was reported to have surfaced in Wuhan, China. On March 11, 2020, the World Health Organization declared this outbreak a global pandemic. Major health issues and pandemics, such as COVID-19, may adversely affect trade, global and local economies, and the trading prices of the Common Shares. The outbreak may affect the supply chain of the Company and may restrict the level of economic activity in affected areas, which may adversely affect the price and demand for the Company's products as well as the Company's ability to collect outstanding receivables from its customers. It is possible that the Company may be required to declare an event of force majeure under certain existing contracts and temporarily close one or more of its facilities and suspend operations. Given the ongoing and dynamic nature of the circumstances, the extent to which COVID-19 will impact the Company's financial results and operations is uncertain. It is possible, however, that the Company's business operations and financial performance in 2023 and beyond may be materially adversely affected by this global pandemic.

Management of Growth

The Company may be subject to growth-related risks arising from expansion of its operations and further acquisitions. Such growth-related risks include capacity constraints and increased pressure on the Company's internal systems and controls. The ability of the Company to manage growth effectively will require continued implementation and improvement of its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with growth may have a material adverse effect on its business, financial condition, results of operations, and general prospects.

Reliance on Management

The success of the Company is dependent upon the ability, expertise, judgment, discretion, and good faith of its senior management. While employment agreements and incentive programs are customarily used as primary methods of retaining the services of key employees, these agreements and incentive programs cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results, or financial condition.

Conflicts of Interest

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company, as applicable. External business interests may require significant time and attention of the Company's executive officers and directors. In some cases, executive officers and directors may have fiduciary obligations associated with external business interests that may interfere with their abilities to devote time to the Company's business and affairs, as applicable, and this could adversely affect

the Company's operations.

In addition, the Company may also become involved in transactions that conflict with the interests of its respective directors and the officers, who may from time to time deal with persons, firms, institutions or corporations with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons, firms, institutions or corporations could conflict with those of the Company. In addition, from time to time, these persons, firms, institutions or corporations may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under the applicable laws and in accordance with Company policies including its Fraud Prevention Policy and Related Party Transaction Policy. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with the applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

Litigation

The Company may become party to litigation from time to time in the ordinary course of its business, which could adversely affect its operations. Should any litigation in which the Company becomes involved be determined against it, such a decision may adversely affect the Company's ability to continue operating, adversely affect the market price of Common Shares, and use significant resources. Even if the Company is involved in litigation and succeeds, litigation can redirect significant Company resources. Litigation may also create a negative perception of the Company's brand and the brands of its subsidiaries.

Dividends

The Company's policy is to retain earnings to finance the development and enhancement of its products and to otherwise reinvest in the Company's businesses. Therefore, the Company does not anticipate paying cash dividends on Common Shares in the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of the Board and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Board may deem relevant. As a result, investors may not receive any return on investment in the Common Shares unless they sell them for a share price that is greater than that at which such investors purchased them.

Liquidity Risk

The Company's ability to remain liquid over the long term depends on its ability to obtain additional financing. The Company has in place planning and budgeting processes to help determine the funds required to support normal operating requirements on an ongoing basis as well as its planned development and capital expenditures. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

Cyber Security

The Company relies on certain internal processes, infrastructure and information technology systems to efficiently operate its business in a secure manner. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, training, processes designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. The inability to continue to enhance or prevent a failure of these internal processes, infrastructure or information technology systems could negatively impact the Company's ability to operate its business.

Intellectual Property Risk

The success of the Company's business depends in part on its ability to protect its ideas, technology and proprietary

know-how. Even as the Company moves to protect its intellectual property with trademarks and trade processes, patents, copyrights or by other means, it is not assured that competitors will not develop similar technologies, methods or that in the event of an infringement, the Company will be able to exercise its legal rights. Actions taken to protect or preserve intellectual property rights may require significant resources such that said actions meaningfully impact the ability to successfully grow the business.

Third Party Transportation

The Company is required to rely on third party transportation services. The Company is exposed to the inherent risks associated with relying on third party transportation service providers, including logistical problems, delays, loss or theft of product, and increased shipping costs. Any delay in transporting the product, breach of security or loss of product, could have material adverse effect on the Company's business, financial performance and results of operations. Moreover, any breach of security and loss of product during transport could affect the Company's status as a Licensed Producer, as such term is defined in the Cannabis Act.

Risks related to operating in the Cannabis Industry

The Cannabis Industry is Subject to Competition

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial, production and marketing resources and experience than the Company. Additionally, there is potential that the industry will undergo consolidation, creating larger companies that may have increased geographic scope and other economies of scale. Increased competition by larger, better-financed competitors with geographic or other structural advantages could materially and adversely affect the business, financial condition and results of operations of the Company.

As noted previously under the sub-heading entitled "Licensing Requirements Under the Cannabis Regulations," because of the early stage of the industry in which the Company operates in the cannabis market, the Company expects to face additional competition from new entrants. If the number of users of cannabis in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products and pricing strategies. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Consumer perception

Consumer perception regarding the safety, efficacy and quality of cannabis can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding consumption of medicinal marijuana products. There can be no assurance that consumer perception will remain positive or that adverse research reports, findings, proceedings, media attention or publicity, with or without merit, will not have a material and adverse impact on the cannabis industry as a whole, or the Company's ability to sell its products.

Regulatory Risks

The Company's subsidiaries operate in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements. The Company's ability to grow, store, process and sell cannabis in Canada is dependent on obtaining licenses from Health Canada and the need to maintain such licenses in good standing. As noted previously under the sub-heading entitled "Reliance on Licenses," failure to: (i) comply with the requirements of a license; and (ii)

maintain a license would have a material adverse impact on the business, financial condition and operating results of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the Company's control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future capital investments or the Company's operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

The Company is subject to changes in Canadian laws, regulations and guidelines which could adversely affect the Company's future business, financial condition and results of operations.

The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, packaging/labelling, advertising, sale, transportation, storage and disposal of cannabis but also including laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects business, financial condition and results of operations of the Company. The Company endeavours to comply with all relevant laws, regulations and guidelines. To the best of the Company's knowledge, the Company is in compliance or in the process of being assessed for compliance with all such laws, regulations and guidelines.

On June 30, 2016, the Canadian Federal Government established the Task Force on Cannabis Legalization and Regulation to seek input on the design of a new system to legalize, strictly regulate and restrict access to marijuana. On November 30, 2016, the Task Force on Cannabis Legalization and Regulation completed its review and published a report outlining its recommendations. On April 13, 2017, the Canadian Federal Government released Bill C-45, which proposed the enactment of the Cannabis Act, to regulate the production, distribution and sale of cannabis for unqualified adult use. On October 17, 2018, the Cannabis Act, as well as laws to address drug-impaired driving, protect public health and safety and prevent youth access to cannabis, came into force.

The Cannabis Act prohibits testimonials and branding and packaging that is appealing to youth. The restrictions on advertising, marketing and the use of logos and brand names could have a material adverse impact on the Company's business, financial condition and results of operation. The legislative framework pertaining to the Canadian adult-use cannabis market is developing and subject to change. In addition, the governments of every Canadian province and territory have, to varying degrees, announced proposed, and in some cases enacted, regulatory regimes for the distribution and sale of cannabis for adult-use purposes within those jurisdictions.

Environmental Regulations and Risks

The Company's operations are subject to environmental regulation. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of

responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are currently, and may in the future, be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from the proposed production of cannabis or from proceeding with the development of their operations as currently proposed.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Vulnerability to Rising Energy Costs

The Company's cannabis growing operations consume considerable energy and produce certain carbon emissions, particularly as the Company cultivates its products in indoor facilities, making the Company vulnerable to rising energy costs and any regulation regarding carbon pricing. Rising or volatile energy costs and regulation regarding carbon pricing may adversely impact the business of the Company and its ability to operate profitably.

Restrictions on Sales Activities

The industry is in its early development stage and restrictions on sales and marketing activities imposed by Health Canada, various medical associations, other governmental or quasi-governmental bodies or voluntary industry associations may adversely affect the Company's ability to conduct sales and marketing activities and could have a material adverse effect on the Company's respective businesses, operating results and financial conditions.

Product Liability

As a manufacturer and distributor of products designed to be ingested or inhaled by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of products involve the risk of injury or loss to consumers due to tampering by unauthorized third parties, product contamination, unauthorized use by consumers or other third parties. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury, illness or loss, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, adversely affect the Company's reputation with its respective clients and consumers generally, and adversely affect the results of operations and financial conditions of the Company.

Product Recalls

Manufacturers and distributors of products may be subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin, or at all. In addition, a product recall may require significant Management attention and may require a substantial change in the Company's manufacturing process.

Operating Risk and Insurance Coverage

The Company has insurance to protect its assets, operations and employees. While the Company believes its insurance coverage is customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. However, the Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. The Company might also become subject to liability for pollution or other hazards, which the Company may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon the Company's financial performance and results of operations.

Unfavourable Publicity or Consumer Perception

Management of the Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception of the Company's proposed products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis market or any particular product, or consistent with earlier publicity.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's proposed products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for its proposed products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or the Company's proposed products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Overview of United States Regulations of Cannabis

Regulatory scrutiny of the Company's interests in the United States

The Company's interests in the United States cannabis market, and future licensing arrangements, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to carry on its business in the United States.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. It has been reported by certain publications in Canada that The Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS, refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. Neither CDS nor its parent company have issued any public statement with regard to these reports. However, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Company, it would have a material adverse effect on the ability of

holders of securities of the Company to make trades. In particular, the securities of the Company would become highly illiquid, as investors would have no ability to effect a trade of the securities through the facilities of a stock exchange.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical or recreational cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or recreational cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Cannabis remains illegal under federal law in the United States, and therefore, strict enforcement of federal laws regarding cannabis would likely result in our inability to execute our business plan.

Cannabis, other than hemp (defined by the U.S. government as *Cannabis sativa L.* with a tetrahydrocannabinol (THC) concentration of not more than 0.3% on a dry weight basis), is a Schedule I controlled substance under the CSA. In December 2018, the U.S. government changed hemp's legal status. The Farm Bill, removed hemp and extracts of hemp, including CBD, from the CSA schedules. Accordingly, the production, sale and possession of hemp or extracts of hemp, including certain CBD products, no longer violate the CSA. U.S. states have implemented a patchwork of different laws on hemp and its extracts, including CBD. Additionally, the U.S. Food and Drug Administration claims that the Food, Drugs & Cosmetics Act significantly limits the legality of hemp-derived CBD products.

United States Federal Regulation of Hemp

The 2018 Farm Bill became Law on December 20, 2018. Prior to this Law, all non-exempt cannabis parts grown in the U.S. were scheduled as a controlled substance under the U.S. CSA, and as a result, the cultivation of Hemp for any purpose in the U.S. without a Schedule I registration with the DEA was illegal, unless exempted by the 2014 Farm Bill. The passage of the 2018 Farm Bill materially changed federal Laws governing Hemp by removing Hemp from the U.S. CSA and establishing a federal regulatory framework for Hemp production. Among other changes, the 2018 Farm Bill: (a) explicitly amended the U.S. CSA to exclude all parts of the cannabis plant (including cannabinoids, derivatives, and extracts) containing a THC of not more than 0.3% Delta-9 on a dry weight basis from the definition of cannabis; (b) allows the commercial production and sale of Hemp in interstate commerce; and (c) establishes the USDA as the primary federal agency regulating the cultivation of Hemp in the U.S., while allowing states to adopt their own plans to regulate the same. The 2018 Farm Bill also creates a specific exemption from the U.S. CSA for THC found in Hemp. By defining Hemp to include its "cannabinoids, derivatives, and extracts," the DEA no longer has regulatory authority to interfere with the interstate commerce of Hemp products, so long as the THC level of such products is at or below 0.3% Delta-9 and the Hemp and its derivatives were grown and processed by a person holding a license issued by either (i) USDA or a (ii) in a state with a USDA-approved Hemp plan, the applicable state agency.

Despite the passing of the 2018 Farm Bill, there remains some ambiguity as to which products are considered lawful under federal Laws in the United States, including, without limitation (i) products containing CBD; (ii) products containing, for example, 5 mg of Delta-9 per serving, but less than 0.3% THC on a "dry weight basis," and which may elicit psychoactive effects in consumers in the same manner as Delta-9 THC derived from cannabis; and (iii) products containing Delta-8. Much of this ambiguity is due to federal Laws and regulations other than the 2018 Farm Bill and/or the U.S. CSA, including, without limitation, the DEA IFR, FDCA, and Federal Analogue Act, and the enforcement priorities (or lack thereof) of the federal agencies tasked with enforcing such laws and regulations.

For example, on August 21, 2020, the DEA issued a DEA IFR concerning implementation of the 2018 Farm Bill. Even though the 2018 Farm Bill removed Hemp and THCs in Hemp from scheduling under the U.S. CSA, the DEA IFR

purports to clarify that material that exceeds 0.3% THC remains controlled in Schedule I of the U.S. CSA. Additionally, the DEA IFR states that the 2018 Farm Bill does not impact the control status of synthetically derived THC's, for which the DEA claims that the amount of THC is not a determining factor in whether the material is a controlled substance. "Synthetically derived" is not defined in the DEA IFR. It is worth noting that many States have defined "synthetically derived" to include Delta-8.

In addition, under the Federal Analogue Act, chemicals that are "substantially similar" to controlled substances and which have a "stimulant, depressant, or hallucinogenic effect on the central nervous system (CNS) that is substantially similar to or greater than" the controlled substance, are treated as controlled under U.S. federal law."

Finally, although the 2018 Farm Bill removes "Hemp" from the U.S. CSA, the 2018 Farm Bill does preserve the authority and jurisdiction of the FDA, under the FDCA, to regulate the manufacture, marketing, and sale of food, drugs, dietary supplements, and cosmetics, including products that contain Hemp extracts and derivatives, such as CBD. The FDCA will therefore continue to apply to Hemp-derived food, drugs, dietary supplements, cosmetics, and devices introduced, or prepared for introduction, into interstate commerce. As a producer and marketer of Hemp-derived products, the Corporation must comply with FDA regulations applicable to manufacturing and marketing of certain products, including food, dietary supplements, and cosmetics. However, the FDA has taken the position that it is unlawful to sell or market a dietary supplement or food containing CBD.

However, the FDA's enforcement actions to date have been limited to warning letters. Moreover, the FDA's warning letters citing FDA's prohibition on the sale or marketing of dietary supplements or foods containing CBD have primarily been sent to CBD companies who manufacture or sell CBD products that create severe health and safety risks by making egregious disease claims (i.e., claims suggesting that a product is intended to treat, cure, or prevent diseases and ailments and/or affect the structure or function of the body) or structure/function claims (i.e., intended to affect the structure or any function of the body), such as a product's purported ability to treat or cure serious diseases and conditions like COVID-19, cancer, or diabetes. By contrast, the FDA has not generally enforced against CBD companies with respect to companies whose CBD products are devoid of such claims. The FDA has sent similar letters to companies for selling products containing Delta-8.

In addition, the FDA has issued policy statements expressing concerns about Delta-8's psychoactive and intoxicating effects; noting that products containing Delta-8 have not been evaluated or approved by the FDA for safe use and may be marketed in ways that put the public health at risk; and highlighting that it has received adverse event reports involving products containing Delta-8.

In sum, despite the positive changes brought by the 2018 Farm Bill, there remain a number of considerations, potential changes in regulation, and uncertainties regarding the cultivation, sourcing, production and distribution of Hemp and products containing Hemp derivatives. Applicable Laws and regulations in the U.S. remain subject to change as there are different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses with respect to the treatment of the importation of derivatives from exempted portions of the cannabis plant, the scope of operation of the 2014 Farm Bill and the 2018 Farm Bill, and the authorizations granted to 2018 Farm Bill-compliant Hemp growers and licensed Hemp-derived CBD producers. These different federal, state, and local agency interpretations touch on, among other things, the regulation of cannabinoids by the DEA, FDA and/or the FTC. These uncertainties likely cannot be resolved without further federal and state legislation, regulation or a definitive judicial interpretation of existing legislation and rules, and in the interim period, there continue to be several legal barriers to selling Hemp-derived products, including, but not limited to barriers arising from, (i) the fact that Hemp and cannabis are both derived from the cannabis plant, (ii) the rapidly changing patchwork of state Laws governing Hemp and Hemp-derived products, (iii) the lack of FDA approval for CBD as a Lawful food ingredient, food additive or dietary supplement, and (iv) the uncertain legal status of Delta-8 products, as well as products containing, for example, 5 mg of Delta-9 per serving, but less than 0.3% THC on a "dry weight basis," and which may elicit psychoactive effects in consumers in the same manner as Delta-9 THC derived from cannabis.

In addition to the above federal considerations, many States have enacted Laws and regulations prohibiting the production, distribution, and/or sale of certain Hemp-derived products.

Sessions Memorandum

Even in U.S. states or territories that have legalized cannabis to some extent, the cultivation, possession, and sale of cannabis all violate the CSA and are punishable by imprisonment, substantial fines and forfeiture. Moreover, individuals and entities may violate federal law if they aid and abet another in violating the CSA, or conspire with another to violate the law, and violating the CSA is a predicate for certain other crimes, including money laundering laws and the Racketeer Influenced and Corrupt Organizations Act. The U.S. Supreme Court has ruled that the federal government has the authority to regulate and criminalize the sale, possession and use of cannabis, even for individual medical purposes, regardless of whether it is legal under state law. For over five years, however, the U.S. government has not prioritized the enforcement of those laws against cannabis companies complying with state law and their vendors. No reversal of that policy of prosecutorial discretion is expected under a Biden administration given his campaign's position on cannabis and his call for scheduling review and pardons for marijuana possession, although prosecutions against state-legal entities cannot be ruled out.

On January 4, 2018, then U.S. Attorney General Jeff Sessions issued a memorandum for all U.S. Attorneys (the "Sessions Memo") rescinding certain past U.S. Department of Justice ("DOJ") memoranda on cannabis law enforcement, including the Memorandum by former Deputy Attorney General James Michael Cole (the "Cole Memo") issued on August 29, 2013, under the Obama administration. Describing the criminal enforcement of federal cannabis prohibitions against those complying with state cannabis regulatory systems as an inefficient use of federal investigative and prosecutorial resources, the Cole Memo gave federal prosecutors discretion not to prosecute state law compliant cannabis companies in states that were regulating cannabis, unless one or more of eight federal priorities were implicated, including use of cannabis by minors, violence, or the use of federal lands for cultivation. The Sessions Memo, which remains in effect, states that each U.S. Attorney's Office should follow established principles that govern all federal prosecutions when deciding which cannabis activities to prosecute. As a result, federal prosecutors could and still can use their prosecutorial discretion to decide to prosecute even state-legal cannabis activities. Since the Sessions Memo was issued over three years ago, U.S. Attorneys have generally not prioritized the targeting of state law compliant entities.

Then Attorney General William Barr testified in his confirmation hearing on January 15, 2019, that he would not upset "settled expectations," "investments," or other "reliance interest[s]" arising as a result of the Cole Memo, and that he did not intend to devote federal resources to enforce federal cannabis laws in states that have legalized cannabis "to the extent people are complying with the state laws." He stated: "My approach to this would be not to upset settled expectations and the reliance interests that have arisen as a result of the [Cole Memo] and investments have been made and so there has been reliance on it, so I don't think it's appropriate to upset those interests." He also implied that the CSA's prohibitions of cannabis may be implicitly nullified in states that have legalized cannabis: "[T]he current situation ... is almost like a back-door nullification of federal law." Industry observers generally have not interpreted Attorney General Barr's comments to suggest that the DOJ would proceed with cases against participants who entered the state-legal industry after the Cole Memo's rescission. Nevertheless, while Attorney General Barr did not initiate any criminal prosecutions against state-legal cannabis companies, he did launch multiple antitrust investigations related to several cannabis mergers during 2020. Currently, the post of Attorney General is held by Merrick Garland who has repeatedly stated that he feels the Department of Justice should not be using its limited resources to go after state-legal cannabis businesses.

As such, there is no assurance that each U.S. Attorney's Office in each judicial district will not choose to strictly enforce federal laws governing cannabis sales in the event the Company commences any cannabis activities in the United States. The Company believes that the basis for the U.S. federal government's lack of recent enforcement with respect to the cannabis industry extends beyond the strong public sentiment and ongoing prosecutorial discretion. Since 2014, versions of the U.S. omnibus spending bill have included a provision prohibiting the DOJ,

which includes the Drug Enforcement Administration, from using appropriated funds to prevent states from implementing their medical-use cannabis laws. In *USA vs. McIntosh*, the U.S. Court of Appeals for the Ninth Circuit held that the provision prohibits the DOJ from spending funds to prosecute individuals who engage in conduct permitted by state medical-use cannabis laws and who strictly comply with such laws. The court noted that, if the spending bill provision were not continued, prosecutors could enforce against conduct occurring during the statute of limitations even while the provision was previously in force. The provision, which must be renewed annually, has been extended to September 30, 2023. Other courts that have considered the issue have ruled similarly, although courts disagree about which party bears the burden of proof of showing compliance or noncompliance with state law. Consequently, it is feasible that in the future that Company may directly or indirectly sell adult-use cannabis, if permitted by such state and local laws now or in the future, and therefore may be outside any protections extended to medical-use cannabis under the spending bill provision. This could subject us to greater and/or different federal legal and other risks as compared to businesses where cannabis is sold exclusively for medical use, which could in turn materially adversely affect our business. Furthermore, any change in the federal government's enforcement posture with respect to state-licensed cannabis sales, including the enforcement postures of individual federal prosecutors in judicial districts where the Company may operate, would result in our inability to execute our then business plan, and we would likely suffer significant losses with respect to client base, which would adversely affect our operations, cash flow and financial condition.

While President Biden's position on cannabis falls short of full legalization, he campaigned on a platform of relaxing enforcement of cannabis proscriptions, including decriminalization generally, though the specific timeframe under which such decriminalization will occur is unknown. According to the Biden campaign website: "A Biden Administration will support the legalization of cannabis for medical purposes and reschedule cannabis as a CSA Schedule II drug so researchers can study its positive and negative impacts. This will include allowing the [Department of Veteran's Affairs] to research the use of medical cannabis to treat veteran-specific health needs." He has pledged to "decriminalize" cannabis, which could prompt his U.S. Attorney General to issue policy guidance to U.S. Attorneys that they should not enforce federal cannabis prohibition against state law compliant entities and others legally transacting business with them. Indeed, the Biden-Sanders Unity Platform, which was released at the time President Biden won the Democratic Party nomination for President, affirmed that his administration would seek to "[d]ecriminalize marijuana use and legalize marijuana for medical purposes at the federal level;" "allow states to make their own decisions about legalizing recreational use;" and "automatically expunge all past marijuana convictions for use and possession." Vice President Harris echoed these intentions during the vice presidential debate, saying that "[w]e will decriminalize marijuana and we will expunge the records of those who have been convicted of marijuana[-related offenses]." While President Biden's promise to decriminalize likely would mean that the federal government would not criminally enforce the Schedule II status against state legal entities, the implications are not entirely clear.

Although the U.S. Attorney General could issue policy guidance to federal prosecutors that they should not interfere with cannabis businesses operating in compliance with states' laws, any such guidance would not have the force of law, and could not be enforced by the courts. The President alone cannot legalize medical cannabis, and as states have demonstrated, legalizing medical cannabis can take many different forms. While rescheduling cannabis to the CSA's Schedule II would ease certain research restrictions, it would not make the state medical or adult-use programs federally legal. Recent steps taken by the Biden Administration and Congress have spurred some hope of drug policy change. Notably, President Biden appointed known medical cannabis advocate Dr. Rahul Gupta as the director of the Office of National Drug Control Policy. Further, on July 14, 2021, United States Senators Cory Booker, Ron Wyden and Chuck Schumer, released a draft of their long-awaited comprehensive cannabis reform legislation, the Cannabis Administration and Opportunity Act, which would effectively decriminalize cannabis in the United States by removing it from the CSA and which would empower states to implement their own cannabis laws

("Senate Cannabis Act"). However, while industry observers are hopeful that the Senate Cannabis Act will spur helpful discussions related to decriminalization, strong Republican opposition makes it difficult for any assurances to be made regarding its passage. Accordingly, we cannot predict the timing of any change in federal law or possible changes in federal enforcement. In the unlikely event that the federal government were to reverse its long-standing hands-off approach to the state legal cannabis markets and start more broadly enforcing federal law regarding cannabis, this may hinder potential expansion opportunities of the Company into the United States.

Anti-money laundering laws and regulations

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping, and proceeds of crime, including the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended, and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada. Banks often refuse to provide banking services to businesses involved in the U.S. cannabis industry due to the present state of the laws and regulations governing financial institutions in the United States. The lack of banking and financial services presents unique and significant challenges to businesses in the medical cannabis industry. The potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the unavailability of traditional banking and financial services.

In February 2014, the Department of the Treasury Financial Crimes Enforcement Network ("FinCEN"), a division of the U.S. Department of Treasury, issued the FinCEN Guidance, providing instructions to banks seeking to provide services to cannabis-related businesses. The FinCEN Guidance states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that former Deputy Attorney General James M. Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. While the FinCEN Guidance has not been rescinded by the DOJ at this time, it remains unclear whether the current administration will follow its guidelines. Overall, the DOJ continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act that occur in any U.S. state, including in states that have legalized the applicable conduct, and the DOJ's current enforcement priorities could change for any number of reasons, including a change in administration, the opinions of the President of the United States or the United States Attorney General. A change in the DOJ's enforcement priorities could result in the DOJ prosecuting banks and financial institutions for crimes that previously were not prosecuted. On September 25, 2019, the U.S. House of Representatives passed the Secure and Fair Enforcement Banking Act of 2019 (commonly known as the SAFE Banking Act) which aims to provide safe harbor and guidance to financial institutions that work with legal U.S. cannabis businesses. The SAFE Banking Act has yet to be passed by the U.S. Senate. On September 23, 2021, the U.S. House of Representatives approved a defense spending bill (the National Defense Authorization Act) including an amendment that contained cannabis banking reform. However, the Senate text of the bill does not contain the same language, which means the discrepancy would need to be settled in a bicameral conference committee after the Senate passes its version of the legislation.

In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently

repatriate such funds back to Canada. Furthermore, while there are no current intentions to declare or pay dividends in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Additional Information

Additional information relating to the Company, including the Company's annual information form, may be found on the Company's website at www.heritagecann.com, the SEDAR website located at www.sedar.com or the Canadian Stock Exchange website located at www.thecse.com/en.

BY ORDER OF THE BOARD

Heritage Cannabis Holdings Corp.

"David Schwede"

CEO and Director

March 29, 2023