HERITAGE CANNABIS HOLDINGS CORP.

Interim Condensed Consolidated Financial Statements

Three Months Ended January 31, 2022 and 2021

(Stated in Canadian Dollars, Unaudited)

heritage

CANNABIS

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, 2022 and 2021

HERITAGE CANNABIS HOLDINGS CORP.
Interim Condensed Consolidated Statements of Financial Position
As at January 31, 2022 and October 31, 2021
(Stated in Canadian Dollars)

	Notes	As at January 31, 2022	As at October 31, 2021
Assets			
Current			
Cash		$ 3,246,012	$ 3,763,577
Short-term investments	3	950,000	950,000
Sales tax recoverable		772,610	1,014,805
Accounts receivable	23(a)	7,332,403	4,773,285
Inventories	4	15,478,477	16,124,241
Prepaid expenses and deposits	5	2,373,334	2,347,740
Convertible promissory note receivable	6	-	259,481
Current portion of note receivable	7	60,869	-
Other current assets	14(b),20	48,831	48,831
		30,262,536	29,281,960
Note receivable	7	547,823	-
Other investments and deposits	8	1,047,327	438,678
Investment in associate	9	3,117,170	3,044,182
Intangible assets and goodwill	10	43,412,370	44,253,279
Property, plant and equipment	11	20,772,699	20,769,966
Total Assets		$ 99,159,925	$ 97,788,065
Liabilities			
Current			
Accounts payable and accrued liabilities	20(c),23(b)	$ 9,457,253	$ 7,785,461
Sales tax payable		561,223	276,032
Deferred revenue		169,627	240,705
Current portion of long-term debt	13	5,455	5,321
Current portion of lease liabilities	12	81,823	79,359
Current portion of contingent consideration payable	14	603,176	590,176
		10,878,557	8,977,054
Lease liabilities	12	708,223	729,744
Long-term debt	13	11,834,944	10,836,359
Contingent consideration payable	14	1,000,000	15,940,000
Derivative liabilities	15	2,992,287	1,478,469
Deferred tax liability	19	3,710,000	4,606,000
Total Liabilities		31,124,011	42,567,626
Equity			
Share capital	16	146,931,494	140,482,057
Contributed surplus	17	5,888,299	5,779,474
Accumulated other comprehensive loss	9,23(c)(i)	(113,169)	(197,307)
Accumulated deficit		(85,343,717)	(91,538,667)
Equity attributable to shareholders		67,362,907	54,525,557
Non-controlling interest	18	673,007	694,882
Total Equity		68,035,914	55,220,439
Total Liabilities and Equity		$ 99,159,925	$ 97,788,065

Going Concern (Note 1(a))
Commitments (Note 21)
Subsequent Event (Note 28)

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

Approved on behalf of the Board of Directors:

"Clint Sharples"	"David Schwede", CEO
Director	Director

HERITAGE CANNABIS HOLDINGS CORP.

Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

Three Months Ended January 31, 2022 and 2021

(Stated in Canadian Dollars)

	Notes	Three Months Ended January 31, 2022		Three Months Ended January 31, 2021
Gross Revenue	25	$ 9,596,141		$ 1,827,273
Excise taxes		(3,054,930)		(306,657)
Net Revenue		6,541,211		1,520,616
Cost of Sales	4	4,656,450		1,010,361
Gross Margin		1,884,761		510,255
General and Administrative Expenses				
Advertising, travel and promotion		155,883		152,534
Amortization and depreciation	4,10,11	1,279,734		1,033,534
Management and consulting fees	20	306,876		468,834
Occupancy, general and administrative		1,644,164		872,279
Professional fees		309,409		309,970
Share-based payments	17,20	108,825		353,075
Salaries, wages and benefits	20	1,355,607		989,532
		5,160,498		4,179,758
Other Income (Expense)				
Interest and other income		100,092		32,077
Interest and finance expense	12,13,15	(229,497)		(179,348)
Share of loss from investment in associate	9	(11,329)		(113,029)
Unrealized gain on other investments	8	608,649		-
Unrealized gain (loss) on contingent consideration payable	14	8,498,429		(18,216)
Unrealized gain (loss) on derivative liabilities	15	(413,532)		317,266
		8,552,812		38,750
Income (Loss) Before Taxes		5,277,075		(3,630,753)
Income tax recovery				
Deferred income tax recovery	19	(896,000)		(545,000)
		(896,000)		(545,000)
Net Income (Loss)		$ 6,173,075		$ (3,085,753)
Other comprehensive income (loss) that may be reclassified to net income (loss)				
Gain (loss) on foreign currency translation	9,23(c)(i)	84,138		(125,329)
Comprehensive Income (Loss)		$ 6,257,213		$ (3,211,082)
Comprehensive Income (Loss) attributed to:				
Shareholders of the Company		$ 6,279,088		$ (3,334,188)
Non-controlling interest	18	(21,875)		123,106
		$ 6,257,213		$ (3,211,082)
Weighted average number of outstanding shares				
Basic	22	794,309,581		511,056,987
Diluted	22	893,673,594		511,056,987
Income (loss) per share				
Basic	22	$ 0.01		$ (0.01)
Diluted	22	$ 0.01		$ (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, 2022 and 2021
(Stated in Canadian Dollars)

	Notes	Number of Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non-controlling Interest	Total
Balance at October 31, 2020		496,136,722	$ 96,203,173	$ 5,417,218	$ 36,012	$ (34,031,758)	$ 640,186	$ 68,264,831
Share-based payments - vesting of options	17(b)	-	-	2,382	-	-	-	2,382
Share-based payments - issuance of restricted shares		2,191,831	350,693	-	-	-	-	350,693
Restricted shares issued for debt and services		2,884,797	342,142	-	-	-	-	342,142
Exercise of options		2,549,644	828,259	(578,259)	-	-	-	250,000
Shares issued as purchase consideration for Premium 5 acquisition		150,000,000	25,500,000	-	-	-	-	25,500,000
Comprehensive income (loss) for the period		-	-	-	(125,329)	(3,208,859)	123,106	(3,211,082)
Balance at January 31, 2021		653,762,994	$ 123,224,267	$ 4,841,341	$ (89,317)	$ (37,240,617)	$ 763,292	$ 91,498,966
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	17(b)	-	-	108,825	-	-	-	108,825
Shares issued as contingent consideration payment for Premium 5 acquisition	14(d),16(b)	107,142,857	6,428,571	-	-	-	-	6,428,571
Exercise of warrants	16(b),17(a)	29,809	20,866	-	-	-	-	20,866
Comprehensive income for the period	18	-	-	-	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

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, 2022 and 2021
(Stated in Canadian Dollars)

	Notes	Three Months Ended January 2022	Three Months Ended January 2021
Operating Activities			
Net loss for the period		$ 6,173,075	$ (3,085,753)
Items not affecting cash:			
Amortization and depreciation	10,11	1,279,734	1,033,534
Depreciation in cost of sales	10,11	-	236,396
Bad debt expense	23(a)	248,699	-
Capitalized depreciation recognized in cost of sales	4	103,341	147,846
Deferred income tax recovery	19	(896,000)	(545,000)
Non-cash items included in interest and other income	6	-	(1,260)
Non-cash interest and finance expense	15	62,516	63,567
Share-based payments	17(b)	108,825	353,075
Share of loss from investment in associate	9	11,329	113,029
Unrealized loss (gain) on contingent consideration payable	14	(8,498,429)	18,216
Unrealized loss (gain) on derivative liabilities	15	413,532	(317,266)
Unrealized foreign exchange loss (gain)	9,23(c)(i)	(179)	12,029
Unrealized (gain) on other investments	8	(608,649)	-
		(1,602,206)	(1,971,587)
Net changes in non-cash working capital, net of business combination:			
Sales tax recoverable		242,195	(158,764)
Accounts receivable		(2,807,817)	(696,079)
Inventories		542,423	(1,824,492)
Prepaid expenses and deposits		(25,594)	(1,484,730)
Other current assets		-	363,701
Accounts payable and accrued liabilities		1,671,792	1,118,303
Sales tax payable		285,191	25,803
Deferred revenue		(71,078)	115,936
Cash Flows Used in Operating Activities		(1,765,094)	(4,511,909)
Investing Activities			
Acquisition of property, plant and equipment	11	(441,558)	(130,533)
Issuance of note receivable	7	(608,692)	-
Maturity of convertible promissory note receivable	6	259,481	-
Cash acquired from business combination		-	1,281,341
Redemptions of short-term investments	3	-	3,000,000
Cash Flows (Used in) Provided by Investing Activities		(790,769)	4,150,808
Financing Activities			
Proceeds from exercise of options and warrants	16	20,866	250,000
Principal payments on lease obligation	12	(19,057)	(7,022)
Principal payments on long-term debt, net of cash-settled transaction costs	13	(1,281)	(86,159)
Proceeds from long-term debt, net of cash-settled transaction costs	13(b)	1,000,000	-
Proceeds from convertible promissory note payable	15(b)	1,037,770	-
Cash Flows Provided by Financing Activities		2,038,298	156,819
Net (Decrease) in Cash During the Period		(517,565)	(204,282)
Cash, Beginning of Period		3,763,577	1,445,659
Cash, End of Period		$ 3,246,012	$ 1,241,377

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

Supplementary information			
Interest received		$ 3,058	$ 15,565
Interest paid	12,13	$ 166,981	$ 115,781
Shares and restricted shares for debt		$ -	$ 342,142
Shares issued for Premium 5 acquisition	16(b)	$ 6,428,571	$ 25,500,000
Income taxes paid		$ -	$ -

Nature of business

Heritage Cannabis Holdings Corp. (the "Company") is a public company whose common shares trade on the Canadian Securities Exchange under the symbol "CANN". The Company was incorporated on October 25, 2007 in British Columbia, Canada, under the Business Corporations Act and commenced operations on November 1, 2007. On January 9, 2018, the Company changed its name to Heritage Cannabis Holdings Corp. The head office and principal address of the Company is Suite 600-77 Bloor Street West, Toronto, Ontario, Canada, M5S 1M2 and the registered office of the Company is located at Suite 1500-1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

The Company is a vertically integrated cannabis business. In Canada, through its subsidiaries, Voyage Cannabis Corp. ("Voyage") and CannaCure Corporation ("CannaCure"), the Company holds licenses under the Cannabis Act (Canada) and its relevant regulations. Voyage, a holder of a cultivation, processing, medicinal and adult use, and cannabis oil sales licenses, as well as an industrial hemp license, operates out of a 15,500 square foot facility in Falkland, British Columbia. CannaCure, a holder of a cultivation, processing and medicinal and adult use sales license, as well as an industrial hemp license, operates out of a 122,000 square foot facility in Fort Erie, Ontario. Purefarma Solutions Inc. ("Purefarma"), a wholly-owned subsidiary, provides the Company with the experience and know-how necessary to manufacture, refine and formulate cannabis oils. CALYX Life Sciences Corp., a wholly-owned subsidiary, creates products and services aimed at providing an integrative approach to cannabinoid therapy for healthcare consumers and healthcare practitioners. On January 25, 2021, the Company acquired 100% of Premium 5 Ltd., a Canada-based recreational and medical cannabis company in high-quality full spectrum concentrates. In the United States, the Company operates under Opticann, Inc., a Colorado based oral and topical cannabinoid company.

1. Basis of presentation

(a) Going concern

Although the Company was awarded licenses and has invested resources into its business, the Company is not yet generating positive cash flows from operations and as such, it must rely, in part, on equity and debt financing to fund operations. To date, the Company's main source of funding has been the issuance of equity securities for cash through private placements to sophisticated investors, public offerings to institutional investors, and issuances of long-term debt.

These 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 incurred a net income of $6,173,075 for the three months ended January 31, 2022 (for the three months ended January 31, 2021 – net loss of $3,085,753), and had an accumulated deficit of $85,343,717 as at January 31, 2022 (as at October 31, 2021 - $91,538,667). 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.

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, 2021, 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, 2021.

These interim condensed consolidated financial statements were approved by the Board of Directors on May 27, 2022.

(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 acquisition-related contingent consideration payable, investment in Stanley Park Digital Ltd. ("SPD"), investment in 1186366 B.C. Ltd., convertible promissory note receivable and derivative liabilities which are measured at fair value. These 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, 2022, subsidiaries over which the Company has control are listed below.

(Stated in Canadian Dollars, Unaudited)

1. Basis of presentation (continued)

(e) Basis of consolidation (continued)

Subsidiaries	Ownership Percentage	Jurisdiction of Incorporation
CannaCure Corporation	100%	Ontario, Canada
Purefarma Solutions Inc.	100%	British Columbia, Canada
CALYX Life Sciences Corp.	100%	British Columbia, Canada
1005477 B.C. Ltd.	100%	British Columbia, Canada
Voyage Cannabis Corp.	75%	British Columbia, Canada
Mainstrain Market Ltd.	75%	British Columbia, Canada
333 Jarvis Realty Inc.	100%	Ontario, Canada
Heritage US Holdings Corp.	100%	Delaware, United States
Heritage (US) Cali Corp.	100%	California, United States
5450 Realty Inc.	100%	British Columbia, Canada
Heritage (US) Oregon Corp.	100%	Oregon, United States
Heritage Cannabis Exchange Corp.	100%	Ontario, Canada
Heritage (US) Colorado Corp.	100%	Delaware, United States
Opticann, Inc.	100%	Colorado, United States
Premium 5 Ltd.	100%	Alberta, Canada

Certain subsidiaries are controlled, indirectly, through other subsidiaries.

(f) Estimates and critical judgements made by management

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

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

(g) COVID-19 Estimation Uncertainty

In March 2020, the World Health Organization declared the outbreak of the novel strain of coronavirus (“COVID-19”), a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, had an impact on the Company's operations from the second quarter of 2020. As at January 31, 2022, management did not identify any impairment indicators that suggest material impairment of the Company’s assets or a significant change in the fair value of the assets due to COVID-19.

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's business, financial position and operating results in the future. In addition, it is possible that estimates in the Company's interim condensed consolidated financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

2. New accounting standards and pronouncements

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

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

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

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

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

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

(d) Amendment to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Issued but not Yet Effective

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. The Company will adopt the amendment as of the effective date, and is currently assessing the impacts of adoption.

3. Short-term investments

As at January 31, 2022, short-term investments consisted of $950,000 (as at October 31, 2021 - $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, 2022 due to the short term to maturity. Of the total balance, $50,000 is restricted and held as security against the Company's corporate credit card (as at October 31, 2021 - $50,000).

(Stated in Canadian Dollars, Unaudited)

4. Inventories

	As at January 31, 2022	As at October 31, 2021
Supplies and packaging materials	$ 3,227,169	$ 3,032,189
Dried cannabis and hemp	2,115,424	1,615,938
Manufacturing work in progress	2,056,630	3,250,178
Finished goods	7,954,896	8,101,748
Other	124,358	124,188
	$ 15,478,477	$ 16,124,241

During the three months ended January 31, 2022, inventories expensed to cost of sales was $4,656,450 (during the three months ended January 31, 2021 - $609,747). As at January 31, 2022, $nil (as at October 31, 2021 - $103,341) of capitalized depreciation remained in inventories.

5. Prepaid expenses and deposits

	As at January 31, 2022	As at October 31, 2021
Inventory deposits	$ 1,696,688	$ 1,913,665
Prepaid insurance and consulting	306,128	65,577
Equipment deposits	120,859	40,971
Marketing	146,663	65,145
Other prepaid expenses	102,996	262,382
	$ 2,373,334	$ 2,347,740

6. Convertible promissory note receivable

In December 2019, the Company negotiated a promissory note from Empower Healthcare Assets Inc. ("Empower Health") for $250,000, bearing interest at 2% per annum on the outstanding principal. The promissory note is due on demand and shall mature no later than December 31, 2021. The promissory note is guaranteed by Empower Health and Empower Clinics Inc. ("Empower Clinics"), an affiliated company of Empower Health. At the Company's option, the promissory note is convertible into the shares of Empower Clinics based on the value of the shares at the closing price the day before the conversion, or into the equity interest in the joint venture to be formed between the Company and Empower Health.

The convertible promissory note receivable is classified and measured at fair value through profit and loss ("FVTPL"). As at October 31, 2021, the convertible promissory note receivable had a fair value of $259,481. As at January 31, 2022, the convertible promissory note receivable was fully repaid in cash.

(Stated in Canadian Dollars, Unaudited)

7. Note receivable

During the three months ended January 31, 2022, the Company entered into a consulting, purchase and branding agreement (“Agreement”), pursuant to which the Company agreed to provide an aggregate principal amount of up to $1,000,000 USD (“Operating Loan”) to support two counterparties’ purchase of certain equipment and tools for the manufacture, distribution and sale of certain cannabis-based products. The Operating Loan bears an interest rate of 10% per annum and is payable with monthly equal payments over five years. Monthly payments, comprised of loan repayments and service fees as a percentage of the Company’s share of borrower’s gross margin, shall begin thirty days after the first day the borrowers commence sale activities. As at January 31, 2022, the Company has disbursed $608,692 in total.

The note receivable is classified and measured at FVTPL. The Company applied a discount rate of 10% in the calculation of the note receivable at fair value. No unrealized gain or loss was recognized as a result of changes in fair value of the note receivable during the three months ended January 31, 2022.

Future undiscounted payments for the note receivable, excluding variable service fees which are excluded from the note receivable, are as follows:

	As at January 31, 2022
< 1 year	$ 60,869
2-5 year	486,954
> 5 years	60,869
Note receivable	608,692
Less: current portion	60,869
Long-term portion	$ 547,823

(Stated in Canadian Dollars, Unaudited)

8. Other investments and deposits

	As at January 31, 2022	As at October 31, 2021
Refundable deposit for development costs	$ 106,104	$ 106,104
Investment in 118366 B.C. Ltd.	35,875	35,875
Investment in SPD (i)	608,649	-
Long-term deposits	296,699	296,699
	$ 1,047,327	$ 438,678

(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. As at January 31, 2022, the investment was revalued to $608,649, representing the selling price for the Company's subsequent sale of its interest in SPD (see Note 28). As a result, a gain of $608,649 was recognized during the three months ended January 31, 2022.

9. 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, 2021	$ 3,044,182
Share of net loss	(11,329)
Foreign currency translation	84,317
Balance as at January 31, 2022	$ 3,117,170

(Stated in Canadian Dollars, Unaudited)

10. Intangible assets and goodwill

	Licenses	Board Relationships	Intellectual property	Brand	Goodwill	Total
Cost						
At October 31, 2021	$ 29,208,072	$ 1,034,000	$ 7,250,000	$ 9,530,500	$ 4,858,330	$ 51,880,902
At January 31, 2022	$ 29,208,072	$ 1,034,000	$ 7,250,000	$ 9,530,500	$ 4,858,330	$ 51,880,902
Accumulated amortization						
At October 31, 2021	$ 4,621,026	$ 79,037	$ 1,769,794	$ 1,157,766	$ -	$ 7,627,623
Additions	355,863	26,062	182,740	276,244	-	840,909
At January 31, 2022	$ 4,976,889	$ 105,099	$ 1,952,534	$ 1,434,010	$ -	$ 8,468,532
Net book value at October 31, 2021	**$ 24,587,046**	**$ 954,963**	**$ 5,480,206**	**$ 8,372,734**	**$ 4,858,330**	**$ 44,253,279**
Net book value at January 31, 2022	**$ 24,231,183**	**$ 928,901**	**$ 5,297,466**	**$ 8,096,490**	**$ 4,858,330**	**$ 43,412,370**

The details of individually material intangible assets are as follows:

	Carrying Amount		
Description	As at January 31, 2022	As at October 31, 2021	Remaining Amortization Period
Voyage processing and sales licenses	$ 4,243,091	$ 4,306,948	Approximately 17 years
CannaCure cultivation, processing and sales licenses	19,988,092	20,280,098	Approximately 17 years
Purefarma intellectual property	5,297,466	5,480,206	Approximately 7 years
Premium 5 board relationships	928,901	954,963	Approximately 9 years
Premium 5 brand	8,011,540	8,236,323	Approximately 9 years

(Stated in Canadian Dollars, Unaudited)

11. Property, plant and equipment

	Equipment	Buildings and improvements	Land	Total
Cost				
At October 31, 2021	$ 8,733,798	$ 14,763,772	$ 930,157	$ 24,427,727
Additions	405,087	36,471	-	441,558
At January 31, 2022	$ 9,138,885	$ 14,800,243	$ 930,157	$ 24,869,285
Accumulated depreciation				
At October 31, 2021	$ 1,888,354	$ 1,769,407	$ -	$ 3,657,761
Additions	235,378	203,447	-	438,825
At January 31, 2022	$ 2,123,732	$ 1,972,854	$ -	$ 4,096,586
Net book value at October 31, 2021	**$ 6,845,444**	**$ 12,994,365**	**$ 930,157**	**$ 20,769,966**
Net book value at January 31, 2022	**$ 7,015,153**	**$ 12,827,389**	**$ 930,157**	**$ 20,772,699**

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, 2021	$ 832,800
At January 31, 2022	$ 832,800
Accumulated depreciation	
At October 31, 2021	$ 77,838
Additions	27,648
At January 31, 2022	$ 105,486
Net book value at October 31, 2021	**$ 754,962**
Net book value at January 31, 2022	**$ 727,314**

As at January 31, 2022 and October 31, 2021, substantially all of the Company's property, plant and equipment was domiciled in Canada.

(Stated in Canadian Dollars, Unaudited)

12. 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. The Company did not enter into any new leases during the three months ended January 31, 2022.

The following is a continuity of lease liabilities:

Balance at October 31, 2021	$	809,103
Interest expense		19,763
Lease payments		(38,820)
Balance at January 31, 2022		790,046
Less: current portion		(81,823)
Long-term portion	$	708,223

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

	<1 year	2-5 years	> 5 years
Contractual cash flows	$ 156,576	$ 591,251	$ 385,000

During the three months ended January 31, 2022, the Company has recognized rent expenses of $41,771 in the profit or loss in relation to the short-term leases, low-value leases and variable lease payments which were excluded from the measurement of lease liabilities (three months ended January 31, 2021 - $24,348).

13. Long-term debt

	As at January 31, 2022	As at October 31, 2021
(a) Term loan - non-interest bearing, principal-only payments of $585 per month, 6-year term, maturing on January 18, 2025	$ 18,138	$ 19,419
(b) Term loan – comprised of three credit facilities for up to $14,775,000, with two facilities bearing interest at Royal Bank of Canada prime rate plus 1.25% per annum and the remaining one bearing interest at 18% per annum, monthly interest-only payments, 16-month term, maturing on February 1, 2023	11,822,261	10,822,261
	11,840,399	10,841,680
Less: current portion	(5,455)	(5,321)
Long-term portion	$ 11,834,944	$ 10,836,359

13. Long-term debt (continued)

(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, 2022, the face value of the term loan was $21,069 (as at October 31, 2021 - $22,285) and the carrying value of the underlying equipment that serves as security for the loan was $24,271 (as at October 31, 2021 - $25,087).

(b) On March 31, 2021, the Company, along with its subsidiaries CannaCure Corporation, 333 Jarvis Realty Inc., Voyage Cannabis Corp. and 5450 Realty Inc., (together the "Borrowers") entered into a 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 by establishing three credit facilities for a maximum amount of $14,775,000 (collectively the "Loan") as follows:

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

(Stated in Canadian Dollars, Unaudited)

13. Long-term debt (continued)

(b) The Loan is due on February 1, 2023. If the Loan is repaid in its entirety on or before October 1, 2022, the lender will repay the $175,000 extension fee for Facility 1 to the Company. As at January 31, 2022, the Company has received a total of $11,822,261 in principal, with the remaining line of credit $2,952,739 available for advance.

As part of the amendments, the Company also issued 10,000,000 warrants to the lender. Each warrant is exercisable into one Heritage Common Share at an exercise price of $0.25 per share and has a term of 24 months expiring on October 8, 2023. See Note 17(a). These warrants were considered exchangeable into a fixed number of Heritage common shares, and thus were classified as equity.

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

Balance at October 31, 2021	$	10,822,261
Advances, net of cash-settled transaction costs		1,000,000
Interest expense		147,218
Interest payment		(147,218)
Balance at January 31, 2022	$	11,822,261

14. Contingent consideration payable

Balance at October 31, 2021	$	16,530,176
Payment made through issuance of shares on contingent consideration issued in Premium 5 acquisition (Note 16(b))		(6,428,571)
Gain from remeasurement		(8,498,429)
Balance at January 31, 2022		1,603,176
Less: current portion		(603,176)
Long-term portion	$	1,000,000

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

On December 14, 2018, the Company acquired all the issued and outstanding shares of Purefarma Solutions Inc. ("Purefarma"). In connection with the acquisition, the Company is required to make certain pro-rata earn-out payments, payable in shares, to former shareholders of Purefarma as additional purchase consideration. These payments are based on Purefarma's ability to meet certain extraction-related cumulative gross margin targets, as follows:

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

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

14. Contingent consideration payable (continued)

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

Upon Purefarma achieving a cumulative gross margin of $100,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 5,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of $100,000,000 before December 31, 2022, an additional 1,100,000 common shares will be issued to the former shareholders of Purefarma.

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

The period-end balance represents the probability-weighted discounted value of subsequent share issuances expected to occur between January 31, 2022 and December 31, 2023, based on management's best estimate of the probability of Purefarma meeting each of the cumulative gross margin targets. Over the contractual term, the total cumulative earn-out could range from nil shares (undiscounted value of $nil) to 17,100,000 shares (undiscounted value of $3,078,000 at a stock price of $0.18 on the payout dates per Heritage Common Share based on the management’s best estimates).

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

The Company is required to make certain performance payments, in cash, to a company controlled by the former shareholders of Purefarma as additional purchase consideration. The remaining performance payment is based on 3% of extraction-generated gross margin for Purefarma's fiscal year 2022.

Prior to the acquisition during the Company's year ended October 31, 2019, the fiscal year end of Purefarma was December 31st. Purefarma's fiscal year end was then changed to coincide with that of the Company. As a result, a pro-rated catch-up payment may be required in December of 2022.

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

As at January 31, 2022, a balance of $48,831 (as at October 31, 2021 - $48,831) was outstanding from a corporation controlled by the former shareholders of Purefarma, including an active director of the Company. The director has the ability to exercise significant influence over the corporation in question. This balance is intended to be offset against the first payment made under the terms of the contingent consideration detailed above. The balance is unsecured, non-interest bearing, has no fixed terms of repayment and is included in other current assets in the interim condensed consolidated statement of financial position.

14. Contingent consideration payable (continued)

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

In October of 2014, the Company entered into an agreement with the non-controlling shareholder of Voyage, the terms of which state that the non-controlling shareholder has the right to require the Company to purchase from its certain preferred shares in Voyage. The non-controlling shareholder has the ability to exercise this right upon Voyage meeting certain license procurement and the cumulative earnings before interest, taxes, depreciation and amortization ("EBITDA") milestones of $1.5 million and $2.5 million, respectively. If all milestones were met and the non-controlling shareholder exercised its right, the Company would be required to purchase these shares for total consideration of $550,000.

During the year ended October 31, 2019, the first milestone of the license procurement was reached and the Company paid total proceeds of $150,000 in cash to purchase 150,000 preferred shares in Voyage from the non-controlling shareholder.

As at January 31, 2022, management recognized the fair value of contingent consideration payable in an amount of $358,000 in relation to Voyage acquisition, reflecting the high probability of meeting the remaining EBITDA milestones. The discount rate used was 15.8%, based on management's best estimates of cost of capital over the contractual term. If the discount rate decreased by 5%, the estimated fair value of the contingent consideration would increase by $12,000. If the discount rate increased by 5%, the estimated fair value of the contingent consideration would decrease by $11,000.

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

On January 25, 2021, the Company, through a wholly-owned subsidiary, entered into a three-cornered amalgamation which resulted in the acquisition of all of the issued and outstanding shares of Premium 5 Ltd. The resulting amalgamated company changed its name to Premium 5 Ltd ("Premium 5").

As part of the acquisition, the Company is required to issue additional shares to former shareholders of Premium 5 as additional purchase consideration. These payments are based on the Company's ability to achieve following targets:

(a) Contingent performance payments payable in shares, with a potential value of up to $15,000,000, based on a fixed percentage of the excess net revenue over $7,000,000 derived from certain products within the twelve months following the acquisition date ("First Performance Milestone"). The number of shares to be issued shall reflect the intended dollar value of the consideration, with the value per share being the higher of the volume-weighted average price for the 10 trading days ended immediately prior to the close of the First Performance Period and $0.14.

(b) Contingent performance payment in the amount of $5,000,000, payable in shares, upon the Company's ability to achieve certain average gross margin target across all recreational products within the second twelve months following the acquisition date ("Second Performance Milestone"). The number of shares to be issued shall reflect the intended dollar value of the consideration, with the value per share being the higher of the maximum allowable discount to market on the business day immediately prior to the close of the Second Performance Period and $0.14.

(Stated in Canadian Dollars, Unaudited)

14. Contingent consideration payable (continued)

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

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 January 31, 2022, the Company issued 107,142,857 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 (see Note 16(b)). Immediately prior to such settlement, the Company revalued the First Performance Milestone to $6,428,571, representing the fair value of shares to be issued described above, with a recognition of gain from remeasurement of $8,571,429 in profit or loss. The number of shares to be issued reflected the intended maximum pay-out amount of $15,000,000 divided by the deemed value per share of $0.14.

As at January 31, 2022, the Company re-valued the fair value of Second Performance Milestone payment using the Black-Scholes model with the following inputs, assumptions and results:

At January 31, 2022	Performance Milestone 2
Option type	Cash-or-nothing
Gross margin	$14,371,449
Cash payment	$5,000,000
Exercise price	$20,218,202
Time period (years)	0.98
Volatility	100%
Dividend yield	0.00%
Risk-free rate	0.15%
Calculated fair value of earnout	$1,000,000

The following is a continuity of contingent consideration payable:

	Purefarma	Voyage	Premium 5	Total
Balance at October 31, 2021	$ 245,176	$ 345,000	$ 15,940,000	$ 16,530,176
First Performance Milestone payment for Premium 5 acquisition (Note 16(b))	-	-	(6,428,571)	(6,428,571)
Unrealized loss (gain) from changes in fair value	-	13,000	(8,511,429)	(8,498,429)
Balance at January 31, 2022	$ 245,176	$ 358,000	$ 1,000,000	$ 1,603,176

The Company's contingent consideration payable is measured at fair value based on unobservable inputs and is considered a level 3 financial instrument. Refer to Note 24.

(Stated in Canadian Dollars, Unaudited)

15. Derivative liabilities

	Heritage Cannabis Exchange Corp. (a)	Heritage Cannabis Holdings Corp. (b)	Total
Balance at October 31, 2021	$ 293,209	$ 1,185,260	$ 1,478,469
Addition	-	1,037,770	1,037,770
Interest expense	-	62,516	62,516
Unrealized loss (gain) from changes in fair value	(77,876)	491,408	413,532
Balance at January 31, 2022	$ 215,333	$ 2,776,954	$ 2,992,287

(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 ("Redemption/Retraction Price"). 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 January 31, 2022, the Company re-valued the warrant derivative liabilities using a level 3 valuation technique, as detailed in Note 24 with the following inputs, assumptions and results, respectively:

	Class 1 warrants	Class 2 warrants
Number of warrants issued	7,919,493	3,511,110
Risk-free annual interest rate	1.28%	1.28%
Expected life (years)	0.68	1.68
Expected annualized volatility	94%	89%
Expected annual dividend yield	0.00%	0.00%
Exercise price	$0.20	$0.30
Share price	$0.06	$0.06
Calculated fair value per warrant at period-end	$0.01	$0.04

Expected annualized volatility was estimated using the Company's average historical volatility for a time period equal to the Class 1 and 2 Warrants' remaining terms, respectively.

The following table summarizes warrant activities in Heritage Cannabis Exchange Corp. during the three months ended January 31, 2022:

	Number of warrants	Weighted average exercise price
Balance at October 31, 2021	11,430,603	$ 0.23
Balance at January 31, 2022	11,430,603	$ 0.23

(Stated in Canadian Dollars, Unaudited)

15. Derivative liabilities (continued)

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

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

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 Notes holders. The conversion price per Conversion Share shall be the greater of: (i) the closing market share price of the Heritage Common Shares on the trading day prior to a news release or the posting of notice to the CSE website, and (ii) $0.07 CDN. As at January 31, 2022, no Interest Shares have yet been issued.

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

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

As at January 31, 2022, the Company received all tranches of $1,500,000 USD (equivalent to $1,855,270 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 detailed in Note 24. As at January 31, 2022, the Company revalued all the Notes at fair value, calculated as the greater of the amount payable in cash if no conversion right is exercised, and the amount payable in equity. The Warrants were re-valued at fair value using the same valuation technique with the following inputs, assumptions and results:

Tranche 1	At October 31, 2021	At January 31, 2022
Estimated number of Warrant Shares issuable	5,834,400	5,996,100
Risk-free annual interest rate	1.14%	1.42%
Expected life (years)	2.97	2.72
Expected annualized volatility	91%	91%
Expected annual dividend yield	0.00%	0.00%
Exercise price	$0.08	$0.08
Share price	$0.065	$0.060
Calculated standalone fair value per Warrant	$363,637	$349,455

(Stated in Canadian Dollars, Unaudited)

15. Derivative liabilities (continued)

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

Tranche 2	At November 1 2021, the issuance date	At January 31, 2022
Estimated number of Warrant Shares issuable	3,317,142	3,406,875
Risk-free annual interest rate	1.14%	1.42%
Expected life (years)	3	2.72
Expected annualized volatility	91%	91%
Expected annual dividend yield	0.00%	0.00%
Exercise price	$0.08	$0.08
Share price	$0.065	$0.060
Calculated standalone fair value per Warrant	$207,088	$198,795

Tranche 3	At November 30, 2021 the issuance date	At January 31, 2022
Estimated number of Warrant Shares issuable	2,998,125	3,406,875
Risk-free annual interest rate	1.07%	1.42%
Expected life (years)	3	2.72
Expected annualized volatility	91%	90%
Expected annual dividend yield	0.00%	0.00%
Exercise price	$0.08	$0.08
Share price	$0.080	$0.060
Calculated standalone fair value per Warrant	$230,329	$199,444

Tranche 4	At December 31, 2021, the issuance date	At January 31, 2021
Estimated number of Warrant Shares issuable	815,014	817,650
Risk-free annual interest rate	1.02%	1.42%
Expected life (years)	3	2.72
Expected annualized volatility	91%	90%
Expected annual dividend yield	0.00%	0.00%
Exercise price	$0.08	$0.08
Share price	$0.065	$0.060
Calculated standalone fair value per Warrant	$50,050	$48,000

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.

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

	Notes	Warrants	Total
Balance at October 31, 2021	$ 821,623	$ 363,637	$ 1,185,260
Additions	710,270	327,500	1,037,770
Interest expense	62,516	-	62,516
Unrealized loss from changes in fair value	386,851	104,557	491,408
Balance at January 31, 2022	$ 1,981,260	$ 795,694	$ 2,776,954

(Stated in Canadian Dollars, Unaudited)

15. Derivative liabilities (continued)

The following table summarizes warrant activities for warrants classified as financial liabilities at FVTPL during the three months ended January 31, 2022:

	Number of warrants
Balance October 31, 2021	1
Granted	3
Balance January 31, 2022	4

16. 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, 2022, the following share issuances took place:

On November 4, 2021, the Company issued 29,809 shares as a result of warrant exercises at an exercise price of $0.7 for total cash proceeds of $20,866. The warrants were allocated $nil value based on residual method upon issuance as part of a private placement, and therefore $nil warrant reserve was transferred to share capital upon exercise.

On January 25, 2022, the Company issued 107,142,857 shares to Premium 5 former shareholders as its First Performance Milestone payment in full (See Note 14(d)). The fair value of the shares was measured at $6,428,571, determined based on the quoted share price at the issuance date.

17. Contributed surplus

(a) Warrants

Movements in the number of warrants outstanding during the three months ended January 31, 2022 are as follows:

	Number of warrants	Weighted average exercise price	
Balance October 31, 2021	134,438,700	$	0.27
Exercised (Note 16(b))	(29,809)		0.70
Expired	(16,299,691)		0.70
Balance January 31, 2022	118,109,200	$	0.22

(Stated in Canadian Dollars, Unaudited)

17. Contributed surplus (continued)

(a) Warrants (continued)

The following table summarizes the warrants outstanding and exercisable at January 31, 2022:

Expiry date	Number of warrants	Weighted average exercise price
May 7, 2022	2,286,200	$ 0.53
March 17, 2023	98,900,000	0.21
March 17, 2023	6,923,000	0.14
October 8, 2024	10,000,000	0.25
	118,109,200	$ 0.22

Of the 118,109,200 warrants outstanding, 9,209,200 are Broker Warrants and 108,900,000 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. On May 7, 2022, 2,286,200 warrants expired unexercised.

(b) Stock options

(i) Stock option plan details

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion and in accordance with the Canadian Stock Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Options will be exercisable for a period to be determined by the Board of Directors, but not exceeding 10 years.

In connection with the foregoing, the number of common shares reserved for issuance to any technical consultant will not exceed two percent (2%) of the issued and outstanding common shares of the Company in any twelve-month period. The number of common shares reserved for issuance to individuals providing investor relation services will not exceed two percent (2%) of the issued and outstanding common shares of the Company in any twelve-month period. Furthermore, these options must vest over twelve months with a maximum of one quarter of the options vesting in any three-month period. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

(Stated in Canadian Dollars, Unaudited)

17. Contributed surplus (continued)

(b) Stock options (continued)

(i) Stock option plan details (continued)

Movements in the number of options outstanding during the three months ended January 31, 2022 are as follows:

	Number of options	Weighted average exercise price	
Balance October 31, 2021	24,763,440	$	0.19
Balance January 31, 2022	24,763,440	$	0.19

The following table summarizes the options outstanding and exercisable at January 31, 2022:

Expiry date	Number of options outstanding	Number of options exercisable	Weighted average exercise price	
August 16, 2022	2,000,000	2,000,000	$	0.10
November 15, 2022	80,000	80,000		0.14
January 22, 2023	700,000	700,000		0.59
March 19, 2023	861,000	861,000		0.54
April 30, 2023	850,000	850,000		0.35
August 20, 2023	254,964	191,223		0.20
April 10, 2025	892,476	892,476		0.20
February 8, 2024	3,750,000	3,750,000		0.34
September 20, 2024	1,500,000	1,500,000		0.36
September 17, 2026	13,875,000	4,625,000		0.10
	24,763,440	15,449,699	$	0.19

As at January 31, 2022, the weighted average remaining contractual life of all options outstanding was 3.35 years (as at October 31, 2021 – 3.60 years). The weighted average exercise price for exercisable options was $0.25 (as at October 31, 2021 - $0.25).

(ii) Amounts arising from share-based payment transactions

During the three months ended January 31, 2022, the Company recognized an expense of $108,825, relating to the vesting of options held by employees, directors, officers and consultants (during the three months ended January 31, 2021 - $2,382).

(Stated in Canadian Dollars, Unaudited)

18. Non-controlling interest

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

		Voyage		Mainstrain		Total
Balance at October 31, 2021	$	682,337	$	12,545	$	694,882
Share of income (loss)		(5,934)		(107)		(6,041)
Share of amortization of Voyage licenses acquired through business acquisition (Note 10)		(15,834)		-		(15,834)
Balance at January 31, 2022	$	660,569	$	12,438	$	673,007

19. Income taxes

The Company's combined Canadian federal and provincial statutory income tax rate is 26.5% for the three months ended January 31, 2022. 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, 2021	$	4,606,000
Deferred income tax recovery		(896,000)
Balance at January 31, 2022	$	3,710,000

20. 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, 2022 and 2021 are as follows:

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

	Three months ended January 31,			
		2022		2021
Management fees	$	15,000	$	60,000
Consulting fees		67,250		125,811
	$	82,250	$	185,811

(b) Key management compensation

	Three months ended January 31,			
		2022		2021
Salary and short-term benefits	$	98,763	$	80,754
Share-based payments		37,305		353,075
	$	136,068	$	433,829

(Stated in Canadian Dollars, Unaudited)

20. Related party transactions and balances (continued)

(c) Related party balances

	As at January 31, 2022	As at October 31, 2021
Included in accounts payable and accrued liabilities	$ 9,000	$ 35,751
Included in other current assets (Note 14(b))	48,831	48,831

21. Commitments

As detailed in Note 15, the Company acquired 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, 2022 and October 31, 2021, 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) USD $2,600,000 payable upon the Company's achievement of certain milestones, including its receipt of first purchase order for certain goods and reaching USD $2,000,000 and CAD $1,000,000 sales of certain goods, respectively;

(b) Royalty payment of 20% on all gross margins from the sale of certain goods, payable quarterly;

(c) Additional milestone payments, calculated as 10% of the value of any upfront milestone payments received by the Company for certain agreements with certain parties and 15% of the gross margin received on net sales as a result of certain agreements between the Company and certain parties; and

(d) Dedication of a minimum 11% of net sales per year for marketing activities, which commences at the same time as the purchase right noted below.

The Company also has a right to purchase at least USD $27,500,000 of certain goods from a supplier over 3 years from the first day of the month in which the Company received the purchase order for certain goods from any customer.

As at January 31, 2022 and October 31, 2021, none of the payment milestones were met and, therefore, no provision was recognized.

(Stated in Canadian Dollars, Unaudited)

22. 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, 2022:

	Three Months Ended January 31,	
Basic income (loss) per share	2022	2021
Issued shares, beginning of period	786,128,570	496,136,722
Weighted average issuances	8,181,011	14,920,265
Weighted average common shares, end of period	794,309,581	511,056,987
Net income (loss) attributed to common shareholders of the Company	$ 6,194,950	$ (3,208,859)
Basic income (loss) per share	$ 0.01	$ (0.01)

	Three Months Ended January 31,	
Diluted income (loss) per share	2022	2021
Weighted average common shares used in the computation of basic income (loss) per share, end of period	794,309,581	511,056,987
Dilutive effect of convertible debenture (Note 15(b))	99,364,013	-
Weighted average common shares used in the computation of diluted income (loss) per share, end of period	893,673,594	511,056,987
Net income (loss) attributed to common shareholders of the Company	$ 6,194,950	$ (3,208,859)
Diluted income (loss) per share	$ 0.01	$ (0.01)

23. Financial instruments

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company’s objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information pertaining to these risks is presented throughout these interim condensed consolidated financial statements.

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

(Stated in Canadian Dollars, Unaudited)

23. Financial instruments (continued)

(a) Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company has moderate exposure to credit risk from its cash, short-term investments, accounts receivable, and 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, 2022	As at October 31, 2021
Trade accounts receivable from customers	$ 7,446,306	$ 4,621,574
Expected credit losses	(248,699)	(91,194)
Net trade receivables	7,197,607	4,530,380
Interest and other receivables	134,796	242,905
	$ 7,332,403	$ 4,773,285

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, 2022, the Company identified certain accounts that may result in a credit loss on its accounts receivable, for which expected credit losses were recognized.

The Company has assessed that there is a concentration of credit risk, as 64% of the Company's net trade accounts receivable is due from 3 customers as at January 31, 2022 (as at October 31, 2021 - 77% of the balance due from 3 customers).

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

	As at January 31, 2022	As at October 31, 2021
Current (30 days or less)	$ 3,566,136	$ 2,397,231
31-60 days	2,006,790	1,558,194
61-90 days	946,846	93,189
Greater than 90 days	677,835	481,766
	$ 7,197,607	$ 4,530,380

23. Financial instruments (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the financial obligations associated with its financial liabilities as they come due. The Company manages liquidity risk through the management of its capital structure. As at January 31, 2022, the Company had working capital of $19,383,979 (as at October 31, 2021 – $20,304,906). The Company does not yet have positive cash flows from operations and as such, the Company may be dependent upon the issuance of new equity and/or debt to advance its production efforts and meet its financial obligations. If equity or debt financing is required, failure to obtain such financing on a timely basis may cause the Company to postpone, reduce or terminate its production plans.

The Company has the following undiscounted contractual obligations subject to liquidity risk, in addition to those relating to lease liabilities disclosed in Note 12:

	<1 year	2-5 years	> 5 years
Accounts payable and accrued liabilities	$ 9,457,253	$ -	$ -
Long-term debt	7,023	11,836,307	-
Derivative liabilities with cash settlement option (Note 15(b))	-	1,907,850	
Contingent consideration payable	645,176	-	-
Total	$ 10,109,453	$ 13,744,157	$ -

(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 9), 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 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, 2022 and October 31, 2021, 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, 2022	As at October 31, 2021
Cash	$ 2,744	$ 3,579
Accounts receivable	659	659
Accounts payable and other liabilities	19,406	39,484
Investment in associate	2,450,799	2,459,747
Derivative liabilities	1,552,903	663,526

23. Financial instruments (continued)

(c) Market risk (continued)

(i) Foreign currency risk (continued)

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by $507,195 for the three months ended January 31, 2022 (for the year ended October 31, 2021 - $382,481). 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 note 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 interest at a Canadian prime rate plus 1.25% per annum as detailed in Note 13. As at January 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, 2022 and October 31, 2021, the Company is exposed to this risk on its contingent consideration payable in Heritage Common Shares pursuant to the acquisition of Opticann (Note 21) and Purefarma (Note 14(a)), and the derivative liabilities payable in Heritage Common Shares (Note 15(b)).

24. 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.

(Stated in Canadian Dollars, Unaudited)

24. Fair value of financial instruments (continued)

Financial instruments measured at fair value	
Contingent consideration payable	Discounted cash flow (Level 3) or Black-Scholes model (Level 3)
Convertible promissory note receivable	Amount due on demand (Level 3)
Derivative liabilities	Market value (Level 3) or Black-Scholes model (Level 3)
Other investments	Discounted cash flow (Level 3)
Note receivable	Market value (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 months ended January 31, 2022, there were no transfers of amounts between levels (during the three months ended January 31, 2021 – no transfers between levels).

25. Entity-wide disclosures

The Company's trade net revenue for the three months ended January 31, 2022 is comprised of the following:

	Domestic (Canada)
Net revenue from sale of Heritage branded products	$ 9,596,141
Net revenue from sale of White Label products	-
Net revenue from provision of services	-
	$ 9,596,141

During the three months ended January 31, 2022, the Company earned 88% and 94% of its total trade revenue from five major customers (during the three months ended January 31, 2021 – 88% from five major customers for both periods).

26. Operating segment information

During the three months ended January 31, 2022 and 2021, the Company identified a single reportable operating segment.

27. Capital management

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

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

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

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

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

28. Subsequent event

(a) Sale of interest in SPD

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