



HERITAGE CANNABIS HOLDINGS CORP.

CSE UPDATED ANNUAL  
LISTING STATEMENT

February 28, 2023

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### **CAUTIONARY STATEMENTS REGARDING U.S. CANNABIS OPERATIONS**

In the future, the Issuer may be involved, directly or indirectly, in the cannabis and hemp oil industry in the U.S. 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On January 4, 2018, U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the U.S., including the August 2013 memorandum by then Deputy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 With the Cole Memorandum rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law.

There remains no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdiction.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 Issuer 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 Issuer or any of its subsidiaries becoming illegal, the Issuer and its subsidiaries may be materially adversely affected by such enforcement measures. See "*Risk Factors*" of this Listing Statement 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 Staff Notice 51-352 (as defined below) 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.

## **FORWARD LOOKING STATEMENTS**

This Listing Statement contains forward-looking statements that relate to the Issuer'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 Issuer 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. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this Listing Statement. Such forward-looking statements speak only as of the date of this Listing Statement and include, but are not limited to, statements with respect to:

- expectations regarding revenue, expenses and research and development operations;
- anticipated cash needs and needs for additional financing;
- the Issuer's intention to grow the business and its operations;
- expectations with respect to future production costs and capacity;
- growth rates, growth plans and strategies;
- the approval and/or amendment of the Issuer's licenses, including the approval of the application for the flower sales license from Health Canada;
- expectations related to current supply agreements being fulfilled and the entering into of new supply agreements in the future;
- the future growth of its medical and recreational cannabis products;
- the medical benefits, safety, efficacy, dosing and social acceptance of cannabis;
- the Issuer's competitive position and the regulatory environment in which the Issuer operates;
- the Issuer's expected business objectives;
- the Issuer's ability to obtain additional funds through the sale of equity or debt commitments;
- the ability of the Issuer's products to access domestic and international markets;
- scientific findings regarding the long term impact of cannabis use or ability to cure medical issues; and
- estimations and anticipated effects of the COVID-19 pandemic.



Forward-looking statements are based on certain assumptions and analyses made by the Issuer 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 Listing Statement, the Issuer has made various material assumptions, including but not limited to: (i) obtaining the necessary regulatory approvals; (ii) that regulatory requirements will be maintained; (iii) general business and economic conditions; (iv) the Issuer's ability to successfully execute its plans and intentions; (v) the availability of financing on reasonable terms; (vi) the Issuer's ability to attract and retain skilled staff; (vii) market competition; (viii) the products and technology offered by the Issuer's competitors; (ix) that the Issuer's current good relationships with its suppliers, service providers and other third parties will be maintained; and (x) the Issuer will be able to find suppliers to contract with on terms that are agreeable. Although the Issuer believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and the Issuer 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 Issuer'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 "*Risk Factors*". New factors emerge from time to time, and it is not possible for management to predict all of those factors or to assess in advance the impact of each such factor on the Issuer's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

If any of these risks or uncertainties 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 "*Risk Factors*" should be considered carefully by readers.

Certain of the forward-looking statements and forward-looking information and other information contained herein concerning the cannabis industry and the general expectations of the Issuer concerning the cannabis industry and concerning the Issuer are based on estimates prepared by the Issuer using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Issuer believes to be reasonable. While the Issuer is not aware of any misstatement regarding any industry or government data presented herein, the cannabis industry involves risks and uncertainties that are subject to change based on various factors and the Issuer has not independently verified such third-party information.

The Issuer's forward-looking statements are based on the reasonable beliefs, expectations and opinions of management on the date of this Listing Statement (or as of the date they are otherwise stated to be made). Although the Issuer 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. We do not undertake to update or revise any forward-looking statements, except as, and to the extent required by, applicable securities laws in Canada.

*All of the forward-looking statements contained in this Listing Statement are expressly qualified by the foregoing cautionary statements.*

## **GENERAL MATTERS**

This Listing Statement is an annually-updated listing statement completed to reflect all changes to the information appearing in the previously posted Listing Statement dated June 1, 2022.

Any market data or industry forecasts used in this Listing Statement, unless otherwise specified, were obtained from publicly available sources. Although the Issuer believes these sources to be generally reliable, the accuracy and completeness of such information are not guaranteed and have not been independently verified.

Statistical information included in this Listing Statement and other data relating to the industry in which the Issuer intends to operate is derived from recognized industry reports published by industry analysts, industry associations and independent consulting and data compilation organizations.

### **1. GLOSSARY**

Unless otherwise indicated all capitalized terms not otherwise defined in this Listing Statement have the meanings ascribed under this section:

"1005477" means 1005477 B.C. Ltd.;

"333 Jarvis" means 333 Jarvis Realty Inc.;

"3Fifteen" means 3Fifteen Primo Cannabis;

"5450" means 5450 Realty Inc.;

"ACMPR" means Health Canada's *Access to Cannabis for Medical Purposes Regulations* (Canada), issued pursuant to the CDSA and since repealed;

"Audit Committee" means the audit committee of the Issuer;

"Audit Committee Charter" means the Issuer's charter of the Audit Committee;

"BC Act" means the *Business Corporations Act* (British Columbia);

"BJK" has the meaning ascribed to it in "*General Development of the Business – Major Corporate Developments during the Financial Year Ended October 31, 2022*";

"Board" or "Board of Directors" means the directors of the Issuer as at the date of this document;

"BRNT" has the meaning ascribed to it in "*General Development of the Business – Major Corporate Developments during the Financial Year Ended October 31, 2022*";

"Cali Corp." means Heritage (US) Cali Corp.;

"cannabis" has the meaning given to such term in the Cannabis Act;

"Cannabis Act" means the *Cannabis Act* (Canada), and includes the Cannabis Regulations thereunder, and any amendments thereto;

"Cannabis Regulations" means the Cannabis Regulations pursuant to the Cannabis Act;

"Canopy" has the meaning ascribed to it in *"General Development of the Business – Major Corporate Developments during the Financial Year Ended October 31, 2022"*;

"CBD" means cannabidiol;

"CBG" means cannabigerol;

"CDS" means CDS Clearing and Depository Services Inc.;

"CDSA" means the *Controlled Drugs and Substances Act* (Canada), as amended;

"Change of Business" has the meaning ascribed to it in *"Corporate Structure – Jurisdiction of Incorporation"*;

"Cole Memorandum" has the meaning ascribed to it in *"Cautionary Statements Regarding U.S. Cannabis Operations"*;

"Colorado Corp." means Heritage (US) Colorado Corp.;

"Common Shares" means the common shares without par value in the capital of the Issuer;

"Compensation Committee" means the compensation committee of the Issuer;

"COVID-19" means the novel Coronavirus commonly known as COVID-19;

"CSA" means the Canadian Securities Administrators;

"CSE" means the Canadian Securities Exchange;

"DOJ" has the meaning ascribed to it in *"Risk Factors — Risks related to operating in the Cannabis Industry in the United States"*;

"ELOC Agreement" has the meaning ascribed thereto in *"General Development of the Business – Major Corporate Developments during the Financial Year Ended October 31, 2022"*;

"Empower" means Empower Heritage Sandy Assets Corp.;

"Endocanna" means Endocanna Health, Inc.;

"Escrow Shares" has the meaning ascribed to it in *"General Development of the Business – Major Corporate Developments during the Financial Year Ended October 31, 2022"*;

"**Falkland Facility**" means the Issuer's licensed facility in Falkland, British Columbia, which consists of a 15,500 sq. ft. building within approximately 13 acres of land;

"**Farm Bill**" has the meaning ascribed to it in *"Trends, Commitments, Events or Uncertainties"*;

"**FDA**" means the U.S. Food and Drug Administration;

"**Final Rule**" has the meaning ascribed to it in *"Trends, Commitments, Events or Uncertainties"*;

"**FinCEN**" has the meaning ascribed to it in *"Risk Factors – Anti-money laundering laws and regulations"*;

"**Harvest Care**" means Harvest Care Medical, LLC;

"**Health Canada**" means the department of the government of Canada responsible for Canada's national public health;

"**Heritage Cannabis East**" means Heritage Cannabis East Corporation, formerly known as CannaCure Corporation;

"**Heritage Cannabis West**" means Heritage Cannabis West Corporation, formerly known as Voyage Cannabis Corp.;

"**Heritage (US)**" means Heritage (US) Holdings Corp.;

"**Heritage Exchange**" means Heritage Cannabis Exchange Corp.;

"**IFR**" has the meaning ascribed to it in *"Trends, Commitments, Events or Uncertainties"*;

"**IFRS**" means International Financial Reporting Standards;

"**Industrial Hemp Regulations**" or "**IHR**" means *Industrial Hemp Regulations* (Canada);

"**Issuer**" or "**Heritage**" means Heritage Cannabis Holdings Corp.;

"**Issuer Financial Statements**" means the financial statements for the Issuer for the years ended October 31, 2022, and 2021;

"**Listing Statement**" means this annually updated listing statement, as may be amended and/or supplemented from time to time;

"**MI 61-101**" means Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*;

"**NCR**" means the *Narcotic Control Regulations* (Canada);

"**NI 52-110**" means National Instrument 52-110 – *Audit Committees*;

"**OBCA**" means the *Business Corporations Act* (Ontario);

"**Obsidian**" has the meaning ascribed thereto in "*General Development of the Business – Major Corporate Developments during the Financial Year Ended October 31, 2022*";

"**Opticann**" means Opticann, Inc.;

"**Options**" means stock options of the Issuer;

"**Oregon Corp.**" means Heritage (US) Oregon Corp.;

"**Original Purefarma Shareholders**" has the meaning ascribed to it in "*General Development of the Business – Major Corporate Developments during the Financial Year Ended October 31, 2022*";

"**OTC Markets Group**" means the company headquartered in New York City that provides, *inter alia*, over-the-counter trading services;

"**OTCPK**" means the services provided by OTC Markets Group to companies listed as "Pink";

"**person**" means a company or individual;

"**Premium 5**" means Premium 5 Ltd.

"**Purefarma**" means Purefarma Solutions Inc.;

"**RBC Prime**" has the meaning ascribed to it in "*General Development of the Business – Major Corporate Developments during the Financial Year Ended October 31, 2022*";

"**RSUs**" means restricted share units of the Issuer;

"**RSU Plan**" has the meaning ascribed to it in "*Options to Purchase Securities*";

"**Section 280E**" has the meaning ascribed to it in "*Unfavourable Tax Treatment of Cannabis Businesses*";

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval filing system, available at <http://www.sedar.com>;

"**Sessions Memorandum**" has the meaning ascribed to it in "*Risk Factors – Risks related to operating in the Cannabis Industry in the United States*";

"**SKUs**" means stock keeping units;

"**Staff Notice 51-352**" means the Canadian Securities Administrators Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities;

"**Stock Option Plan**" has the meaning ascribed to it in "*Options to Purchase Securities*";

"**THC**" means Tetrahydrocannabinol;

"**Thermal Energy**" means Thermal Energy International Inc.;

"TSXV" means the TSX Venture Exchange;

"United States", "US" and "U.S." mean the United States of America;

"USDA" has the meaning ascribed to it in *"Trends, Commitments, Events or Uncertainties"*; and

"US CSA" has the meaning ascribed to it in *"Trends, Commitments, Events or Uncertainties"*.

Words importing the masculine shall be interpreted to include the feminine or neuter and the singular to include the plural and vice versa where the context so requires.

In this Listing Statement, other words and phrases that are capitalized have the meanings assigned in this Listing Statement.

All references to "\$" or "dollars" in this Listing Statement are to Canadian dollars unless otherwise expressly stated. References to "US\$" are to United States dollars.

## 2. CORPORATE STRUCTURE

### 2.1 *Corporate Name and Head and Registered Office*

The Issuer's head office and registered and records office is located at 77 Bloor Street West, Suite 600, Toronto, Ontario, M5S 1M2.

### 2.2 *Jurisdiction of Incorporation*

The Issuer was incorporated under the BC Act on October 25, 2007 as "Trijet Mining Corp.". Upon completion of a fundamental "change of business" pursuant to CSE Policy on January 9, 2018 (the "Change of Business"), the Issuer changed its name to its present name, "Heritage Cannabis Holdings Corp." and currently operates as a licensed cannabis producer. At its August 9, 2019 annual general and special meeting of the shareholders of the Issuer, the shareholders approved a continuance into Ontario under the OBCA, which was effective on November 2, 2019. See *"General Development of the Business."*

### 2.3 *Inter-Corporate Relationships*

The Issuer has the following subsidiaries:

Name of Subsidiary	Jurisdiction of Incorporation	Shareholders and Interest held
1005477 B.C. Ltd.	British Columbia	Heritage Cannabis Holdings Corp. (100%)
Mainstrain Market Ltd.	British Columbia	Heritage Cannabis West Corporation (100%)
Purefarma Solutions Inc.	British Columbia	Heritage Cannabis Holdings Corp. (100%)

333 Jarvis Realty Inc.	Ontario	Heritage Cannabis Holdings Corp. (100%)
5450 Realty Inc.	British Columbia	Heritage Cannabis Holdings Corp. (100%)
Premium 5 Ltd.	Alberta	Heritage Cannabis Holdings Corp. (100%)
Heritage Cannabis Exchange Corp.	Ontario	Heritage Cannabis Holdings Corp. (100% of voting shares)
Heritage Cannabis East Corporation (formerly CannaCure Corporation)	Ontario	Heritage Cannabis Holdings Corp. (100%)
Heritage Cannabis West Corporation (formerly Voyage Cannabis Corp.)	British Columbia	1005477 B.C. Ltd. (100% of voting shares)
Heritage (US) Colorado Corp.	Delaware	Heritage Cannabis Exchange Corp. (100%)
Opticann, Inc.	Colorado	Heritage (US) Colorado Corp. (100%)
1186366 B.C. Ltd.	British Columbia	Heritage Cannabis Holdings Corp. (5%)
Heritage US Holdings Corp.	Delaware	Heritage Cannabis Holdings Corp. (100%)
Heritage (US) Oregon Corp.	Oregon	Heritage US Holdings Corp. (100%)
Empower Heritage Sandy Assets Corp.	Delaware	Heritage (US) Oregon Corp. (50%)
Heritage (US) Cali Corp.	California	Heritage US Holdings Corp. (100%)
Endocanna Health, Inc.	California	Heritage (US) Cali Corp. (30%)

1005477 was incorporated on June 16, 2014 under the BC Act. Its principal address is 3rd Floor, 1665 Ellis Street, Kelowna, BC V1Y 2B3. The Issuer owns 100% of the common shares of 1005477, which holds 100% of the issued and outstanding shares of Heritage Cannabis West.

Heritage Cannabis West (formerly Voyage Cannabis Corp.) was incorporated on July 4, 2014 under the BC Act. The principal address of Heritage Cannabis West is 929 Mainland Street, Vancouver, BC V6C 2B3 and the registered and records office of Heritage Cannabis West is 3<sup>rd</sup> Floor, 1665 Ellis Street, Kelowna, BC V1Y 2B3. On September 16, 2022, the Issuer acquired the remaining 25% interest in Heritage Cannabis West through a share cancellation acquisition with Estek Ventures Corp. The Issuer now indirectly owns 100% of the issued and outstanding shares of Heritage Cannabis West through its subsidiary 1005477 B.C. Ltd.

Mainstrain Market Ltd. was incorporated on March 8, 2018 under the BC Act. Its principal address is 929 Mainland Street, Vancouver, BC V6C 2B3. Heritage Cannabis West owns 100% of the issued and outstanding shares of Mainstrain Market Ltd.

Heritage Cannabis East (formerly CannaCure Corporation) was incorporated on December 12, 2013 under the OBCA. CannaCure Corporation amalgamated with 2659938 Ontario Limited on November 5, to form CannaCure Corporation. CannaCure Corporation subsequently filed articles of amendment on January 25, 2023 changing its name to Heritage Cannabis East. The principal address of Heritage Cannabis East is 333 Jarvis Street, Fort Erie, ON L2A 2S9. The Issuer owns 100% of the issued and outstanding shares of Heritage Cannabis East.

Purefarma was incorporated on March 3, 2016 under the BC Act. Purefarma amalgamated with CALYX Life Sciences Inc. on November 1, 2022 to form Purefarma. The principal address of Purefarma is 1055 West Georgia Street, 1500 Royal Centre, P.O. Box 11117, Vancouver, BC V6E 4N7. The Issuer owns 100% of the issued and outstanding shares of Purefarma.

333 Jarvis was incorporated on June 18, 2019 under the OBCA. The principal address of 333 Jarvis is 77 Bloor Street West, Suite 600, Toronto, Ontario M5S 1M2. The Issuer owns 100% of the issued and outstanding shares of 333 Jarvis.

5450 was incorporated on November 1, 2019 under the BC Act. The registered and records office of 5450 is 3rd Floor, 1665 Ellis Street, Kelowna, BC V1Y 2B3. The Issuer owns 100% of the issued and outstanding shares of 5450.

Premium 5 Ltd. was formed by the amalgamation of 2274629 Alberta Ltd. and Premium 5 Ltd. in the Province of Alberta on January 25, 2021. The registered and records office of Premium 5 Ltd. is #168, 11602-88 Avenue, Fort Saskatchewan, Alberta, T8L 0K1. The Issuer owns 100% of the issued and outstanding shares of Premium 5 Ltd.

Heritage Exchange was incorporated on October 6, 2020 under the OBCA. The registered and records office of Heritage Exchange is 77 Bloor Street, West, Suite 600, Toronto, Ontario, M5S 1M2. The Issuer owns 100% of the issued and outstanding voting shares of Heritage Exchange.

Colorado Corp. was incorporated on September 24, 2020 as a Delaware company. The registered office of Colorado Corp. is 251 Little Falls Drive, Wilmington, New Castle County, Delaware, 19080. The Issuer indirectly owns 100% of the issued and outstanding shares of Colorado Corp.

Opticann was incorporated as Opticann, LLC by articles of organization in the State of Colorado on May 5, 2019. The registered and records office for Opticann is 77 Bloor Street, West, Suite 600, Toronto, Ontario, M5S 1M2. The Issuer indirectly owns 100% of the issued and outstanding shares of Opticann.

Heritage (US) was incorporated on June 21, 2019 as a Delaware company. The principal office of Heritage (US) is 929 Mainland Street, Vancouver, BC V6B 1S3. The Issuer owns 100% of the issued and outstanding shares of Heritage (US).

Oregon Corp. was incorporated on April 28, 2020 as an Oregon company. The registered and records office of Oregon Corp is 77 Bloor Street, West, Suite 600, Toronto, Ontario, M5S 1M2. The Issuer indirectly owns 100% of the issued and outstanding shares of Oregon Corp.



Empower was incorporated on April 28, 2020 as a Delaware company. The registered office of Empower is 2140 S. Dupont Highway, Kent County, Delaware 19224. The Issuer indirectly owns 50% of the issued and outstanding shares of Empower.

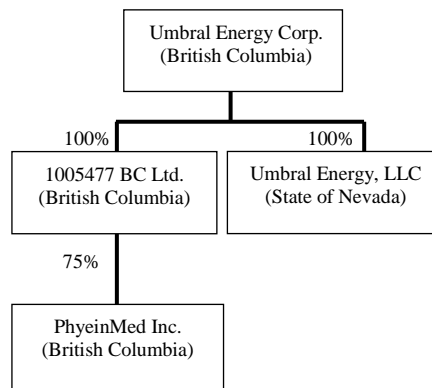
Cali Corp. was incorporated on June 25, 2019 as a California company. The principal office of Cali Corp. is 929 Mainland Street, Vancouver, BC V6B 1S3. The Issuer indirectly owns 100% of the issued and outstanding shares of Cali Corp.

Endocanna was incorporated on December 18, 2017, a company based in California, United States. The principal address of Endocanna is 16710 Ventura Blvd, Suite 333, Encino, California, 91436. Through two of its wholly-owned U.S. subsidiaries and a series of transactions, the Issuer acquired a 30% interest in Endocanna.

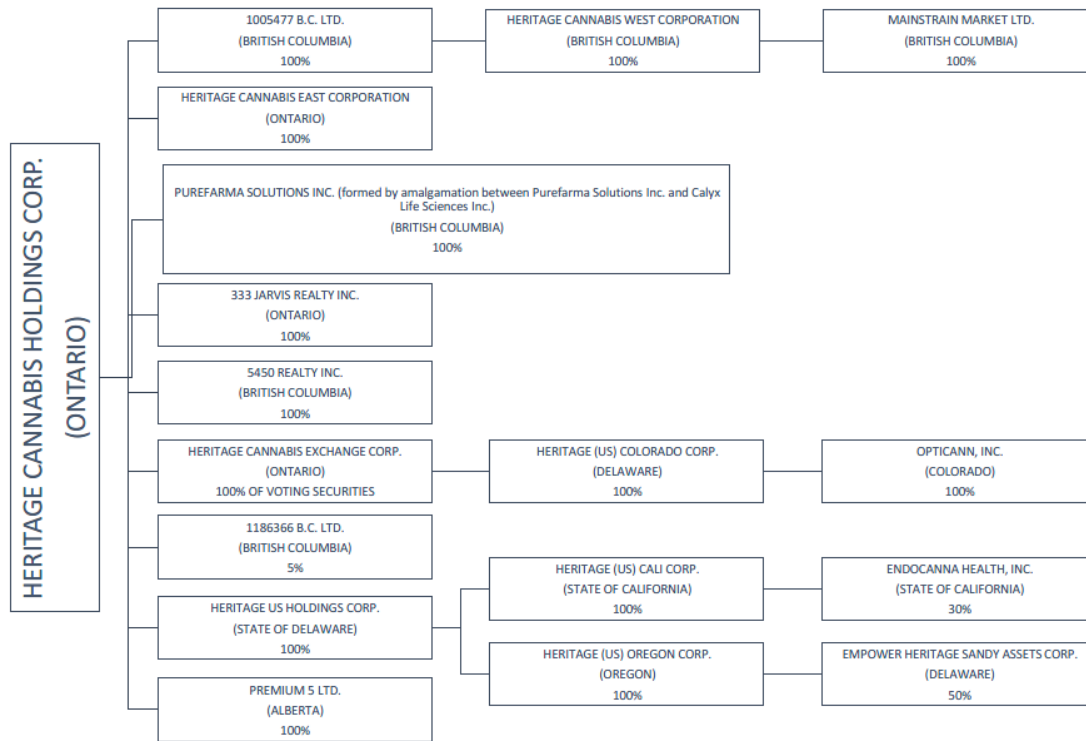
## 2.4 *Fundamental Change*

The Issuer received approval from the CSE on January 9, 2018 with respect to its requalification application.

The following diagram illustrates the Issuer's corporate structure, together with the governing law or the jurisdiction of incorporation of each principal material subsidiary and the percentage of voting securities beneficially owned by the Issuer, immediately prior to the completion of the Change of Business:



The following chart illustrates the intercorporate relationships that exist as of the date of the Listing Statement subsequent to changes noted in Section 3.1 of this Listing Statement:



## 2.5 Non-Corporate Issuers or Issuers Incorporated Outside of Canada

This section is not applicable to the Issuer.

## 3. GENERAL DEVELOPMENT OF THE BUSINESS

### 3.1 General Development of the Issuer's Business

Heritage is a vertically integrated cannabinoid company focused on the production and sale of medical and recreational hemp-based and cannabis-based products and services. In pursuit of its vision, the Issuer has built an infrastructure of complementary entities, each focused on the Issuer's strategy to build a vertically integrated cannabis business. Each of Heritage Cannabis East and Heritage Cannabis West hold licenses issued by Health Canada pursuant to the Cannabis Regulations, which allow them, at their properties located in Fort Erie, Ontario and Falkland, British Columbia, to possess cannabis, to obtain dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds by cultivating, propagating and harvesting cannabis, and to sell cannabis in accordance with subsection 17(5) of the Cannabis Regulations and section 27 and Part 14, Division 1 of the Cannabis Regulations. The licenses also include standard processing and medical sales authorizations. Additionally, Heritage Cannabis East and Heritage Cannabis West hold licenses to sell or distribute cannabis topicals, cannabis extracts, and edible cannabis.

In the United States, the Issuer's business is primarily carried out through its subsidiary Opticann, a Colorado based oral and topical cannabinoid company.

The Issuer continues to seek other opportunities in the cannabis and hemp industries. See "*Overview of Business*".

The Issuer commenced trading on the TSXV on January 6, 2010. On October 17, 2014, the Issuer delisted its Common Shares from the TSXV and on October 20, 2014, the Common Shares commenced trading on the CSE under the symbol "UMB.C". On January 9, 2018, upon completion of the Change of Business, the Common Shares commenced trading under the symbol "CANN.C".

### **Major Corporate Developments during the Financial Year Ended October 31, 2022**

On November 9, 2021, the Issuer announced that it had signed a definitive white label agreement with BRNT Ltd. ("**BRNT**"), an Alberta based brand house and cannabis ancillary company that launched the top performing dried flower and pre-roll Alberta brand, Violet Tourist. Under the agreement, the Issuer has worked with BRNT to launch Violet Tourist branded cannabis 2.0 infused pre-roll in Alberta. Over the course of the agreement, the Issuer aims to expand distribution of the brand across Canada and further add to its associated SKU listings in both the cannabis 1.0 and 2.0 segments. Terms of the agreement provide the Issuer with control of procurement & supply chain and effectively grants the Issuer rights to fully operate the brand. BRNT and the Issuer are also exploring a commercial agreement to launch a RAD and Pura Vida branded Hexagon bong, which will be available to consumers in both Canada and the United States. BRNT's patent protected ceramic Hexagon bong was recently featured in Rolling Stone magazine as one of its Best Bongs of 2021. BRNT launched Violet Tourist branded products in Alberta during December of 2020 and per Headset data, up to the end of September 2021 have generated over \$2.5 million of wholesale revenue attributed to the brand. Further Headset data indicated that at the end of August 2021, Violet Tourist was the #4 brand in the Alberta pre-roll segment (a category that commands approx. 26% of the overall cannabis market in Alberta) and held 4% of overall retail sales in the province since its launch in December 2020.

On November 15, 2021, the Issuer announced that it had signed a commercial agreement with Canopy Growth Corp. ("**Canopy**") for the supply of bulk concentrates, including live resin. The Issuer recently provided the first shipment of live resin to Canopy, with future purchase orders and shipments to follow. Canopy, a Canadian leader when it comes to revenue and market share in the cannabis space, had engaged the Issuer for bulk concentrate supply, based on the Issuer's product quality, consistency, industry proven technology and innovation, and the ability to execute on pace with Canopy's growth.

On January 18, 2022, the Issuer announced that Endocanna entered into a strategic partnership with OMNI Medical Services. Under the partnership, OMNI Medical Survives is preparing a major study in collaboration with Endocanna to determine the best strain of plant-based medicines for patients by analyzing their endocannabinoid system. Endocanna's EndoDNA test kits analyze essential biomolecules in the human endocannabinoid system to formulate and identify the ratios of CBD and cannabis the body metabolizes most effectively, and explores optimal methods of consumption and dosing based on metabolic function and drug to drug interactions.

On January 28, 2022, the Issuer announced that Spectrum Therapeutics would begin offering Heritage products including products from RAD, Premium 5, and CB4, which will be the first third-party cannabis extract and concentrate offerings on the platform.

On January 31, 2022, the Issuer announced the upcoming launch of nine new products that will be available in the Ontario cannabis market through the Ontario Cannabis Store and retailers in the province. New products include two infused pre-rolls, three concentrates, one pre-roll, two vape cartridges, and one flower product.

On February 28, 2022, the Issuer announced that it was subject to a general cease trade order by the Ontario Securities Commission, effective March 2, 2022 as a result of its failure to file annual financial statements for its financial year ended October 31, 2021. The cause of the delay was not material to the Issuer or its operations.

On March 30, 2022, the Issuer announced that it had sold its interest in Stanley Park Digital Ltd., a technology consulting company that focusses on all aspects of Blockchain technology, based in Vancouver, BC, for aggregate proceeds of approximately CDN\$608,649. The Issuer initially signed a Letter of Intent to acquire 20% shares in Stanley Park Digital Ltd. in January 2018, and subsequently finalized and completed its investment for an aggregate purchase price of CDN\$340,000, representing an 18% interest in Stanley Park Digital Ltd. in April 2020. The sale of the investment is in-line with the Issuer's focus on its core strengths, namely growing its recreational business and leveraging its strengths in medical channels.

On June 2, 2022, the Issuer announced that the general cease trade order issued by the Ontario Securities Commission had been revoked, allowing the Issuer's shares to resume trading. The audit took longer to complete than originally anticipated by virtue of the fact that the Issuer's acquisition of Premium 5 in 2021 transitioned the Issuer from one with minimal provincial sales to one with numerous SKUs across 5 product verticals in less than 12 months. Notwithstanding the delay, the Issuer continued to operate normally without disruption and completed the annual filings on May 11, 2022, and subsequently completed the filings for the first quarter of 2022 on May 30, 2022.

On June 6, 2022, the Issuer announced that it had signed a definitive agreement for the supply of its products to a major licensed producer with one of the leading market shares of sale on its medical platform. The licensed producer had completed its initial purchase of the Issuer's brands, including RAD, Premium 5, and CB4, and is now offering Heritage products on the platform with the first shipment of 12 SKUs completed in May. The relationship will also encompass white labelling of some products based on the Issuer's product, quality, variety, consistency, industry proven technology and innovation.

On June 17, 2022, the Issuer announced the upcoming launch of twenty new products available in the Ontario Cannabis Store and retailers in the province. New products include flower, pre-roll, vape, edible and concentrates products.

On June 17, 2022, the Issuer announced that a total of \$391,000 was awarded to certain executive employees and consultants based on corporate measures and individual performance of those individuals in 2021. The employees had elected to receive Common Shares in lieu of cash as consideration for their awards pursuant to the terms of certain debt conversion and exchange agreements. As such, the employees collectively agreed to convert the \$391,000 owed to them into Common Shares. Pursuant to the terms of the debt conversion and exchange agreements, the Issuer had issued 7,109,090 Common Shares to the employees at a price of \$0.055 per Common Share, calculated based on the 5-day volume-weighted average price of the Common Shares for the period immediately prior to the execution of the debt conversion and exchange agreements. The 7,109,090 Common Shares were issued in reliance on certain prospectus exemptions available under National Instrument 45-106 – Prospectus Exemptions, and

are subject to a four month and one day statutory hold period. As 3,745,454 of the Common Shares were issued to the employees of the Issuer, the issuance of the Common Shares constituted a "related party transaction" pursuant to MI 61-101. The Issuer relied on exemptions from the formal valuation and minority approval requirements of MI 61-101 (pursuant to subsections 5.5(a) and 5.7(1)) as the fair market value of the securities distributed to, and the consideration received from, the related party did not exceed 25% of the Issuer's market capitalization. The transaction was approved by the Board of Directors, subject to David Schwede abstaining from voting due to conflict of interest. No special committee was established in connection with the foregoing issuance of Common Shares or the participation of the applicable officers and directors in the transaction, and no materially contrary view or abstention was expressed or made by any director of the Issuer in relation thereto.

On July 20, 2022, the Issuer announced the launch of Heritage Helps, a new program embraced by management, employees and stakeholders that will be introduced throughout 2022. Heritage Helps is a multi-faceted program that combines initiatives that support the environment and communities in which it operates. The Issuer is committed to being as environmentally sensitive as possible while remaining competitive in the market in both product quality and the pricing to which our customers have become accustomed. The Issuer's first initiative is to convert all packaging for its Pura Vida brand to the most environmentally friendly packaging feasible. Going forward, Pura Vida's packaging will include the use of paper based, recyclable and/or biodegradable bags and tubes. Additionally, this summer Heritage will be announcing a partnership with an organization that is focused on people in need. Whether the needs are related to clothing, food, jobs, health, services or accessible cannabis. The partner organization is planning to expand across Canada and be nationally recognized as a resource for the under-served, and Heritage Helps will be there in support of these efforts, connecting with the community.

On August 8, 2022, the Issuer announced a relationship with Harvest Care, a leading grower, processor, and provider of top-quality medical cannabis products in the state of West Virginia, with ten dispensary licenses, of which two are currently in operation. Harvest Care was granted one of ten cultivation licenses in 2021 and will contribute the use of the license to the relationship, allowing Heritage to produce branded products to be offered to medical cannabis consumers in West Virginia. Similar to Heritage's relationship in Missouri, under the agreement Heritage will supply production equipment to Harvest Care as well as provide training and supervision of staff on the proprietary methods of extraction and manufacturing of Heritage developed and branded products. The relationship will provide favourable shelf allocation for Heritage's branded products in Harvest Care's West Virginia dispensaries.

On September 9, 2022, the Issuer announced that it has changed its auditors from Davidson & Company LLP to Welch LLP. At the request of the Issuer, Davidson & Company LLP resigned as the auditor of the Issuer effective September 8, 2022 and the Board appointed Welch LLP effective as of September 9, 2022.

On September 16, 2022, the Issuer announced it had acquired the remaining 25% interest in Heritage Cannabis West (formerly, Voyage Cannabis Corp.) through a share cancellation acquisition with Estek Ventures Corp., and now owns 100% of the issued and outstanding shares in the capital of Heritage Cannabis West, a holder of various Health Canada cannabis licenses. As consideration for the cancellation of 500 Class A Voting Common Shares and 400,000 Class G Non-Voting Preferred Shares in the capital of Heritage Cannabis West, the Issuer had issued Estek Ventures Corp. 2,000,000 Common Shares at a price of CAD\$0.06 per share plus an additional CAD\$50,000 in cash. The Issuer also entered into a settlement agreement with the original shareholders of Purefarma Solutions Inc. (the "**Original Purefarma**

**Shareholders")** to settle all outstanding obligations of the Issuer to the Original Purefarma Shareholders pursuant to the terms of a share exchange agreement and share purchase agreement each dated December 7, 2018. In satisfaction of all claims related to earn-out share obligations and contingent cash payment obligations, the Original Purefarma Shareholders directed the Issuer to issue 14,728,762 Common Shares to its corporate shareholder, 1187940 B.C. Ltd., at a price of CAD\$0.05 per Common Share.

On September 29, 2022, the Issuer announced that it had entered into a second loan amending agreement to the original loan agreement dated March 29, 2021, as amended October 4, 2021 with BJK Holdings Ltd. ("**BJK**") in the total amount of \$19.775 million across four facilities. As a result of the second amending agreement, the maturity date on the loan was extended to November 30th, 2024, and an additional loan facility in the amount of \$4,985,000 had been extended to the Issuer, bringing the total amount of proceeds that the Issuer has access to through the loan to \$19.775 million. A one-time loan amendment fee of \$985,000 was paid to BJK on September 29, 2022. On closing, the monthly interest rate of the loan was calculated at the Royal Bank of Canada prime lending rate ("**RBC Prime**") minus 1.75%, with the exception of the third facility of the loan which will be calculated at 15% per annum. The interest rate of the loan will be increased in increments up to a maximum amount on the maturity date of RBC Prime plus 10% but in no case greater than 18%, with the exception of the third facility of the loan which on the maturity date will be RBC Prime plus 10% but in no case less than 15% per annum. In connection with the loan, the Issuer issued a new warrant certificate to BJK entitling BJK to subscribe for and purchase up to 50,000,000 Common Shares at an exercise price of \$0.10 per common share. The new warrant has an expiry date of February 28, 2025. The Issuer had also agreed to amend an existing warrant certificate held by BJK dated October 8, 2021, which entitled BJK to subscribe for and purchase up to 10,000,000 Common Shares at an exercise price of \$0.25 per share. Effective September 30, 2022, the Issuer amended the existing warrant so that the expiry date for BJK to exercise the certificate was extended from October 8, 2023 until February 28, 2025.

On October 3, 2022, the Issuer announced that it is commencing operations in the state of Missouri after Como Health LLC, doing business as 3Fifteen, recently received an Approval to Operate from the Missouri Section for Medical Marijuana Regulation. The Issuer had been working alongside 3Fifteen, a rapidly growing cannabis company with five dispensaries in operation, to supply production equipment as well as training staff on the proprietary methods of extraction and oil production developed by the Issuer. 3Fifteen is contributing the use of the license to the relationship allowing the Issuer to produce branded products to be offered to medical cannabis consumers in Missouri and has granted shelf minimums for Heritage's branded products in 3Fifteen's Missouri dispensaries.

On October 4, 2022, the Issuer announced the upcoming launch of RAD Razzlers, a cannabis gummy that marks the entry into a new product category for the Issuer. Following on the popularity of other cannabis products sold across the country under the RAD brand, RAD Razzlers are a new addition to the edibles category and offer unique and popular flavour profiles sought after by cannabis consumers. RAD Razzlers will initially be offered in packages containing a total of 10 mg of THC, with each gummy containing 2.5 mg of THC. Manufactured in-house at Heritage, Rad Razzlers will be launching initially with five SKUs in each of Alberta, Saskatchewan, and Manitoba, and three SKUs in Ontario with an additional two SKUs launching in Q1 2023 in the province. Following the official launch, the Issuer aims to have RAD Razzlers offered across the country in all provinces as well as bring the edibles portfolio into the U.S.

On October 11, 2022, the Issuer announced that it had also commenced operations in West Virginia through its relationship with Harvest Care, after Harvest Care received its processing license from the West Virginia Office of Medical Cannabis. Initial production on vape products and concentrates has already commenced in the State. This milestone marks Heritage's second U.S. state where it is operating, and with additional states on the horizon, the U.S. strategy is gaining traction and taking shape as the U.S. moves closer to decriminalizing cannabis. The Issuer has been working with Harvest Care, a leading grower, processor, and provider of top-quality medical cannabis products in the state of West Virginia, with ten dispensary licenses of which two are currently in operation. Harvest Care was granted one of ten cultivation licenses last year and will contribute that and the processing license to the relationship, allowing Heritage to produce branded products to be offered to medical cannabis consumers in West Virginia.

On October 15, 2022, Umar Syed resigned as an employee of the Issuer, and the Board of Directors subsequently confirmed that Daniel Phaure would replace him as Corporate Secretary of the Issuer.

#### Major Corporate Developments Subsequent to the Financial Year Ended October 31, 2022

On November 2, 2022, the Issuer announced the completion of its first cannabis production run in the United States and confirmed shipments of products to dispensaries in the State of West Virginia, which were subsequently made available for purchase. The first cannabis products to ship include RAD distillate vapes, with RAD live resin and live rosin.

On November 2, 2022, the Issuer announced that it has entered into an equity line of credit agreement (the "**ELOC Agreement**") with Obsidian Global Partners, LLC ("**Obsidian**") whereby Obsidian has agreed to purchase Common Shares for aggregate gross proceeds of up to US\$20 million at the Issuer's discretion. On closing, the Issuer paid Obsidian an initial fee in an amount equal to 1.5% of US\$20 million, which was satisfied by the issuance of Common Shares. An additional fee equal to 1.5% of US\$20 million will be due after 50% of the total offering amount has been drawn by the Issuer, which amount may be satisfied by cash or the delivery of Common Shares at the option of the Issuer. The Issuer also advanced 79,030,611 Common Shares to Obsidian in escrow (the "**Escrow Shares**"), which are subject to a statutory lock up and will only be released to Obsidian in tranches as and when the Issuer requests that Obsidian purchase Common Shares pursuant to the ELOC Agreement. Any Escrow Shares that are not purchased by Obsidian will be subject to cancellation at the end of the term of the ELOC Agreement. The Issuer 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 Obsidian be issued Common Shares which would result in Obsidian beneficially owning in aggregate greater than 9.99% of the outstanding Common Shares of the Issuer.

On November 9, 2022, the Issuer announced that the recent vote to legalize cannabis in the state of Missouri is expected to have positive impacts on its recently launched U.S. strategy to enter the cannabis market in the United States in jurisdictions where medical and recreational cannabis use is legalized using an asset light approach in partnership with existing local license holders. Voters in Missouri had approved Amendment 3 which fully decriminalizes cannabis in the state and opens the market to include recreational sales, a move that is expected to significantly expand the market. This is in addition to the medical marijuana program that was approved in 2018. With legalization in force, MJBizDaily projects sales could reach up to US\$550 million in Missouri in the first year of legalization and as much as US\$900 million by year four. In comparison, the Canadian cannabis market size where the Issuer currently

operates is US\$3.4 billion in 2022 according to MJBizDaily, making the Missouri market potential approximately 25% of the entire Canadian market.

On January 4, 2022, the Issuer, through its relationship with Como Health LLC, completed its first cannabis production run and shipment of products to dispensaries in the State of Missouri. This marked the start of Heritage cannabis product sales in the second state in the United States, with products now available in both Missouri and West Virginia. Products available to purchase in the U.S. include RAD distillate vapes, RAD live resin and live rosin, with additional products in the pipeline including pre-rolls and blunt, infused pre-rolls and blunts as well as concentrate dispensers. On January 6, 2023, David Schwede, was interviewed by The Power Play (The Market Herald) to discuss the news of the Missouri shipment.

On January 16, 2023, the Issuer issued Common Shares to certain employees of the Issuer as consideration for annual bonuses and sales commissions in respect of their performances in the 2022 fiscal year. The Issuer sought and was granted relief to the Canadian Securities Exchange's minimum price rule, and issued 7,253,985 Common Shares to the employees at a price of \$0.03 per share.

On February 8, 2023, the Issuer announced that Cory Larsen has been appointed to Chief Commercial Officer and Eoin Hegarty was appointed to Chief Operating Officer in replacement of Daniel Phaure, who will remain in his position as Chief Financial Officer and Corporate Secretary.

### **3.2 Significant Acquisitions and Dispositions**

No significant acquisitions or dispositions have been completed by the Issuer during the financial years ended October 31, 2022 and October 31, 2021.

### **3.3 Trends, Commitments, Events or Uncertainties**

The most significant trends and uncertainties which the Issuer's management reasonably expects could have a material effect on its business, financial condition or results of operations are (i) the changing legal and regulatory regime of Canada and the United States which regulates the production and sale of cannabis and cannabis-related products; (ii) the ability of companies who may receive funds from the sale of cannabis and cannabis-related products to adequately track and legally transfer such funds; and (iii) the ability of companies to raise adequate capital to carry out their business objectives.

There are significant risks associated with the Issuer's business, as applicable, as described in Part 18 – "Risk Factors". Please see also "Cautionary Statements Regarding U.S. Cannabis Operations" and "Forward Looking Statements" above.

### **U.S. Operations**

As of October 31, 2022, the Issuer has material ancillary involvement in the United States cannabis industry and accordingly is subject to Staff Notice 51-352. The Issuer currently has immaterial 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 Issuer 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 Issuer 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 Issuer operationalized the site in May 2021.

The CBD production contemplated by 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 Issuer has material ancillary involvement in the U.S. cannabis industry and cannabis products from the facility financed by the Issuer 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 Issuer 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 Issuer 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.

### ***U.S. Cannabis Regulation***

Please see "*Cautionary Statement Regarding US Cannabis Operations*".

### ***Canadian Law***

Legislation legalizing the adult-use use of cannabis in Canada was implemented on October 17, 2018 under the Cannabis Act. The Cannabis Act is intended to support the federal government's platform advocating for the legalization of adult-use cannabis in order to regulate the illegal market and restrict access by under-aged individuals. The Cannabis Act regulates the production, distribution and sale of cannabis for adult-use.

The Cannabis Act provides a licensing and permitting scheme for the production, testing, packaging, labelling, sending, delivery, transportation, sale, possession and disposal of cannabis. Provincial legislation has implemented measures authorizing the sale of cannabis that has been produced by a person authorized under the Cannabis Act to produce cannabis for commercial purposes. The licensing, permitting and authorization regime has been implemented by regulations made under the Cannabis Act.

The Cannabis Act enables the ability to provide legal access to cannabis and to control and regulate its production, distribution and sale.

#### Federal Developments

On October 17, 2018, the Cannabis Act came into force, legalizing the sale of cannabis for adult-use. Prior to the Cannabis Act coming into force, only the sale of medical cannabis was legal and was regulated by the ACMPR made under the CDSA. The Cannabis Act replaced the CDSA and the ACMPR as the governing laws and regulations in respect of the production, sale and distribution of medical cannabis and related oil extract. Transitional provisions of the Cannabis Act provide that every license issued under Section 35 of the ACMPR that is in force immediately before the day on which the Cannabis Act comes into force (being October 17, 2018) is deemed to be a licence issued under the Cannabis Act, and that such licence will continue in force until it is revoked or expires. Given that the Cannabis Act is very new, the impact of such regulatory changes on the Issuer's business is unknown.

The Cannabis Act provides a licensing and permitting scheme for the production, importation, exportation, testing, packaging, labelling, sending, delivery, transportation, sale, possession and disposal of cannabis for non-medicinal (i.e., adult-use/recreational) use, to be implemented by regulations made under the Cannabis Act. The Cannabis Act maintains separate access to cannabis for medical purposes, including providing that import and export licenses and permits will only be issued in respect of cannabis for medical or scientific purposes or in respect of industrial hemp.

The Cannabis Act, among other things, sets out regulations relating to the following matters:

1. Licences, Permits and Authorizations;
2. Security Clearances;
3. Cannabis Tracking System;
4. Cannabis Products;
5. Packaging, Labelling and Advertising;
6. Cannabis for Medical Purposes; and
7. Health Products and Cosmetics Containing Cannabis.

#### Industrial Hemp Products

Industrial hemp in Canada is regulated under the Industrial Hemp Regulations ("IHR"), pursuant to subsection 139(1) of the Cannabis Act. The IHR sets out the regulatory framework for controlling and authorizing activities involving industrial hemp. The IHR defines Industrial Hemp as "a cannabis plant – or any part of the plant – in which the concentration of THC is 0.3% or less in the flowering heads and leaves". A license issued by Health Canada under the IHR is required in order to conduct various activities involving Industrial Hemp (those who obtain the license are not subject to the Cannabis Regulations). An IHR issued license allows the holder to conduct certain activities authorized by that specific category of license, including, selling, importing and exporting seed or grain and cultivating industrial hemp. These

licenses also authorize certain ancillary activities, such as harvesting and transferring industrial hemp, and making certain derivative industrial hemp products, such as hulled hemp seed, hemp protein and hemp seed oil.<sup>1</sup>

Not every activity that involves industrial hemp falls within the scope of the IHR. For example, the extraction of CBD or another phytocannabinoid from the flowering heads, leaves and branches of the plant (whether categorized as hemp or otherwise) falls under the jurisdiction of the Cannabis Regulations and requires a cannabis processing license issued under the Cannabis Act.<sup>2</sup> In addition, since October 2019, edible cannabis products, such as CBD infused products, became legal in Canada (see below "*Cannabis Products*").

### Licences, Permits and Authorizations

The Cannabis Act establishes six different types of authorizations based on the activity being undertaken and, in some cases, the scale of the activity: (i) cultivation licenses; (ii) processing licenses; (iii) analytical testing licenses; (iv) sales for medical purposes licenses; (v) research licenses; and (vi) cannabis drug licenses. The Cannabis Act also create subclasses for cultivation licenses (standard cultivation, micro-cultivation and nursery) and processing licenses (standard processing and micro processing). Different licenses and each subclass therein, carry differing rules and requirements that are intended to be proportional to the public health and safety risks posed by each license category and each subclass. The Cannabis Act provide that all licences issued under the Cannabis Act will be valid for a period of no more than five years.

The Cannabis Act provides that all licences issued under the Cannabis Act are valid for a period of no more than five years and that no licensed activity (except for destruction, antimicrobial treatment and distribution) be conducted in a dwelling-house.

### Security Clearances

Select personnel (including individuals occupying a "key position," directors, officers, large shareholders and individuals identified by the Minister of Health) associated with certain licences issued under the Cannabis Act are obliged to hold a valid security clearance issued by the Minister of Health. The Cannabis Act enables the Minister of Health to refuse to grant security clearances to individuals with associations to organized crime or with past convictions for, or an association with, drug trafficking, corruption or violent offences.

### Cannabis Tracking System

Under the Cannabis Act, the Minister of Health is authorized to establish and maintain a national cannabis tracking system. The purpose of this system is to track cannabis throughout the supply chain to help prevent diversion of cannabis into, and out of, the legal market. The Cannabis Act provides the Minister of Health with the authority to make a ministerial order that would require certain persons named in such order to report specific information about their authorized activities with cannabis, in the form and manner specified by the Minister of Health. The Minister of Health has introduced the Cannabis tracking,

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<sup>1</sup> Canada, Health Canada, Industrial Hemp Licensing Application Guide, (Guide) (Canada: Health Canada, 16 October 2018), online <<https://www.canada.ca/content/dam/hc-sc/documents/services/publications/drugs-health-products/industrial-hemp-licensing-application-guide/pub-eng.pdf>>.

<sup>2</sup> *Ibid.*

and licence holders are required to use this system to submit monthly reports to the Minister of Health, among other things.

#### Cannabis Products

The Cannabis Act, which initially came into force on October 17, 2018, permits the sale to the public of dried cannabis, cannabis oil, fresh cannabis, cannabis plants, and cannabis seeds, including in such forms as "pre-rolled" and capsule products. On October 17, 2019, the production and sale of edible cannabis, cannabis extracts and cannabis topicals became legal in Canada under the Cannabis Act. The THC content and serving size of cannabis products is limited by the Cannabis Act. The Cannabis Act acknowledges that a range of product forms should be enabled to help the legal industry displace the illegal market.

#### Packaging, Labelling and Advertising

The Cannabis Act sets out requirements pertaining to the packaging and labelling of cannabis products which are intended to promote informed consumer choice and allow for the safe handling and transportation of cannabis, while also reducing the appeal of cannabis to youth and promoting safe consumption. These requirements require plain packaging for cannabis products, including strict requirements for logos, colours and branding, as well as packaging that is tamper-proof and child-resistant. Cannabis package labels must include specific information, such as: (i) product source information, including the class of cannabis and the name, phone number and email of the cultivator; (ii) a mandatory health warning, rotating between Health Canada's list of standard health warnings; (iii) the Health Canada standardized cannabis symbol; and (iv) information specifying THC and CBD content.

#### Cannabis for Medical Purposes

With the Cannabis Act in force on October 17, 2018, the medical cannabis regime migrated from the CDSA and the ACMPR to the Cannabis Act. The medical cannabis regulatory framework under the Cannabis Act remains substantively the same as existed under the CDSA and the ACMPR, with adjustments to create consistency with rules for non-medical use, improve patient access, and reduce the risk of abuse within the medical access system.

Under Part 14 of the regulations under the Cannabis Act, patients have three options for obtaining cannabis for medical purposes: (i) they can continue to access cannabis by registering with licensed producers; (ii) they can register with Health Canada to produce a limited amount of cannabis for their own medical purposes; or (iii) they can designate someone else to produce cannabis for them. With respect to (ii) and (iii), starting materials, such as cannabis plants or seeds, must be obtained from licensed producers. It is possible that (ii) and (iii) could reduce the addressable market for the medicinal cannabis products. However, management of the Issuer believes that many patients may be deterred from opting to proceed with options (ii) or (iii) since such steps require applying for and obtaining registration from Health Canada to grow cannabis, as well as the up-front costs of obtaining equipment and materials to produce such cannabis.

#### *Provincial Regulatory Framework*

While the Cannabis Act provides for the regulation of the commercial production of cannabis for recreational purposes and related matters by the federal government, the Cannabis Act provides that the provinces and territories of Canada have authority to regulate other aspects of recreational cannabis

(similar to what is currently the case for liquor and tobacco products), such as sale and distribution, minimum age requirements, places where cannabis can be consumed, and a range of other matters. At present, the Issuer has entered into third-party supply agreements with distributors in the provinces of Ontario, Manitoba, Quebec, New Brunswick, Prince Edward Island and Newfoundland and Labrador.

All Canadian provinces and territories have announced proposed regulatory regimes for the distribution and sale of cannabis for recreational purposes within those jurisdictions. There are essentially three general frameworks that the provinces and territories have proposed: (i) private cannabis retailers licensed by the province; (ii) government run retail stores; or (iii) a combination of both frameworks (e.g., privately licensed bricks and mortar retail stores, while online retail stores are operated by the applicable provincial government). Regardless of the framework, the recreational cannabis market is ultimately supplied by federally licensed cultivators and processors. In many cases, the provinces that have or propose to have privately licensed retailers have or will have a government run wholesaler. Such privately licensed retail stores are or will be required to obtain their cannabis products from the wholesalers, while the wholesalers, in turn, acquire the cannabis products from the federally licensed cultivators and processors. In addition, each of these Canadian jurisdictions has established a minimum age of 19 years old, except for Québec and Alberta, where the minimum age is 18.

**Ontario:** In Ontario, recreational cannabis is sold online through the Ontario Cannabis Store platform. As of April 1, 2019, Ontario allows the sale of recreational cannabis by private retailers. The Alcohol and Gaming Commission of Ontario is the provincial regulator authorized to grant store licenses. In addition, the regulatory regime in Ontario:

- requires private retailers to obtain both a retail operator license and a retail store authorization. Retail store authorizations are only to be issued to persons holding a retail operator license. Separate retail store authorizations are to be required for each cannabis retail store, but a licensed retail operator may hold more than one retail store authorization and operate multiple stores. Private retailers are not permitted to sell cannabis on-line, but may only sell cannabis in person at an authorized retail store;
- requires an individual at least 19 years of age who wishes to supervise or manage employees of a cannabis retail store, oversee or coordinate the sale of cannabis, manage compliance issues in relation to the sale of cannabis or have signing authority to purchase cannabis, enter into contracts or make offers of employment, to obtain a cannabis retail manager license;
- limits a person who is authorized by a license issued under the Cannabis Act to produce cannabis for commercial purposes (and their affiliates) to operating one retail cannabis store, which must be located on or within the site set out in the license. The term "affiliate" is not currently defined, although it may be in future regulations. The definition of affiliate may have the effect of limiting the ability of federally licensed producers from entering into the consumer retail market in Ontario;
- prohibits federally licensed producers from promoting their products by way of providing any material inducement to cannabis retailers;

- permits municipalities and reserve band councils to opt out of the retail cannabis market by resolution. The last day to pass such a resolution was January 22, 2019. Municipalities that have opted out may later lift the prohibition on retail cannabis stores by subsequent resolution. Municipalities may not pass a bylaw providing for a further system of licensing over the retail sale of cannabis; and
- may impose further restrictions through future regulation. Cannabis retail store operators are only permitted to purchase cannabis from the Ontario Cannabis Store, which may set a minimum price for cannabis or classes of cannabis.

**British Columbia:** In British Columbia, recreational cannabis is sold through both publicly and privately operated stores, with the provincial BC Liquor Distribution Branch handling wholesale distribution.

**Alberta:** In Alberta, cannabis products are sold by private retailers that receive their products from a government-regulated distributor, similar to the distribution system currently in place for alcohol in the province. Only licensed retail outlets are permitted to sell cannabis with online sales run by the Alberta Gaming and Liquor Commission.

**Saskatchewan:** In Saskatchewan, recreational cannabis is sold by private retailers. The Saskatchewan Liquor and Gaming Authority is to issue approximately 60 retail permits to private operators in as many as 40 Saskatchewan municipalities and First Nations communities, with municipalities and First Nations communities having the option of opting out of having a retail cannabis store if they choose.

**Manitoba:** In Manitoba, a "hybrid model" for cannabis distribution applies whereby the supply of cannabis is secured and tracked by the Manitoba Liquor and Lotteries Corp.; however, licensed private retail stores are permitted to sell recreational cannabis.

**Québec:** In Québec, all recreational cannabis must be managed and sold through outlets of the Société québécoise du cannabis, a subsidiary of the Société des alcools du Québec, and its online site.

**New Brunswick:** In New Brunswick, recreational cannabis is sold through a network of tightly-controlled, stand-alone stores through Cannabis NB, a subsidiary of the New Brunswick Liquor Corporation.

**Nova Scotia:** In Nova Scotia, the Nova Scotia Liquor Corporation is responsible for the regulation of cannabis in the province, and recreational cannabis is only to be sold publicly through government-operated storefronts and online.

**Prince Edward Island:** In Prince Edward Island, similar to Nova Scotia, cannabis must be sold publicly, through government stores and online.

**Newfoundland and Labrador:** In Newfoundland and Labrador, recreational cannabis must be sold through licensed private stores, with its crown-owned liquor corporation, the Newfoundland and Labrador Liquor Corp., overseeing the distribution to private sellers who may sell to consumers. The Newfoundland and Labrador Liquor Corp. controls the possession, sale and delivery of cannabis, and sets prices. It is also the initial online retailer, although licenses may later be issued to private interests. The government of Newfoundland and Labrador has issued a request for proposals for private retailers.



**Yukon:** The Yukon limits the initial distribution and sale of recreational cannabis to government outlets and government-run online stores, and allows for the later licensing of private retailers.

**Northwest Territories:** The Northwest Territories relies on the N.W.T. Liquor Commission to control the importation and distribution of cannabis, whether through retail outlets or by mail order service. Communities in the Northwest Territories are able to hold a plebiscite to prohibit cannabis, similar to options currently available to restrict alcohol in the Northwest Territories.

**Nunavut:** The Nunavut Cannabis Act establishes the licensing system for the retail sale of recreational cannabis. The Nunavut legislation contemplates the sale of cannabis through both public and licensed private retail stores and online. Sales will initially only be through the Liquor and Cannabis Commission and its agent. Under the Nunavut Cannabis Act, a person can submit an application for a license to operate a cannabis store, remote sales store, or cannabis lounge.

#### Health Products and Cosmetics Containing Cannabis

Health Canada has taken a scientific, evidenced-based approach for the oversight of health products with cannabis that are approved with health claims, including prescription and non-prescription drugs, natural health products, veterinary drugs and veterinary health products, and medical devices. The Cannabis Regulations do not apply to cannabis-derived ingredients which are exempt from the definition of "cannabis" (such as non-viable seeds, mature stalks without any leaf, flower, seed or branch, roots of cannabis plants). These exempt ingredients, or cannabis-derived ingredients that contain no more than 10 parts per million THC, and which fall within the Industrial Hemp Regulations, can be used in cosmetics and natural health products, so long as no health claims are made.

#### ***International***

Medical and adult-use cannabis opportunities also appear to be developing in other G20 countries as these jurisdictions move towards establishing new or improved medical and adult-use cannabis legislative and regulatory frameworks and systems. The Issuer intends to investigate and monitor potential opportunities in international jurisdictions where medical and/or adult-use cannabis is legally allowed by all levels of government presently, or where the government is actively moving towards such a legal framework.

## **4. NARRATIVE DESCRIPTION OF THE BUSINESS**

### ***4.1 General Overview of Business***

#### **Business Outlook**

The market continues to be burdened by overcapacity, inadequate tax reform and an extremely crowded marketplace with limited customer interaction due to regulations, however Heritage has continued to grow its top-line through innovative product launches as well as dropping new brands to backfill white space in the market. Heritage expects to continue to remain on the front edge of the innovation spectrum and drive similar growth in its newly launched “Thrifty” brand as it did with its “RAD” brand launch in 2021.

Heritage has a continued focus of attaining consistent and growing EBITDA. Having crossed the positive threshold in two of four quarters in 2022 for the first time in its history, Heritage is looking to build on that success in 2023. Heritage has increased its focused on building its available capacity through efficiency improvements, it has partnered in areas of the market that is not a Company strength to increase its market exposure and is continually looking it to increase its revenue to dollar spent. This focus will be a core tenet in 2023 as Heritage looks to continue to build into its available space in its east coast facility. ,

Heritage’s asset light U.S. strategy continues to move forward in both the Missouri and West Virginia. Heritage believes it will begin seeing positive impact in Q1/23 and growing throughout the year. Heritage continues to look at various opportunities to grow its US presence but is continuing to be strategic in both the market and potential partners.

As Heritage continues to execute its Canadian and U.S. strategies, the potential impact of COVID-19 and the continued sector volatility could have a negative impact on production efficiency and product launches.

#### **General**

The Issuer is a vertically integrated cannabinoid company focused on the production and sale of medical and recreational hemp-based and cannabis-based products and services. In Canada, the Issuer's business is primarily carried out through its subsidiaries Heritage Cannabis East and Heritage Cannabis West, both regulated by Health Canada under the Cannabis Act. In the United States., the Issuer's business is primarily carried out through its subsidiary Opticann, a Colorado based oral and topical cannabinoid company with the rights to exclusively sell CBD and CBG products made with the patented VESIsorb® drug delivery system for optimized absorption and stability.

#### ***Heritage Cannabis West Corporation***

Heritage Cannabis West holds a Health Canada issued cultivation, processing and medical sales license. Heritage Cannabis West operates out of a 15,500 square foot processing Falkland Facility, on the property's 13 acres of land, which has been fit out with processing and a packaging area with an approved security level vault. While the cultivation strategy is under review, greenhouses with a total square footage of 16,000 have been erected. A phase-wise expansion strategy continues at the Falkland Facility.

The Issuer's production processes utilize the previously acquired a Vitalis Q90 extraction systems, which had been successfully installed in the Falkland Facility where it was paired with additional downstream processing equipment. The extraction systems have received manufacturing certification, allowing Heritage Cannabis West to receive process with cannabis and dried hemp feedstock.

Heritage Cannabis West also has a sales license by Health Canada, effective April 8, 2020 and an industrial hemp license by Health Canada, effective April 17, 2020 to April 17, 2023. The cannabis sales license allows Heritage Cannabis West to sell cannabis products, including oil derivatives, to the Provincial cannabis boards as well as directly to patients in the medical market. The industrial hemp license will allow Heritage Cannabis West to bulk store, as well as buy and sell industrial hemp, flowering heads, leaves or branches to other license holders, and to import and export grain.

#### *Heritage Cannabis East Corporation*

Heritage Cannabis East is a wholly owned subsidiary of Heritage and operates out of 122,000 square foot facility in Fort Erie, Ontario. Currently, Heritage Cannabis East holds a Health Canada cultivation, processing and medical sales licence under the Cannabis Regulations. The facility was a former manufacturing plant for a pharmaceutical white labeler. Presently, approximately 24,260 square feet has been retrofitted for cannabis activities, and the Issuer believes that the size and layout of the facility offer significant advantages in terms of expansion and diversification of product offerings and services. The Issuer has earmarked a portion of the facility for extraction and strategic partnerships, including related storage requirements.

Heritage Cannabis East's Health Canada issued license authorizes Heritage Cannabis East to possess cannabis, to obtain dried cannabis, fresh cannabis, cannabis plants and cannabis seeds by cultivating, propagating and harvesting cannabis, and to sell cannabis in accordance with subsection 11(5) of the Cannabis Regulations. The Heritage Cannabis East license also includes standard processing and medical sales authorizations. The standard processing license allows Heritage Cannabis East to utilize its extraction machines for oil production for the purpose of sales in accordance with subsection 17(5) of the Cannabis Regulations. The medical sales license allows Heritage Cannabis East, in accordance with subsection 27 of the Cannabis Regulations, to sell directly to patients who have medical documentation to use cannabis for medical purposes.

In February of 2019, the Issuer acquired two Vitalis Q90 extraction systems for the Heritage Cannabis East facility in Fort Erie. In March of 2019, the Issuer ordered two additional machines, which were delivered on June 20, 2019. These additional machines are critical to manage the demand for extraction services and oil production.

The Issuer continues to execute on its expansion strategy of its licensed space dedicated to extraction, downstream processing and additional products. Heritage Cannabis East has received approval for the expansion of its licensed area from Health Canada and has completed the installation and commissioning of downstream processing equipment and is in the process of commissioning the two extraction machines previously purchased.

Heritage Cannabis East has also been granted an industrial hemp license by Health Canada, effective April 3, 2020 to April 3, 2023. The industrial hemp license will allow Heritage Cannabis East to bulk store, as

well as sell industrial hemp, flowering heads, leaves or branches to other license holders, and to import and export grain.

Heritage Cannabis East was granted a cannabis sales license by Health Canada, effective October 9, 2020. The cannabis sales license allows Heritage Cannabis East to sell cannabis products, including oil derivatives, to the Provincial cannabis boards as well as directly to patients in the medical market.

#### *Purefarma Solutions Inc.*

Purefarma is a wholly-owned subsidiary of the Issuer with its head office in Kelowna, British Columbia. A leader in extraction techniques and processing, Purefarma has deployed its team and devotes its efforts on Heritage's processing activities. Purefarma is strategic to the Issuer's vertically integrated business strategy for its extraction and processing capabilities.

#### *Endocanna*

The Issuer owns a 30% interest in Endocanna, which is a research and development biotechnology company specializing in endocannabinoid DNA testing and precision cannabinoid formulations. Endocanna has developed the home-based Endocanna DNA test kit using a saliva collection kit. 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 will help customers select cannabis with the right cannabinoid profile and assist with choosing the formulation, dosage, and best delivery method for their needs.

#### *Opticann Inc.*

The Issuer acquired 100% of the outstanding common shares of Opticann Inc., a Colorado based oral and topical cannabinoid company. Geocann LLC has continued to provide the Issuer with access to the patented VESIsorb® delivery technology for cannabinoids, terpenes, and flavonoid formulations. VESIsorb® is a leading delivery system innovation for dramatically improving the stability and absorption (bioavailability) of natural ingredients like cannabinoids.

#### Business Objectives

The Issuer has five objectives that it intends to focus on for the next twelve months: (i) to develop new products and to increase product inventory for sale to provincial boards and licensed dispensaries; (ii) to generate sufficient capital for funding ongoing operations and/or working capital requirements; (iii) to repay or refinance indebtedness outstanding from time to time; (iv) to participate in discretionary capital programs; and (v) to opportunistically take advantage of financing opportunities in favourable market conditions to further strengthen the Issuer's balance sheet.

Given the variable nature of the Issuer's industry, it is not feasible nor practical for the Issuer to set out specific events or milestones that must occur for the business objectives set out above to be accomplished.

See "*Business Outlook*" for additional business objectives.

## Financial Resources

As sale performance is considered an important objective of the Issuer, as at January 31, 2023, based on information currently available to management of the Issuer, the Issuer's cash balance (including short term investments) was approximately \$6.10 million.

### Total Funds Available to Issuer

Source of Funds	Notes	Millions
Unaudited Net Working Capital (as at January 31, 2023)		\$14.70
Undrawn line of credit	1	\$2.95
<b>Total Sources</b>	2	<b>\$17.65</b>

### Notes:

1. The Issuer has the ability to draw on its remaining line of credit based on received and/or invoiced purchased orders from provincial authorities. As at December 31, 2022 the Issuer had utilized \$2.95 million of the line of credit. The line of credited is targeted to fund the Issuer's growing provincial order pipeline and to ease the cash flow cycle burden. The line of credit matures in November, 2024.
2. Gross margin for the first three months of fiscal 2023 was 20%, and the Issuer is continuing to improve operational efficiencies to maximize its gross margin. The Issuer has demonstrated the ability to grow revenues significantly given the provincial demand for its products since the beginning of its 2023 resulting in a reported net revenue for the trailing 12 months ending January 31, 2023 of \$42.0 million. This represents a growth rate from the beginning of that period until the end of January 31, 2023 of 124%.

Assuming zero growth, the Issuer anticipates that its cash flow from operations, current and projected working capital and available cash resources will provide sufficient liquidity to support its ongoing business operations. The Issuer will require external funding and/or refinancing to support future accretive acquisitions, depending on the size and timing of such acquisitions. The Issuer may require additional funds in order to satisfy its expenditure requirements to meet existing and any new business objectives, and expects to either issue additional securities, incur or repay debt to do so. There can be no assurance that additional funding that may be required by the Issuer will be available on satisfactory terms, or at all. The amounts shown in the table below are estimates only and are based on the information available to the Issuer as of the date of this Listing Statement. This capital provides sufficient funds to meeting the Issuer's business objectives.

## Principal Products and Services

Heritage continues to provide contract manufacturing related services to various companies. On the medical cannabis side of the business, various Heritage cannabis products, including the products sold under the Purefarma and Pura Vida brands, are now available for purchase on the Patient Choice online platform, a Health Canada licensed virtual portal that gives medical cannabis patients across Canada the flexibility to buy products from a range of licensed producers and processors.

Heritage currently is authorized to distribute and sell Cannabis products in all provincial and territorial jurisdictions in Canada, as permitted by the applicable laws.

The various significant Heritage brands are described below:

#### *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.

#### *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.

#### *Thrifty*

Thrifty is the Issuer's newest launch, that 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, the Issuer has introduced a new initiative with a portion of proceeds going directly to a charitable organization through Heritage Helps.

#### Revenue related to Principal Products and Services

Selected financial highlights for the three-month periods and years ended October 31, 2022 and October 31, 2021 include the following:

	Three months ended		Years ended	
(in \$CDN)	Oct 31, 2022	Oct 31, 2021	Oct 31, 2022	Oct 31, 2021
	\$	\$	\$	\$
Gross revenue	11,148,059	7,132,942	41,996,297	18,676,958
Net revenue (net of excise tax)	8,038,105	4,649,025	29,566,385	14,059,130
Cost of sales	7,611,993	7,329,654	21,599,867	13,492,997
Gross margin	426,112	(2,680,629)	7,966,518	566,133
General and administrative expenses	5,953,751	(420,566)	20,588,796	18,474,262
Other Income (Expenses)	(22,718,884)	(41,433,121)	14,297,205	(42,563,044)
Comprehensive Income (Loss)	(26,895,045)	(42,685,990)	(23,937,773)	57,685,532

#### Intellectual Property

The ownership and protection of the Issuer's intellectual property is a significant aspect of its future success. In addition to the Issuer's associated brands and the trademarks associated therewith, the Issuer relies on trade secrets, technical know-how and proprietary information. The Issuer protects its intellectual property by seeking and obtaining applicable registrations where possible, developing and implementing standard operating procedures to protect trade secrets, technical know-how and

proprietary information. The Issuer has also entered into agreements with parties, such as Geocann LLC, in accordance with the terms of the Geocann Agreement and Endocanna, which enable the Issuer to leverage their intellectual property portfolio including patents, inventions, trade secrets, technical know-how and proprietary information. The Issuer also seeks to preserve the integrity and confidentiality of its inventions, trade secrets, trademarks, technical know-how and proprietary information by maintaining physical security of the Issuer's premises and physical and electronic security of the Issuer's information technology systems.

The Issuer is exploring trademark protection in countries outside of Canada, however, its ability to obtain registered trademark protection for cannabis and related goods and services may be limited outside of Canada, as registered federal trademark protection in many jurisdictions is not uniform, and trademarks cannot necessarily be obtained. Accordingly, the Issuer's ability to obtain intellectual property rights or enforce intellectual property rights against third party uses of similar trademarks may be limited in certain countries.

#### Business Cycle / Seasonality

The business activities of the Issuer are not driven by any particular calendar seasonality.

#### Environmental Protections

The operation of the Issuer's business has no extraordinary environmental protection requirements. As a result, the Issuer does not anticipate that any environmental regulations or controls will materially affect its business.

#### Specialized Skill and Knowledge

Numerous aspects of the Issuer's business require specialized skills and knowledge. Such skills and knowledge include healthcare, real estate, business operations, regulatory compliance and finance. The management team of Heritage has deep experience in investment banking and finance, healthcare services, real estate and construction, business operations, and legal and regulatory compliance.

#### Competitive Conditions

There is potential that the Issuer will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and production and marketing experience than the Issuer.

Because of the early stage of the industry in which the Issuer operates, the Issuer 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 Issuer 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 Issuer will require a continued high level of investment in research and development, marketing, sales and client support. The Issuer 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 Issuer.



As the demand for cannabis and cannabis products increases, the Issuer believes new competitors will enter the market. The principal aspects of competition between the Issuer and its competitors will be the price, format and quality of the cannabis products offered and level of service provided to government entities and private retailers.

See "*Risk Factors – The Cannabis Industry is Subject to Competition*".

#### Economic Dependence

The Issuer is currently not economically dependent on any other company.

#### Employees

As at the end of the Issuer's most recently completed financial year, October 31, 2022, the Issuer had 150 employees, 6 contractors and 2 consultants. As at the date of this Listing Statement, the Issuer has 158 employees as well as 6 contractors and 2 consultants.

#### Foreign Operations

The Issuer currently has material ancillary exposure to US cannabis operations, see "*Trends, Commitments, Events or Uncertainties*", but may plan to expand its foreign operations through strategic partnerships in the future. See "*Risk Factors – Risks related to operating in the Cannabis Industry in the United States*."

### **4.2 Asset Backed Securities**

The Issuer does not have any asset backed securities.

## **5. SELECTED CONSOLIDATED FINANCIAL INFORMATION**

### **5.1 Annual Information**

The following table is a summary of selected financial information for the Issuer for the fiscal years ended October 31, 2022, 2021 and 2020. This information has been prepared in accordance with IFRS and is expressed in Canadian dollars. See also the Issuer Financial Statements available on the Issuer's profile at [www.sedar.ca](http://www.sedar.ca).

	Year Ended October 31, 2020 (audited) (\$)	Year Ended October 31, 2021 (audited) (\$)	Year Ended October 31, 2022 (audited) (\$)
Net Revenue	8,256,435	14,059,130	29,566,385
Net Income (Loss)	(8,632,771)	(57,452,213)	(24,244,483)
Comprehensive Income (Loss)	(8,596,759)	(57,685,532)	(23,937,773)

Basic and Diluted Income (Loss) per Share	(0.02)	(0.08)	(0.03)
Total Assets	83,431,808	97,788,065	78,412,192
Total Long-Term Financial Liabilities	(11,661,870)	(33,590,572)	(20,331,417)

## 5.2 Quarterly Information

The following table is a summary of selected financial information for the eight most recently completed fiscal quarters of the Issuer. This information has been prepared in accordance with IFRS and is expressed in Canadian dollars.

	Three Months Ended January 31, 2021	Three Months Ended April 30, 2021	Three Months Ended July 31, 2021	Three Months Ended October 31, 2021	Three Months Ended January 31, 2022	Three Months Ended April 30, 2022	Three Months Ended July 31, 2022	Three Months Ended October 31, 2022
Net Revenue (\$)	1,520,616	3,575,175	4,314,314	4,649,025	6,541,211	7,491,184	7,495,885	8,038,105
Comprehensive (loss) income (\$)	(3,211,082)	(5,151,011)	(6,637,449)	(42,685,990)	6,257,213	(500,614)	(2,793,327)	(26,895,045)
Basic and fully diluted (loss) income per share (\$)	(0.01)	(0.01)	(0.01)	(0.06)	0.01	(0.00)	(0.00)	(0.03)
Total assets	124,769,408	138,902,067	133,700,073	97,788,065	99,159,925	100,641,674	102,203,796	78,412,192

Copies of the respective unaudited interim financial statements for the periods listed above for the Issuer are available on the Issuer's SEDAR profile at [www.sedar.com](http://www.sedar.com).

## 5.3 Dividends

The future payment of dividends will be dependent upon the financial requirement of the Issuer to fund further growth, the financial condition of the Issuer and other factors which the Board may consider in the circumstances. It is not contemplated that any dividends will be paid in the immediate or foreseeable future, if at all.

## 5.4 Foreign GAPP

Not applicable.

## **6. MANAGEMENT'S DISCUSSION AND ANALYSIS**

### ***6.1-6.21 Management's Discussion and Analysis***

The Issuer's annual MD&A for the fiscal years ended October 31, 2022 and 2021 are attached to this Listing Statement as Schedule "B" and can be referenced in respect to the disclosures required in Sections 6.1 through to 6.21 of CSE Form 2A.

## **7. MARKET FOR SECURITIES**

The Common Shares are listed on the CSE under the trading symbol "CANN" and on the OTC PK under the symbol "HERTF". See "*Description of Securities – Stock Exchange Price*" below.

The Issuer is a reporting issuer in British Columbia, Alberta, Ontario, New Brunswick and Nova Scotia.

## **8. CONSOLIDATED CAPITALIZATION**

**8.1** The following table sets forth the share and loan capital of the Issuer as at October 31, 2022, January 31, 2023 and the date of this Listing Statement. The table should be read in conjunction with the Issuer Financial Statements and the accompanying notes thereto, attached as Schedule "A".

<b>Designation of Security</b>	<b>Amount Outstanding as of October 31, 2022</b>	<b>Amount Outstanding as of the date of this Listing Statement</b>
Common Shares (authorized: unlimited)	916,205,755	1,014,189,494
Warrants	165,823,000	165,823,000
Options	22,353,440	22,353,440

## **9. OPTIONS TO PURCHASE SECURITIES**

### **9.1**

#### *10% "rolling" Share Option Plan (Option-Based Awards)*

The Issuer has in place, a 10% rolling stock option plan, dated for reference October 23, 2014, as amended on May 13, 2019 (the "**Stock Option Plan**"), pursuant to which the Board can grant stock options ("**Options**") to directors, officers, employees, management and others who provide services to the Issuer. The Stock Option Plan provides compensation to participants and an additional incentive to work toward long-term Issuer performance. The Stock Option Plan was approved by the shareholders of the Issuer at the Issuer's annual general meeting held on April 28, 2016.

#### *Fixed Restricted Share Unit Plan (Share-Based Awards)*

The Issuer has in place, a fixed restricted share unit plan dated for reference August 4, 2017 (the "**RSU**")

Plan"). The RSU Plan was approved by the shareholders of the Issuer at the Issuer's annual general meeting held on August 20, 2018. The RSU plan was amended and approved by the shareholders of the Issuer at the Issuer's annual general meeting held on August 9, 2019 by way of an ordinary resolution of shareholders of the Issuer. The amendment provided that the number of Common Shares reserved for issuance as restricted share units under the Issuer's RSU Plan dated August 4, 2017, be increased by an additional 9,000,000 Common Shares, to a total of 15,000,000 Common Shares.

The RSU Plan was designed to provide certain directors, employees, officers, other key employees and consultants of the Issuer and its related entities with the opportunity to acquire restricted share units ("RSUs") of the Issuer in order to enable them to participate in the long-term success of the Issuer and to promote a greater alignment of their interests with the interests of the shareholders.

The Board (or a committee delegated by the Board) is responsible for administering the RSU Plan.

As indicated above, the Issuer's 10% "rolling" share option plan (defined below as the "**Stock Option Plan**") under which convertible securities can be issued as an additional mechanism to encourage equity participation in the Issuer by directors, officers, employees and other service providers, which for the purposes of the RSU Plan, is considered a Share Compensation Arrangement (as defined in the RSU Plan). Any grants under the Stock Option Plan would be considered in the limitations under the RSU Plan.

The RSU Plan provides that the maximum number of Common Shares issuable pursuant to the RSU Plan, together with any common shares issuable pursuant to any other security-based compensation arrangement outside of the RSU Plan (namely the Stock Option Plan described above), will not exceed an aggregate of 10% of the total number of issued and outstanding Common Shares at any time. RSUs to a maximum of 10% of the outstanding Common Shares of the Issuer may be granted to any one Eligible Person under the RSU Plan; and, in aggregate, a maximum of 5% of the outstanding Common Shares may be granted to any one Eligible Person in any 12-month period calculated on the grant date.

#### *Equity Compensation Plans Information*

The following chart details the number of securities to be issued upon the exercise of outstanding Options and RSUs issued under the Stock Option Plan and RSU Plan, the weighted average exercise price of such awards and the number of Common Shares remaining available for issuance under each plan as at October 31, 2022 and as at the date of this Listing Statement.

## 10. DESCRIPTION OF SECURITIES

	Number of securities to be issued upon exercise of outstanding Options/RSUs	Weighted-average exercise price of outstanding Options/RSUs	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) as at October 31, 2022	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) as at the date of this Listing Statement
Plan Category	(a)	(b)	(c)	(d)
Equity compensation plans approved by securityholders - 10% rolling Stock Option Plan	22,353,440 Options	\$0.20 Options	91,620,576 Options	69,267,136 Options
Equity compensation plans approved by securityholders - fixed RSU Plan	5,076,628 RSUs	N/A	15,000,000 RSUs	9,923,372 RSUs

### 10.1 General

The Issuer's authorized share capital consists of an unlimited number of Common Shares without par value. As of the date of this Listing Statement, there were 1,014,189,494 Common Shares issued and outstanding. Holders of Common Shares:

- have one vote per share on election of each director and other matters submitted to a vote of shareholders;
- do not have cumulative voting rights;
- have equal rights with all holders of issued and outstanding Common Shares to receive dividends from funds legally available therefore, if any, when, as and if declared from time to time by the Board; and
- are entitled to share equally with all holders of issued and outstanding Common Shares in all of our assets remaining after payment of liabilities, upon liquidation, dissolution or winding up of the Issuer's affairs.

As of the date of this Listing Statement, there are 165,823,000 warrants outstanding. 6,923,000 are broker warrants, 158,900,000 are standard Common Share purchase warrants. The broker warrants and agent warrants are exercisable into units of the Issuer; in turn, each Unit comprises one Common Share and either a whole or partial Common Share purchase warrant. Each standard Common Share purchase warrant is exercisable for one Common Share.

#### **10.2 – 10.6 Debt Securities and Miscellaneous Securities Provisions**

None of the matters set out in items 10.2 to 10.6 of CSE Form 2A are applicable to the share structure of the Issuer.

#### **10.7 Prior Sales of the Issuer**

During the 12 months prior to the date of this Listing Statement, there were no securities of the Issuer sold by the Issuer or any Related Person.

#### **10.8 Stock Exchange Price**

The Common Shares are listed on the CSE under the trading symbol "CANN" and on the OTC PK under the symbol "HERTF". The following table sets forth information relating to the trading of the Common Shares on the CSE for the months indicated.

Period	Price Range (\$)		Monthly Volume (#)
	Monthly High Price	Monthly Low Price	
Month Ended			
October 2022	0.0308	0.0202	1,222,948
September 2022	0.0360	0.0222	1,734,397
August 2022	0.0334	0.0242	2,141,532
July 2022	0.0380	0.0260	1,520,886
June 2022	0.0424	0.0238	687,699
May 2022	0.0605	0.0298	1,836,358
April 2022	0.0713	0.0140	1,192,537
March 2022	0.1000	0.0332	835,719
February 2022	0.1180	0.0278	3,286,110
January 2022	0.0560	0.0369	2,582,918
December 2021	0.0605	0.0400	4,816,652
November 2021	0.0620	0.0466	3,292,792

### **11. ESCROWED SECURITIES**

As of the date of this Listing Statement, the following securities are held in escrow:

Designation of class held in escrow	Number of securities held in escrow	Percentage of class
Common Shares	79,030,611 <sup>(1)</sup>	Approx. 7.8%

**Notes:**

- (1) In accordance with the terms of the ELOC Agreement with Obsidian, 79,030,611 Common Shares continue to be held in escrow and will be released to Obsidian in tranches as and when the Issuer requests that Obsidian purchase Common Shares pursuant to the ELOC Agreement. Any Escrow Shares that are not purchased by Obsidian will be subject to cancellation at the end of the term of the ELOC Agreement.

**12. PRINCIPAL SHAREHOLDERS**

To the knowledge of the directors and executive officers of the Issuer, as at the date of this Listing Statement, no Person owns, both of record and beneficially, of record only, or beneficially only, Common Shares carrying 10% or more of the voting rights attached to all outstanding Common Shares which have the right to vote in all circumstances.

**13. DIRECTORS AND OFFICERS OF THE ISSUER**

***13.1-13.5 Directors and Officers***

The following table sets out information regarding each of the Issuer's directors and executive officers, including the name, municipality of residence, position or office held with the Issuer and principal occupation of each proposed director and executive officer of the Issuer, as well as the number of voting securities beneficially owned, directly or indirectly, or over which each exercises control or direction, excluding Common Shares issued on the exercise of convertible securities, are as follows as of the date of this Listing Statement<sup>(1)</sup>:

Name, place of the residence and position with Issuer	Principal occupation during the last five years	Date of appointment as director or officer	Common Shares Beneficially Owned, Directly or Indirectly, or Controlled or Directed <sup>(1)</sup>
<b>Clinton Sharples</b> <sup>(5)(6)</sup> Non-Executive Chairman of the Board Ontario, Canada	Partner, First Growth Management Inc. (private venture capital company).	May 29, 2013 (appointed Chairman on August 4, 2021)	6,608,811 <sup>(2)</sup>
<b>Celine Arsenault</b> <sup>(5)(6)</sup> Director Ontario, Canada	Former Vice President Finance, Livingston International and current Executive Vice President and Chief Financial Officer of Toronto Hydro	February 8, 2019	Nil <sup>(3)</sup>

Name, place of the residence and position with Issuer	Principal occupation during the last five years	Date of appointment as director or officer	Common Shares Beneficially Owned, Directly or Indirectly, or Controlled or Directed <sup>(1)</sup>
<b>David Schwede</b> <sup>(5)(6)</sup> President, Chief Executive Officer ("CEO"), Director British Columbia, Canada	Chief Executive Officer and former CEO of Premium 5	August 4, 2021	49,458,922 <sup>(4)</sup>
<b>Daniel Phaure</b> Chief Financial Officer ("CFO") Ontario, Canada	Chief Financial Officer and former Chief Operating Officer of the Issuer	April 6, 2020	5,684,520 <sup>(7)</sup>
<b>Eoin Hegarty</b> Chief Operational Officer ("COO") Alberta, Canada	Former Chief Operating Officer of Premium 5	February 6, 2023	44,239,721
<b>Cory Larsen</b> Chief Commercial Officer ("CCO") Alberta, Canada	Former Chief Commercial Officer of Premium 5	February 6, 2023	40,722,619

**Notes:**

- (1) The information as to principal occupation, business or employment and Common Shares beneficially owned or controlled is not within the knowledge of the management of the Issuer and has been furnished by the respective individuals.
- (2) 4,985,000 Common Shares are owned directly by Clinton Sharples, and 1,623,811 Common Shares are owned indirectly by First Growth Management, a private company owned and controlled by Mr. Sharples. Mr. Sharples holds a total of 280,500 Options at an exercise price of \$0.54 expiring on March 19, 2023 and a total of 500,000 Options at an exercise price of \$0.34 expiring on February 8, 2024, and a total of 350,000 Options at an exercise price of \$0.10 expiring on September 21, 2026. Mr. Sharples also owns 700,000 RSUs (as defined below).
- (3) Celine Arsenault holds 250,000 Options at an exercise price of \$0.34 expiring on February 8, 2024, and 350,000 Options at an exercise price of \$0.10 expiring on September 21, 2026.
- (4) Mr. 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 176,666 RSUs (as defined below).
- (5) Member of the Audit Committee.
- (6) Member of the Compensation Committee.
- (7) Mr. 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.



### **13.6 Corporate Cease Trade Orders or Bankruptcies of Directors or Officers**

Other than as set out below, no proposed director or officer of the Issuer or a shareholder holding a sufficient number of securities of the Issuer to affect materially the control of the Issuer, is, or within 10 years before the date of the Listing Statement has been, a director or officer of any other issuer that, while that person was acting in that capacity:

- (a) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under Ontario securities law, for a period of more than 30 consecutive days;
- (b) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the Issuer being the subject of a cease trade or similar order or an order that denied the relevant Issuer access to any exemption under securities legislation, for a period of more than 30 consecutive days
- (c) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (d) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Clinton Sharples was a director of Thermal Energy International Inc., a TSXV-listed company, at the time the shares of Thermal Energy were halted on July 22, 2009, pending clarification of Thermal Energy's affairs, including certain deficiencies in compliance with the policies of the TSXV. Thermal Energy cooperated with the TSXV during their review and its shares resumed trading on October 15, 2009.

The Issuer was subject to a general cease trade order by the Ontario Securities Commission, effective March 2, 2022 as a result of its failure to file annual financial statements for its financial year ended October 31, 2021. The cease trade order was revoked by revocation order issued by the Ontario Securities Commission effective May 30, 2022.

### **13.7 Penalties or Sanctions**

No proposed director or executive officer of the Issuer, or a shareholder holding a sufficient number of the Issuer's securities to affect materially the control of the Issuer, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

### **13.8 Settlement Agreements**

Not applicable.

### **13.9 Personal Bankruptcies**

No director or executive officer of the Issuer or a shareholder holding a sufficient number of securities of the Issuer to affect materially the control of the Issuer, or a personal holding company of any such persons has, within the 10 years before the date of the Listing Statement, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or officer.

### **13.10 Conflicts of Interest**

The Issuer 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 Issuer'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 Issuer, as applicable. External business interests may require significant time and attention of the Issuer'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 Issuer's business and affairs, as applicable, and this could adversely affect the Issuer's operations.

In addition, the Issuer 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 Issuer 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 Issuer. In addition, from time to time, these persons, firms, institutions or corporations may be competing with the Issuer 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 Issuer policies including the Fraud Prevention Policy and the Related Party Transaction Policy. In the event that such a conflict of interest arises at a meeting of the Issuer'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 Issuer are required to act honestly, in good faith and in the best interests of the Issuer.

### **13.11 Management**

#### **Audit Committee**

The Issuer has an Audit Committee consisting of Celine Arsenault (Chair), David Schwede, and Clinton Sharples. Celine Arsenault is an independent member of the Audit Committee. Clinton Sharples is not independent as he is a director of Heritage Cannabis East, an Ontario company which is 100% owned by the Issuer, and David Schwede is not independent by virtue of his position as President and CEO of the Issuer. See occupation details of all of the directors noted in 13.1 above.

The Board has adopted a written charter setting forth the responsibilities, powers and operations of the Audit Committee consistent with NI 52-110. The principal duties and responsibilities of the Issuer's Audit Committee will be to assist the Board in discharging the oversight of:

- the integrity of the Issuer's consolidated financial statements and accounting and financial processes and the audits of our consolidated financial statements;
- the Issuer's audit and financial reporting process;
- the adequacy and effectiveness of the Issuer's internal controls and procedures for financial reporting;
- the adequacy and effectiveness of the Issuer's risk management program;
- the Issuer's compliance with legal and regulatory requirements;
- the Issuer's external auditors' qualifications and independence;
- the work and performance of the Issuer's financial management and its external auditors; and
- the Issuer's system of disclosure controls and procedures and system of internal controls regarding finance, accounting, legal compliance, and risk management established by management and the Issuer's Board.

The Audit Committee will have access to all books, records, facilities and personnel and may request any information about the Issuer as it may deem appropriate. It will also have the authority to retain and compensate special legal, accounting, financial and other consultants or advisors to advise the Audit Committee. The Audit Committee is also expected to review and approve all related-party transactions and prepare reports for the Board on such related-party transactions as well as be responsible for the pre-approval of all non-audit services to be provided by the Issuer's auditors.

The Issuer is a "**venture issuer**" as defined in NI 52-110 and is relying on the exemption in section 6.1 of NI 52-110 relating to Parts 3 (*Composition of Audit Committee*) and 5 (*Reporting Obligations*) of NI 52-110.

#### Compensation Committee

The Issuer has a Compensation Committee consisting of David Schwede, Clinton Sharples and Celine Arsenault, each of whom is a director. Celine Arsenault is independent, as defined under NI 52-110, while, Clinton Sharples is not independent by virtue of his position as director of Heritage Cannabis East, an Ontario company which is 100% owned by the Issuer, and David Schwede is not independent by virtue of his position as President and CEO of the Issuer.

The compensation of the executive officers is determined by the Compensation Committee, based in part on recommendations from the CEO. The Board recognizes the need to provide a compensation package that will attract and retain qualified and experienced executives, as well as align the compensation level of each executive to that executive's level of responsibility. The objectives of the Issuer's compensation policies and practices are:

1. to reward individual contributions in light of the Issuer's performance;
2. to be competitive with companies with whom the Issuer competes for talent;

3. to align the interests of the executives with the interests of the shareholders; and
4. to attract and retain executives who could help the Issuer achieve its objectives.

The Compensation Committee assumes responsibility for reviewing and monitoring the long-range compensation strategy of the Issuer's senior management. The Compensation Committee reviews the compensation of senior management on an annual basis taking into account compensation paid by other issuers of similar size and activity.

In the course of its deliberations, the Compensation Committee considers the implications of the risks associated with adopting the compensation practices currently in place. The Compensation Committee does not believe that its current compensation practices creates a material risk that the NEOs or any director or employee of the Issuer would be encouraged to take as being inappropriate or excessive. The Board will continue to include this consideration in its deliberations and believes that it would detect actions of management and employees of the Issuer that constitute or would lead to inappropriate or excessive risks.

In determining the base salary of an executive officer, the Compensation Committee considers the following factors:

- (a) the particular responsibilities related to the position;
- (b) salaries paid by other companies in the cannabis-based industry which are of similar size as the Issuer;
- (c) the experience level of the executive officer;
- (d) the amount of time and commitment which the executive officer devotes to the Issuer; and
- (e) the executive officer's overall performance in relation to the achievement of corporate milestones and objectives.

The Compensation Committee conducts reviews with regard to directors' compensation once a year. To make its recommendation on directors' compensation, the Board takes into account the types of compensation and the amounts paid to directors of comparable publicly traded Canadian companies and aligns the interests of directors with the return to shareholders. The Compensation Committee decides the compensation of the Issuer's officers, based on industry standards and the Issuer's financial situation.

#### Other Board Committees

The Board has no other committees other than the Audit Committee and the Compensation Committee. The Board may from time to time establish additional committees.

#### ***Management Details***

The following sets out details respecting the management of the Issuer:

David Schwede, CEO and President

Mr. Schwede was formerly the CEO of Premium 5, prior to which, he was Senior Manager of Product Development and Project Management for one of Canada's largest revenue producing cannabis companies. With a history as CEO of tech start-ups, he is an entrepreneur who has successfully operated and scaled multiple businesses that have won several start-up awards with his most recent being one of Forbes start-ups to watch for 2019.

Mr. Schwede is an employee of the Issuer, and, in his capacity as CEO and President of the Issuer, he dedicates approximately 100% of his time to the affairs of the Issuer. Mr. Schwede is a party to a non-competition and confidentiality agreement with the Issuer.

Daniel Phaure, CFO

Mr. Phaure has held key leadership roles with a number of companies within the renewable, technology and infrastructure sectors. Over his 20 year career, he has consulted and advised numerous companies in North America, Europe and Asia, providing strategic guidance in relation to M&A activity, capital transactions and operational changes. As a result of his corporate and capital markets background, he brings a senior leadership skill set to Heritage that will drive the buildout of our current and future opportunities as well as the diligence and execution of our partnership strategy. Mr. Phaure has also served on various boards with exposure to both Canada and US.

Mr. Phaure is an employee of the Issuer, and, in his capacity as CFO, he dedicates approximately 100% of his time to the affairs of the Issuer.

Eoin Hagerty, COO

Mr. Hagerty is a former director of project management with one of Canada's largest revenue producing cannabis companies. He has over 10 years of experience as a Qualified Civil & Structural Engineer, having built internationally for large tier 1 contractors. Mr. Hagerty has delivered some of the largest cannabis facilities in the world and retro-fitted older premises into top tier licensed spaces.

Mr. Hagerty is an employee of the Issuer, and, in his capacity as COO, he dedicates approximately 100% of his time to the affairs of the Issuer. Mr. Hagerty is a party to a non-competition and confidentiality agreement with the Issuer.

Cory Larsen, CCO

Mr. Larsen has a long history of entrepreneurial success, having founded and grown 4 businesses in a variety of industries since the age of 17. He has 7+ years of leadership and experience in Canadian medical and recreational cannabis markets, most recently holding the role of CCO at Premium 5. Mr. Larsen is responsible for developing and executing upon the brand, marketing, and commercial direction of the Issuer.

Mr. Larsen is an employee of the Issuer, and, in his capacity as CCO, he dedicates approximately 100% of his time to the affairs of the Issuer. Mr. Larsen is a party to a non-competition and confidentiality agreement with the Issuer.

## **14. CAPITALIZATION OF THE ISSUER**

### ***14.1 Capitalization Chart***

<b><u>Issued Capital</u></b>	<b>Number of Securities (non- diluted)</b>	<b>Number of Securities (fully-diluted)</b>	<b>% of Issued<sup>(1)</sup> (non-diluted)</b>	<b>% of Issued<sup>(1)</sup> (fully diluted)</b>
<b><u>Public Float</u></b>				
Total outstanding (A)	1,014,189,494	1,207,442,562	16%	84%
Held by Related Persons or employees of the Issuer or Related Person of the Issuer, or by persons or companies who beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer upon exercise or conversion of other securities held) (B)	146,714,593 <sup>(2)</sup>	151,791,259	15%	13%
Total Public Float (A-B)	867,474,901	1,055,651,303	85%	87%
<b><u>Freely-Tradeable Float</u></b>				
Number of outstanding securities subject to resale restrictions, including restrictions imposed by pooling or other arrangements or in a shareholder agreement and securities held by control block holders (C)	110,091,127	110,091,127	11%	9%
Total Tradeable Float (A-C)	904,098,367	1,097,351,435	89%	91%

(1) Percentages rounded.

(2) This number does not include the shares issued to Obsidian which continue to be held in contractual escrow, subject to cancellation, until the Issuer draws on the ELOC Agreement.

Public Securityholders (Registered and Beneficial)<sup>(1)</sup>

**Common Shares**

<u>Size of Holding</u>	<u>Number of holders</u>	<u>Total number of securities</u>
1 – 99 securities	367	12,170
100 – 499 securities	860	202,300
500 – 999 securities	643	414,061
1,000 – 1,999 securities	1,073	1,351,664
2,000 – 2,999 securities	683	1,531,063
3,000 – 3,999 securities	449	1,461,316
4,000 – 4,999 securities	323	1,383,083
5,000 or more securities	5,139	766,300,852
<b>TOTAL</b>	<b>9,537</b>	<b>772,656,509</b>

**Notes:**

(1) Information provided as of February 24, 2023

**14.2 Convertible Securities**

The following are details for any securities convertible or exchangeable into Common Shares outstanding as of January 31, 2023:

<b>Description of Security (include conversion/exercise terms, including conversion/exercise price)</b>			<b>Number of convertible/exchangeable securities outstanding</b>	<b>Number of listed securities issuable upon conversion/exercise</b>
<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Type of Security</b>		
\$0.21	March 17, 2023	Warrants	98,900,000	98,900,000
\$0.14	March 17, 2023	Broker Warrants	6,923,000	6,923,000
\$0.25	February 28, 2025	Warrants	10,000,000	10,000,000
\$0.10	February 28, 2025	Warrants	50,000,000	50,000,000

**14.3 Other Securities Reserves for Issuance**

There are no other securities reserved for issuance.

## **15. EXECUTIVE COMPENSATION**

### ***15.1 Compensation Discussion and Analysis***

#### **General**

For the purposes of this Statement of Executive Compensation:

"**compensation securities**" includes stock options, convertible securities, exchangeable securities and similar instruments including stock appreciation rights, deferred share units and restricted stock units granted or issued by the Issuer or one of its subsidiaries for services provided or to be provided, directly or indirectly, to the Issuer or any of its subsidiaries;

"**NEO**" or "**named executive officer**" means each of the following individuals:

- (a) each individual who, in respect of the Issuer, during any part of the most recently completed financial year, served as CEO, including an individual performing functions similar to a CEO;
- (b) each individual who, in respect of the Issuer, during any part of the most recently completed financial year, served as CFO, including an individual performing functions similar to a CFO;
- (c) in respect of the Issuer and its subsidiaries, the most highly compensated executive officer other than the individuals identified in paragraphs (a) and (b) at the end of the most recently completed financial year whose total compensation was more than \$150,000, for that financial year; and
- (d) each individual who would be a named executive officer under paragraph (c) but for the fact that the individual was not an executive officer of the Issuer, and was not acting in a similar capacity, at the end of that financial year.

"**plan**" includes any plans, contract, authorization or arrangement, whether or not set out in any formal document, where cash, compensation securities or any other property may be received, whether for one or more persons; and

"**underlying securities**" means any securities issuable on conversion, exchange or exercise of compensation securities.

#### ***Compensation of Named Executive Officers and Directors***

The following table of compensation, excluding options and compensation securities, provides a summary of the compensation paid by the Issuer to NEOs and directors of the Issuer for the two completed financial years ended October 31, 2022 and October 31, 2021.

Options and compensation securities are disclosed under the heading "*Stock Options and Other Compensation Securities*" of this form.

Based on the definition above, the NEOs of the Issuer during the financial year ended October 31, 2022 were: Clinton Sharples, Chairman of the Board; David Schwede, President, CEO and director; Daniel Phaure, CFO, and Umar Syed, President, U.S. and International Medical Products.



The director of the Issuer who was not a NEO during financial year ended October 31, 2022 was Celine Arsenault.

The following table sets forth all direct and indirect compensation, excluding compensation securities, paid, payable, given or otherwise provided, directly or indirectly, by the Issuer to each NEO and each director of the Issuer who is not an NEO, for the financial years ended October 31, 2022 and October 31, 2021:

Table of compensation excluding compensation securities							
Name and position	Year	Salary, consulting fee, retainer or commission (\$)	Bonus (\$)	Committee or meeting fees (\$)	Value of perquisites (\$)	Value of all other compensation (\$)	Total compensation (\$)
Clinton Sharples <sup>(1)</sup> , Director (Chairman of the Board)	2022 2021	\$67,800 \$214,000	nil nil	nil nil	nil nil	nil nil	\$67,800 <sup>(2)</sup> \$214,000 <sup>(2)</sup>
Daniel Phaure <sup>(3)</sup> , CFO	2022 2021	\$276,850 \$241,668	nil nil	nil nil	nil nil	nil nil	\$276,850 \$241,668
Celine Arsenault <sup>(4)</sup> , Director	2022 2021	nil nil	nil nil	\$11,300 \$18,000	nil nil	nil nil	\$11,300 \$18,000
David Schwede <sup>(5)</sup> , CEO, President, and Director	2022 2021	\$220,068 \$183,333	nil nil	nil nil	nil nil	nil nil	\$220,068 \$183,333
Umar Syed <sup>(6)</sup> , former Corporate Secretary and President (US & International Med. Products)	2022 2021	\$177,793 \$226,442	nil nil	nil nil	nil nil	nil nil	\$177,793 \$226,442

Notes:

- (1) Clinton Sharples served as Interim President and CEO of the Issuer from September 4, 2018 to February 4, 2019. He also served Chairman/Non-Executive director of the Issuer from April 28, 2016 to February 8, 2019. Clinton Sharples served as CEO and President of the Issuer from February 8, 2019 to August 3, 2021. He was appointed Chairman of the Board on August 3, 2021.

- (2) Compensation was paid to First Growth Capital, a private company owned and controlled by Mr. Sharples.
- (3) Daniel Phaure was appointed as Chief Operations Officer of the Issuer on February 8, 2019 and appointed as CFO on April 6, 2020.
- (4) Celine Arsenault was appointed as a director and chair of the Audit Committee on February 8, 2019.
- (5) David Schwede was appointed as a director, CEO, and President of the Issuer on August 3, 2021.
- (6) Umar Syed was appointed as Corporate Secretary and President (U.S. and International Medical Products) of the Issuer on December 8, 2020 and ceased to hold the position October 15, 2022.

#### Stock Options and Other Compensation Securities

The following compensation securities table sets out the compensation securities granted or issued to each director and NEO of the Issuer between June 1, 2022 and the date of this Listing Statement.

Compensation Securities							
Name and Principal Position	Type of Compensation Security	Number of Compensation Securities, Number of Underlying Securities, and Percentage of Class <sup>(1)</sup>	Date of Issue or Grant	Issue, Conversion or Exercise Price (\$)	Closing Price of Security or Underlying Security on Date of Grant (\$)	Closing Price of Security or Underlying Security at Year End (\$)	Expiry Date
David Schwede, CEO, President and Director (indirectly through 2087053 Alberta Ltd.)	Common Shares	687,500	January 12, 2023	N/A	\$0.03	N/A	N/A
Daniel Phaure, CFO	Common Shares	483,333	January 12, 2023	N/A	\$0.03	N/A	N/A
Cory Larsen Chief Commercial	Common Shares	500,000	January 12, 2023	N/A	\$0.03	N/A	N/A

Compensation Securities							
Name and Principal Position	Type of Compensation Security	Number of Compensation Securities, Number of Underlying Securities, and Percentage of Class <sup>(1)</sup>	Date of Issue or Grant	Issue, Conversion or Exercise Price (\$)	Closing Price of Security or Underlying Security on Date of Grant (\$)	Closing Price of Security or Underlying Security at Year End (\$)	Expiry Date
Officer							
Eoin Hegarty Chief Operational Officer	Common Shares	500,000	January 12, 2023	N/A	\$0.03	N/A	N/A

#### Exercise of Compensation Securities by Named Executive Officers and Directors of the Issuer

No NEO's or directors of the Issuer exercised any compensation securities granted or issued to them under the Stock Option Plan or the RSU Plan during the year ended October 31, 2022.

#### **Director Compensation**

During the financial year ended October 31, 2022, Celine Arsenault received fees for services performed in her capacity as director pursuant to her compensation agreement with the Issuer. Celine is entitled to a fixed monthly compensation amount, and is eligible for additional discretionary benefits, including Options.

#### **Employment, Consulting and Management Agreements**

The Issuer did not have any employment, consulting or management agreements or arrangements with any of the Issuer's current NEOs or directors in the financial year ending October 31, 2022.

#### **Oversight and Description of Director and Named Executive Officer Compensation**

The compensation of the executive officers is determined by the Compensation Committee, based in part on recommendations from the CEO. The Board recognizes the need to provide a compensation package that will attract and retain qualified and experienced executives, as well as align the compensation level of each executive to that executive's level of responsibility. The objectives of the Issuer's compensation policies and practices are:

1. to reward individual contributions in light of the Issuer's performance;
2. to be competitive with companies with whom the Issuer competes for talent;
3. to align the interests of the executives with the interests of the shareholders; and
4. to attract and retain executives who could help the Issuer achieve its objectives.

The basic component of executive compensation consists of a consulting fee component and performance-based variable incentive compensation, which may be comprised of cash bonuses or stock option grants or restricted share unit awards. The allocation of value to these different compensation elements will not be based on a formula, but rather will be intended to reflect market practices as well as the Compensation Committee's discretionary assessment of an executive officer's past contribution and the ability to contribute to future short and long-term business results. Specifically, the objectives of consulting fees are to recognize market pay and acknowledge the competencies and skills of individuals. The rate established for each executive officer is intended to reflect each individual's responsibilities, experience, prior performance and other discretionary factors. The objectives of incentive bonuses in the form of cash payments will be designed to add a variable component of compensation, based on corporate and individual performances for executive officers and employees. The objectives of stock options or restricted share units will be to reward achievement of long-term financial and operating performance and focus on key activities and achievements critical to the ongoing success of the Issuer. The Issuer has no other forms of compensation, other than payments made from time to time to individuals or companies they control for the provision of consulting services. Such consulting services are paid for by the Issuer, to the best of its ability, at competitive industry rates for work of a similar nature by reputable arm's length service providers. Actual compensation will vary based on the performance of the executives relative to the achievement of goals and the price of the Issuer's securities, as well as the financial condition of the Issuer.

The Compensation Committee assumes responsibility for reviewing and monitoring the long-range compensation strategy of the Issuer's senior management. The Compensation Committee reviews the compensation of senior management on an annual basis taking into account compensation paid by other issuers of similar size and activity.

In the course of its deliberations, the Compensation Committee considered the implications of the risks associated with adopting the compensation practices currently in place. The Compensation Committee does not believe that its current compensation practices creates a material risk that the NEOs or any director or employee of the Issuer would be encouraged to take as being inappropriate or excessive. The Board will continue to include this consideration in its deliberations and believes that it would detect actions of management and employees of the Issuer that constitute or would lead to inappropriate or excessive risks.

#### Base Salary

Base salary ranges for executive officers are determined upon a review of companies within the cannabis-based industry, which are of the same size as the Issuer, at the same stage of development as the Issuer and considered comparable to the Issuer.

In determining the base salary of an executive officer, the Compensation Committee considers the following factors:

- (a) the particular responsibilities related to the position;

- (b) salaries paid by other companies in the cannabis-based industry which are of similar size as the Issuer;
- (c) the experience level of the executive officer;
- (d) the amount of time and commitment which the executive officer devotes to the Issuer; and
- (e) the executive officer's overall performance in relation to the achievement of corporate milestones and objectives.

#### Compensation Review Process

The Compensation Committee conducts reviews with regard to directors' compensation once a year. To make its recommendation on directors' compensation, the Board takes into account the types of compensation and the amounts paid to directors of comparable publicly traded Canadian companies and aligns the interests of directors with the return to shareholders. The Compensation Committee decides the compensation of the Issuer's officers, based on industry standards and the Issuer's financial situation.

#### Bonus Incentive Compensation

The Issuer's objective is to achieve certain strategic objectives and milestones. The Board will consider executive bonus compensation dependent upon the Issuer meeting those strategic objectives and milestones and will ascertain if sufficient cash resources are available for the grant of bonuses. The Board approves executive bonus compensation dependent upon compensation levels based on recommendations of the CEO. Such recommendations are generally based on information provided by companies that are similar in size and scope to the Issuer's operations.

#### Equity Participation

Equity participation is accomplished through the Issuer's Stock Option Plan and RSU Plan. The Issuer believes that encouraging its executives and employees to become shareholders is the best way of aligning their interests with those of its shareholders. Options and RSUs are granted to executives and employees taking into account a number of factors, including the amount and term of any Options or RSUs previously granted, base salary and bonuses and competitive factors. The amounts and terms of the Options and RSUs granted are determined by the directors of the Issuer based on recommendations put forward by the CEO. The Issuer emphasizes the provisions of option and restricted share units grants to maintain executive motivation.

#### Risks Associated with the Issuer's Compensation Program

The Board has not proceeded in a formal evaluation of the considered implications of the risks associated with the Issuer's compensation policies and practices. The Board and the CEO are responsible for setting and overseeing the Issuer's compensation policies and practices.

Executive compensation is comprised of short-term compensation in the form of a consulting fees and long-term ownership through the Issuer's Stock Option Plan and RSU Plan. This structure ensures that a significant portion of executive compensation (stock options and restricted share units) are both long-term and "at risk" and, accordingly, is directly linked to the achievement of business results and the creation of long-term shareholder value. As the benefits of such compensation, if any, are not realized by

officers until a significant period of time has passed, the ability of officers to take inappropriate or excessive risks that are beneficial to their compensation at the expense of the Issuer and the shareholders is extremely limited.

The Issuer does not use any specific practices to identify and mitigate compensation policies that could encourage an officer or individual to take inappropriate or excessive risks. These matters are dealt with on a case-by-case basis. The Issuer currently believes that none of its policies encourage its officers to take such risks. The Issuer has not identified any risks arising from its compensation policies and practices that are reasonably likely to have a material adverse effect on the Issuer.

Risks, if any, may be identified and mitigated through regular meetings of the Board during which financial and other information of the Issuer are reviewed. No risks have been identified arising from the Issuer's compensation policies and practices that are reasonably likely to have a material adverse effect on the Issuer.

#### Benefits and Perquisites

As of the year ended October 31, 2022, the Issuer does not offer any benefits or perquisites to its NEOs other than entitlements in accordance with the provisions of the Stock Option Plan and the RSU Plan or as otherwise disclosed and discussed herein.

#### Hedging by Directors or NEOs

The Issuer has not, to date, adopted a policy restricting its executive officers and directors from purchasing financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, which are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by executive officers or directors. The Issuer is not, however, aware of any directors or officers having entered into this type of transaction.

#### Pension Plan Benefits

The Issuer does not have a pension plan that provides for payments or benefits to the NEOs, directors or employees at, following, or in connection with retirement.

### **16. INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

#### ***16.1 Aggregate Indebtedness***

As of October 31, 2022, no directors, proposed nominees for election as directors, executive officers or their respective associates or affiliates, or other management of the Issuer were indebted to the Issuer as of the end of the financial year end October 31, 2022 or as at the date hereof.

#### ***16.2 Indebtedness of Directors and Executive Officers under (1) Securities Purchase and (2) Other Programs***

No directors or executive officers, or any Associates of such persons, are indebted to the Issuer and no indebtedness of such persons is the subject of a guarantee, support agreement, letter of credit or other similar arrangement provided by the Issuer.

## **17. RISK FACTORS**

The following are certain risk factors relating to the business to be carried on by the Issuer, which prospective investors should carefully consider before deciding whether to purchase Common Shares. The risks presented below may not be all of the risks that the Issuer may face. The Issuer will face a number of challenges in the development of its business due to the nature of the present stage of the business and operations of its business. Sometimes new risks emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. Readers should not rely upon forward-looking statements as a prediction of future results. Readers should carefully consider all such risks, including those set out in the discussion below and elsewhere in this Listing Statement.

### **Risks related to operating the Issuer's business**

#### *Additional Financing*

From time to time, the Issuer may require additional financing. The Issuer'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 Issuer 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 Regulations, any failure to maintain the licenses would have a material, adverse impact on the business, financial condition and operating results of the Issuer as a whole, including all subsidiaries whether or not they are license holders.

#### *Reliance on Facilities*

The Issuer's existing facilities in Fort Erie, Ontario and the Falkland Facility are integral to the Issuer's operations and its ability to integrate the extraction capabilities of Purefarma. Any adverse changes or developments affecting either facility may impact the Issuer's ability to produce cannabis and cannabis products, its business, financial condition and its results of 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 Issuer's control, including the following:

- actual or anticipated fluctuations in the Issuer'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 Issuer operates;

- addition or departure of the Issuer's executive officers and other key personnel;
- 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 Issuer's industry generally and its business and operations;
- announcements of developments and other material events by the Issuer 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 Issuer or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Issuer 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 Issuer'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 Issuer'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 Issuer's operations could be adversely impacted and the trading price of Common Shares may be materially adversely affected.

#### *Licensing Requirements Under the Cannabis Regulations*

The market for cannabis (including medical cannabis) in Canada is regulated by the CDSA, the Cannabis Act and Cannabis Regulations, the NCR, and other applicable law. Any applicant seeking to become licensed cultivator, producer and/or seller under the Cannabis 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 Issuer. Because of the early stage of the industry in which the Issuer operates, the



Issuer 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 Issuer 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 Issuer will require a continued level of investment in research and development, marketing, sales and client support. The Issuer 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 Issuer.

#### *Holding Company Status*

The Issuer is a holding company and essentially all of its operating assets are the capital stock of its subsidiaries. As a result, investors in the Issuer are subject to the risks attributable to its subsidiaries. As a holding company, the Issuer conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Issuer'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 Issuer. 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 Issuer'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 Issuer.

#### *Management of Growth*

The Issuer may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Issuer 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 Issuer to deal with growth may have a material adverse effect on its business, financial condition, results of operations and prospects.

#### *Reliance on Management*

The success of the Issuer 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 Issuer's business, operating results or financial condition.

#### *Conflicts of Interest*

The Issuer 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 Issuer'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 Issuer, as applicable. External business interests may require significant time and attention of the Issuer'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 Issuer's business and affairs, as applicable, and this could adversely affect the Issuer's operations.

In addition, the Issuer 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 Issuer 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 Issuer. In addition, from time to time, these persons, firms, institutions or corporations may be competing with the Issuer 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 Issuer policies including the Fraud Prevention Policy and the Related Party Transaction Policy. In the event that such a conflict of interest arises at a meeting of the Issuer'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 Issuer are required to act honestly, in good faith and in the best interests of the Issuer.

#### *Litigation*

The Issuer 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 Issuer becomes involved be determined against it, such a decision may adversely affect the Issuer's ability to continue operating, adversely affect the market price of Common Shares and use significant resources. Even if the Issuer is involved in litigation and succeeds, litigation can redirect significant company resources. Litigation may also create a negative perception of the Issuer's brand and the brands of its subsidiaries.

#### *Dividends*

The Issuer's policy is to retain earnings to finance the development and enhancement of its products and to otherwise reinvest in the Issuer's businesses. Therefore, the Issuer 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.

#### *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 Issuer.

#### *Liquidity Risk*

The Issuer's ability to remain liquid over the long term depends on its ability to obtain additional financing. The Issuer 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 Issuer's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

### *Cyber Security*

The Issuer relies on certain internal processes, infrastructure and information technology systems to efficiently operate its business in a secure manner. The Issuer'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 Issuer's ability to operate its business.

### *Force Majeure Events- COVID 19*

In December 2019, a novel strain of 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 the coronavirus, 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 Issuer and may restrict the level of economic activity in affected areas, which may adversely affect the price and demand for the Issuer's products as well as the Issuer's ability to collect outstanding receivables from its customers. It is possible that we may be required to temporarily close one or more of our facilities and suspend operations. Given the ongoing and dynamic nature of the circumstances, the extent to which the coronavirus will impact the Issuer's financial results and operations is uncertain. It is possible, however, that the Issuer's business operations and financial performance in 2023 and beyond may be materially adversely affected by this global pandemic.

### *Intellectual Property Risk*

The success of the Issuer's business depends in part on its ability to protect its ideas, technology and proprietary know-how. Even as the Issuer 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 Issuer 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 Issuer is required to rely on third party transportation services. The Issuer 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 Issuer's business, financial performance and results of operations. Moreover, any breach of security and loss of product during transport could affect the Issuer's status as a licensed producer.

## **Risks related to operating in the Cannabis Industry**

### *The Cannabis Industry is Subject to Competition*

There is potential that the Issuer 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 Issuer. 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 Issuer.

Because of the early stage of the industry in which the Issuer operates in the cannabis area, the Issuer 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 Issuer 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 Issuer will require a continued high level of investment in research and development, marketing, sales and client support. The Issuer 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 Issuer.

#### *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 Issuer's ability to sell its products.

#### *Regulatory Risks*

The Issuer'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 Issuer'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. 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 Issuer.

The Issuer 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 our operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Issuer'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 Issuer.

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 Issuer'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 Issuer's earnings and could make future capital investments or the Issuer'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.

#### *Environmental Regulations and Risks*

The Issuer'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 Issuer's operations.

Government approvals and permits are currently, and may in the future, be required in connection with the Issuer's operations. To the extent such approvals are required and not obtained, the Issuer 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 Issuer 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.

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

The Issuer's operations will be 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 Issuer may cause adverse effects business, financial condition and results of operations of the Issuer. The Issuer endeavours to comply with all relevant laws, regulations and guidelines. To the best of the Issuer's knowledge, the Issuer 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 a task force to seek input on the design of a new system to legalize, strictly regulate and restrict access to cannabis. On November 30, 2016, the task force completed its review and published a report outlining its recommendations. On April 13, 2017, the Canadian Federal Government released Bill C-45, which proposes 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 Issuer'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. There is no guarantee that provincial legislation regulating the distribution and sale of cannabis for adult-use purposes will be enacted according to all the terms announced by such provinces and territories, or at all, or that any such legislation will create the growth opportunities that the Issuer currently anticipates. While the impact of any new legislative framework for the regulation of the Canadian adult-use cannabis market is uncertain, any of the foregoing could result in a material adverse effect on the Issuer's business, financial condition and results of operation.

On October 17, 2019, amendments to the Cannabis Regulations came into force, permitting the production and sale of cannabis edibles, extracts and topicals. Although the impact of these regulatory changes have not adversely affected our business, provincial regulations and restrictions governing vape products continue to pose a potential threat.

#### *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 Issuer's ability to conduct sales and marketing activities and could have a material adverse effect on the Issuer's respective businesses, operating results and financial conditions.

#### *Vulnerability to Rising Energy Costs*

The Issuer's cannabis growing operations consume considerable energy, making the Issuer vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Issuer and its ability to operate profitably.

#### *Product Liability*

As a manufacturer and distributor of products designed to be ingested or inhaled by humans, the Issuer 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 Issuer's products alone or in combination with other medications or substances could occur. The Issuer may be subject to various product liability claims, including, among others, that the Issuer'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 Issuer could result in increased costs, adversely affect the Issuer's reputation with its respective clients and consumers generally, and adversely affect the results of operations and financial conditions of the Issuer.

#### *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 Issuer's products are recalled due to an alleged product defect or for any other reason, the Issuer could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Issuer 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.

#### *Operating Risk and Insurance Coverage*

The Issuer has insurance to protect its assets, operations and employees. While the Issuer 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 Issuer is exposed. However, the Issuer 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 Issuer might also become subject to liability for pollution or other hazards which may not be insured against or which the Issuer may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Issuer to incur significant costs that could have a material adverse effect upon the Issuer's financial performance and results of operations.

#### *Unfavourable Publicity or Consumer Perception*

Management of the Issuer believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception of the Issuer'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 Issuer's proposed products and the business, results of operations, financial condition and cash flows of the Issuer. The Issuer'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 Issuer, the demand for its proposed products, and the business, results of operations, financial condition and cash flows of the Issuer. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or the Issuer'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.

### **Risks related to operating in the Cannabis Industry in the United States**

#### *Proceeds of Crime Statutes*

The Issuer will be 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 *Currency and Foreign Transactions Reporting Act of 1970* (commonly known as 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), 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.

In the event that any of the Issuer's license agreements, or any proceeds thereof, 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 be materially adverse to the Issuer and, among other things, could restrict or otherwise jeopardize the ability of the Issuer to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

#### *Regulatory Scrutiny of the Issuer's Interests in the United States*

For the reasons set forth above, the Issuer'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 Issuer 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 Issuer'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 in regards to these reports. However, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Issuer, it would have a material adverse effect on the ability of holders of Common Shares to make trades. In particular, the Common Shares would become highly illiquid as investors would have no ability to effect a trade of the Common Shares 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 Issuer could expand. Any inability to fully implement the Issuer's expansion strategy may have a material adverse effect on the Issuer's business, financial condition and results of operations.



Cannabis, other than hemp (defined by the U.S. government as *Cannabis sativa* L. with a THC concentration of not more than 0.3% on a dry weight basis), is a Schedule I controlled substance under the US 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 US CSA schedules. Accordingly, the production, sale and possession of hemp or extracts of hemp, including certain CBD products, no longer violate the US 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 THCs, 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 US 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 US CSA, or conspire with another to violate the law, and violating the US 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 Memorandum**") rescinding certain past U.S. Department of Justice ("**DOJ**") memoranda on cannabis law enforcement, including the Cole Memorandum. 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 Memorandum 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 Memorandum, 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 Memorandum 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 Memorandum, 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 Memorandum] 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 US 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 Memorandum's rescission.

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 Issuer commences any cannabis

activities in the United States. The Issuer 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 the Issuer 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 Issuer 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 campaign position on cannabis falls short of full legalization, he has campaigned on a platform of relaxing enforcement of cannabis proscriptions, including decriminalization generally. According to the Biden campaign website: "A Biden Administration will support the legalization of cannabis for medical purposes and reschedule cannabis as a US 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 US CSA's Schedule II would ease certain research

restrictions, it would not make the state medical or adult-use programs federally legal. Additionally, President Biden has not appointed any known proponents of cannabis legalization to the Office of National Drug Control Policy transition team. Furthermore, while industry observers are hopeful that changes in Congress, along with a Biden presidency, will increase the chances of federal cannabis policy reform, such as the Marijuana Opportunity Reinvestment and Expungement Act (or MORE Act), which was originally co-sponsored by now Vice President Harris in the Senate, or banking reform, such as the SAFE Banking Act, we cannot provide assurances about the content, timing or chances of passage of a bill legalizing cannabis, particularly in the Senate. 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 Issuer into the United States.

#### *Unfavourable Tax Treatment of Cannabis Businesses*

Under section 280E of the U.S. Internal Revenue Code ("**Section 280E**"), "no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by federal law or the law of any State in which such trade or business is conducted." This provision has been applied by the Internal Revenue Service to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its income tax expenses.

#### *State Regulatory Uncertainty*

The rulemaking process for cannabis operators at the state level in any state will be ongoing and result in frequent changes. As a result, a compliance program is essential to manage regulatory risk. The Issuer's legal team will provide guidance in regards to any rulemaking processes and resulting regulatory changes. All operating policies and procedures implemented in the operation will be compliance-based and derived from the state regulatory structure governing ancillary cannabis businesses and their relationships to state-licensed or permitted cannabis operators, if any. Notwithstanding the Issuer's efforts, regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that the Issuer will receive the requisite licenses, permits or cards to operate its businesses.

In addition, local laws and ordinances could restrict the Issuer's business activity. Although legal under California state law, local governments have the ability to limit, restrict, and ban cannabis businesses from operating within their jurisdiction. Land use, zoning, local ordinances, and similar laws could be adopted or changed, and have a material adverse effect on the Issuer's business.

#### *Anti-money laundering laws and regulations*

The Issuer 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 US 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 March 18, 2021, the U.S. House of Representatives passed the Secure and Fair Enforcement Banking Act (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.

In the event that any of the Issuer'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 Issuer 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 Issuer's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, the Issuer may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

#### *Limited Trademark Protection*

The Issuer will not be able to register any United States federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a

crime under the Controlled Substances Act, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Issuer likely will be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the state of California by one or more other persons could have a material adverse effect on the value of such trademarks.

#### *Potential FDA Regulation*

Should the United States federal government legalize cannabis, it is possible that the FDA, would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including certified good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact would be on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If the Issuer is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Issuer's business, operating results and financial condition.

#### *Legality of Contracts*

Because the Issuer's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Issuer may face difficulties in enforcing its contracts in U.S. federal and certain state courts.

### **18.     PROMOTERS**

No person or company is or has been within the two years immediately preceding the date of this Listing Statement a promoter of the Issuer.

### **19.     LEGAL PROCEEDINGS**

#### ***19.1   Legal Proceedings***

To the knowledge of the management of the Issuer, there are no actual or contemplated material legal proceedings to which the Issuer is a party.

#### ***19.2   Regulatory Actions***

Other than the failure-to-file cease trade order, which as since been lifted as of the date of this Listing Statement, the Issuer is not subject to any penalties or sanctions imposed by any court or regulatory authority relating to securities legislation or by a securities regulatory authority. The Issuer has not entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulatory authority that are necessary to provide full, true and plain disclosure of all material facts relating to the Issuer's securities or would be likely to be considered important to a reasonable investor making an investment decision.

## **20. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

None of the directors or executive officers of the Issuer, principal shareholders, or any Associate or Affiliate of such persons, has or has had any material interest, direct or indirect, in any material transaction within the three years before the date of this Listing Statement or in any proposed transaction that has materially affected or may affect the Issuer.

## **21. AUDITORS, TRANSFER AGENTS AND REGISTRARS**

### ***21.1 Auditors***

The current auditor of the Issuer is Welch LLP, at its office located at 123 Slater Street, 3<sup>rd</sup> floor, Ottawa, ON K1P 5H2.

### ***21.2 Transfer Agent and Registrar***

The current registrar and transfer agent of the Issuer is Computershare Investor Services Inc. at its principal offices in Vancouver, British Columbia.

## **23. MATERIAL CONTRACTS**

### ***23.1 Material Contracts***

Except for contracts entered into in the ordinary course of business, the only material contracts entered into by the Issuer in the previous two years is the Premium 5 Acquisition Agreement.

See "*General Development of the Business*".

### ***23.2 Special Agreements***

This item is not applicable.

## **23. INTEREST OF EXPERTS**

Welch LLP audited the financial statements of the Issuer for the year ended October 31, 2022, and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Ontario. Davidson & Company LLP, the Issuer's former independent auditors, had prepared an independent audit report dated May 10, 2022 in respect of the Issuer's audited consolidated financial statements for the year ended October 31, 2021. Based on information provided by Welch LLP and Davidson & Company LLP, neither Davidson & Company LLP nor Welch LLP have received nor will receive any direct or indirect interests in the property of the Issuer. Neither Davidson & Company LLP nor Welch LLP, nor any of their respective directors, officers, employees and partners thereof, beneficially own, directly or indirectly, any securities of the Issuer or its Associates and Affiliates.



**24. OTHER MATERIAL FACTS**

The Issuer is not aware of any other material facts relating to the Issuer that are not disclosed under the preceding items and are necessary in order for this Listing Statement to contain full, true and plain disclosure of all material facts relating to the Issuer.

**25. FINANCIAL STATEMENTS**

**Financial Statements**

The following financial statements are attached to this Listing Statement:

- Schedule "A" – The Issuer's Audited Financial Statements for the Years Ended October 31, 2022, and 2021
- Schedule "B" - The Issuer's Management's Discussion & Analysis for the Years Ended October 31, 2022, and 2021

A copy of the Issuer's Financial Statements previously filed with applicable securities commissions are available on the Issuer's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### CERTIFICATE OF THE ISSUER

Pursuant to a resolution duly passed by its Board of Directors, Heritage Cannabis Holdings Corp. hereby updates the listing of the above-mentioned securities on the CSE. The foregoing contains full, true and plain disclosure of all material information relating to Heritage Cannabis Holdings Corp. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated at Toronto, Ontario as of this 28th day of February, 2023.

(signed) "David Schwede"

David Schwede  
Chief Executive Officer

(signed) "Dan Phaure"

Dan Phaure  
Chief Financial Officer

(signed) "Clinton Sharples"

Clinton Sharples  
Chairman

(signed) "Celine Arsenault"

Celine Arsenault  
Director

SCHEDULE "A"  
THE ISSUER'S AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED OCTOBER 31, 2022 AND 2021

*[Please see attached]*

# **HERITAGE CANNABIS HOLDINGS CORP.**

Consolidated Financial Statements

Years Ended October 31, 2022 and 2021

(Stated in Canadian Dollars)



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**HERITAGE CANNABIS HOLDINGS CORP.**

Consolidated Financial Statements

Years Ended October 31, 2022 and 2021

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**INDEPENDENT AUDITOR'S REPORT**

To the shareholders of

**HERITAGE CANNABIS HOLDINGS CORP.***Opinion*

We have audited the consolidated financial statements of Heritage Cannabis Holdings Corp. (the Company), which comprise the consolidated statement of financial position as at October 31, 2022, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at October 31, 2022 and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

*Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Other Matter*

The consolidated financial statements of the Company for the year ended October 31, 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on May 10, 2022.

*Material Uncertainty Related to Going Concern*

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of \$23,937,773 during the year ended October 31, 2022 and, as of that date, the Company's accumulated deficit was \$114,808,267 and its negative operating cash flows were \$2,428,716. As stated in Note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

*Other Information*

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, in the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - Cont'd.*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Bryan Haralovich.

A handwritten signature in dark ink, appearing to read "Welch LLP", is positioned above the firm's name.

Chartered Professional Accountants  
Licensed Public Accountants

Ottawa, Ontario  
February 23, 2023.



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

	Notes	As at October 31, 2022	As at October 31, 2021
<b>Assets</b>			
<b>Current</b>			
Cash		\$ 5,107,617	\$ 3,763,577
Short-term investments	5	950,000	950,000
Sales tax recoverable		210,457	1,014,805
Accounts receivable	25(a)	7,488,117	4,773,285
Inventories	6	16,788,609	16,124,241
Prepaid expenses and deposits	7	2,013,977	2,347,740
Convertible promissory note receivable	8	-	259,481
Current portion of notes receivable	9	302,171	-
Other current asset	16(b),22	-	48,831
		32,860,948	29,281,960
<b>Notes receivable</b>	9	1,712,303	-
<b>Other investments and deposits</b>	10	799,812	438,678
<b>Investment in associate</b>	11	3,214,393	3,044,182
<b>Intangible assets and goodwill</b>	12	19,784,401	44,253,279
<b>Property, plant and equipment</b>	13	20,040,335	20,769,966
<b>Total Assets</b>		\$ 78,412,192	\$ 97,788,065
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	22(c),25(b)	\$ 15,197,496	\$ 7,785,461
Sales tax payable		519,275	276,032
Deferred revenue	2(q)(i)	681,548	240,705
Current portion of lease liabilities	14	89,591	79,359
Current portion of long-term debt	15	5,878	5,321
Current portion of contingent consideration payable	16	-	590,176
Current portion of derivative liabilities	17	1,636,766	-
		18,130,554	8,977,054
<b>Lease liabilities</b>	14	639,406	729,744
<b>Long-term debt</b>	15	16,815,481	10,836,359
<b>Contingent consideration payable</b>	16	-	15,940,000
<b>Derivative liabilities</b>	17	945,530	1,478,469
<b>Deferred tax liability</b>	21	1,931,000	4,606,000
<b>Total Liabilities</b>		38,461,971	42,567,626
<b>Equity</b>			
Share capital	18	147,746,456	140,482,057
Contributed surplus	19	6,902,629	5,779,474
Accumulated other comprehensive income (loss)	11,25(c)(i)	109,403	(197,307)
Accumulated deficit		(114,808,267)	(91,538,667)
Equity attributable to shareholders		39,950,221	54,525,557
Non-controlling interest	20	-	694,882
<b>Total Equity</b>		39,950,221	55,220,439
<b>Total Liabilities and Equity</b>		\$ 78,412,192	\$ 97,788,065
Going Concern (Note 1(a))			
Commitments (Note 23)			
Subsequent Events (Note 32)			

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

Approved on behalf of the Board of Directors:

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

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

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**Years Ended October 31, 2022 and 2021**  
(Stated in Canadian Dollars)

	Notes	Years Ended October 31,	
		2022	2021
<b>Gross Revenue</b>	27	\$ 41,996,297	\$ 18,676,958
Excise taxes		(12,429,912)	(4,617,828)
<b>Net Revenue</b>		29,566,385	14,059,130
<b>Cost of Sales</b>	6	21,599,867	13,492,997
<b>Gross Margin</b>		7,966,518	566,133
<b>General and Administrative Expenses</b>			
Advertising, travel and promotion		768,397	1,654,619
Amortization and depreciation	6,12,13	3,732,493	5,223,667
Management and consulting fees	22	1,097,624	2,034,610
Occupancy, general and administrative		5,705,218	2,842,580
Professional fees		947,258	1,060,650
Share-based payments	18(b),19(b),22	770,095	692,816
Salaries, wages and benefits	22	7,567,711	4,965,320
		20,588,796	18,474,262
<b>Other Income (Expense)</b>			
Interest and other income	9	172,987	121,591
Interest and finance expense	14,15,17	(1,144,990)	(958,848)
Share of loss from investment in associate	11	(135,211)	(235,393)
Impairment of intangible assets and goodwill	12	(21,215,000)	(36,337,826)
Unrealized gain on other investments	10(ii)(iii)	572,774	-
Unrealized gain (loss) on contingent consideration payable	16	9,137,267	(3,514,865)
Unrealized gain on derivative liabilities	17	214,323	236,772
Loss on debt extinguishment	15(b),19(a)	(1,793,251)	(1,361,338)
Impairment of inventories	6	-	(513,137)
Impairment of deposit	10(i)	(106,104)	-
		(14,297,205)	(42,563,044)
<b>Loss Before Taxes</b>		(26,919,483)	(60,471,173)
<b>Income tax recovery</b>			
Deferred income tax recovery	21	(2,675,000)	(3,018,960)
		(2,675,000)	(3,018,960)
<b>Net Loss</b>		\$ (24,244,483)	\$ (57,452,213)
Other comprehensive income (loss) that may be reclassified to net loss			
Gain (loss) on foreign currency translation	11,25(c)(i)	306,710	(233,319)
<b>Comprehensive Loss</b>		\$ (23,937,773)	\$ (57,685,532)
<b>Comprehensive Income (Loss) attributed to:</b>			
Shareholders of the Company		\$ (24,837,930)	\$ (57,740,228)
Non-controlling interest	20	900,157	54,696
		\$ (23,937,773)	\$ (57,685,532)
<b>Weighted average number of outstanding shares, basic and diluted</b>	24	872,786,254	697,447,550
<b>Basic and diluted loss per share</b>	24	\$ (0.03)	\$ (0.08)

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

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Consolidated Statements of Changes in Equity**  
**Years Ended October 31, 2022 and 2021**  
(Stated in Canadian Dollars)

	Notes	Number of Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Non-controlling Interest	Total
<b>Balance at October 31, 2020</b>		496,136,722	\$ 96,203,173	\$ 5,417,218	\$ 36,012	\$ (34,031,758)	\$ 640,186	\$ 68,264,831
Share-based payments - vesting of options	18(b),19(b)	-	-	342,123	-	-	-	342,123
Share-based payments - issuance of restricted shares	18(b),19(c)	2,191,831	350,693	-	-	-	-	350,693
Restricted shares issued for debt and services	18(b)	2,884,797	342,142	-	-	-	-	342,142
Shares issued for debt and services	18(b)	3,308,933	228,218	-	-	-	-	228,218
Exercise of options	18(b),19(b)	2,549,644	828,259	(578,259)	-	-	-	250,000
Shares issued as purchase consideration for Premium 5 acquisition	4,18(b)	180,156,643	30,626,629	-	-	-	-	30,626,629
Issuance of units, net of issuance costs	18(b),19(a)	98,900,000	11,902,943	598,392	-	-	-	12,501,335
Comprehensive income (loss)	20	-	-	-	(233,319)	(57,506,909)	54,696	(57,685,532)
<b>Balance at October 31, 2021</b>		786,128,570	\$ 140,482,057	\$ 5,779,474	\$ (197,307)	\$ (91,538,667)	\$ 694,882	\$ 55,220,439
<b>Balance at October 31, 2021</b>		786,128,570	\$ 140,482,057	\$ 5,779,474	\$ (197,307)	\$ (91,538,667)	\$ 694,882	\$ 55,220,439
Share-based payments - vesting of options	19(b)	-	-	389,895	-	-	-	389,895
Share-based payments - issuance of shares	18(b)	7,109,090	355,455	-	-	-	-	355,455
Shares cancelled as consideration for debt assumed	18(b)	(933,333)	(126,000)	(14,000)	-	-	-	(140,000)
Shares issued as contingent consideration payment for Premium 5 acquisition	16(d),18(b)	107,142,857	6,428,571	-	-	-	-	6,428,571
Shares issued as contingent consideration payment for Purefarma acquisition	16(a)(b),18(b)	14,728,762	515,507	-	-	-	-	515,507
Shares issued for the acquisition of non-controlling interest in Heritage West	16(c),18(b),20	2,000,000	70,000	-	-	1,875,040	(1,595,039)	350,001
Warrants issued as consideration for loan amendment	15(b), 19(a)	-	-	747,260	-	-	-	747,260
Exercise of warrants	18(b),19(a)	29,809	20,866	-	-	-	-	20,866
Comprehensive income (loss)	20	-	-	-	306,710	(25,144,640)	900,157	(23,937,773)
<b>Balance at October 31, 2022</b>		916,205,755	\$ 147,746,456	\$ 6,902,629	\$ 109,403	\$ (114,808,267)	\$ -	\$ 39,950,221

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

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Consolidated Statements of Cash Flows**  
**Years Ended October 31, 2022 and 2021**  
(Stated in Canadian Dollars)

	Notes	Years Ended October 31,	
		2022	2021
<b>Operating Activities</b>			
Net loss for the year		\$ (24,244,483)	\$ (57,452,213)
Items not affecting cash:			
Amortization and depreciation	12,13	3,732,493	5,223,667
Depreciation in cost of sales	6,12,13	-	251,815
Loss on disposal of property, plant and equipment	13	2,849	-
Capitalized depreciation recognized in cost of sales	6	103,341	763,672
Inventory fair value increase recognized in cost of sales	6	-	583,087
Deferred income tax recovery	21	(2,675,000)	(3,018,960)
Non-cash items included in interest and other income	8,9	(97,574)	(5,000)
Non-cash interest and finance expense	17	280,380	544,607
Shares issued for debt and services	18(b)	-	123,555
Share-based payments	18(b),19(b)	770,095	692,816
Loss on debt extinguishment, net of cash-settled transaction costs	15(b),19(a)	1,793,251	1,341,090
Share of loss from investment in associate	11	135,211	235,393
Unrealized loss (gain) on contingent consideration payable	16	(9,137,267)	3,514,865
Unrealized (gain) on derivative liabilities	17	(214,323)	(236,772)
Unrealized foreign exchange loss	11,25(c)(i)	1,289	20,244
Impairment of intangible assets and goodwill	12	21,215,000	36,337,826
Unrealized (gain) on other investments	10(ii)(iii)	(572,774)	-
Impairment of deposit	10(i)	106,104	-
		(8,801,408)	(11,080,308)
Net changes in non-cash working capital, net of business combination	31	6,372,692	(9,045,884)
<b>Cash Flows (Used in) Operating Activities</b>		(2,428,716)	(20,126,192)
<b>Investing Activities</b>			
Acquisition of property, plant and equipment	13	(1,069,382)	(1,930,776)
Proceeds from disposal of property, plant and equipment	13	28,690	-
Issuance of notes receivable	9	(1,916,900)	-
Proceeds from sale of other investment	10(ii)	608,649	-
Maturity of convertible promissory note receivable	8	259,481	-
Cash acquired from business combination	4	-	1,281,341
Redemptions of short-term investments	5	-	5,100,000
<b>Cash Flows (Used in) Provided by Investing Activities</b>		(2,089,462)	4,450,565
<b>Financing Activities</b>			
Proceeds from exercise of options and warrants	18(b)	20,866	250,000
Proceeds from issuance of units, net of cash-settled issuance costs	18(b)	-	12,501,335
Principal payments on lease obligation	14	(80,106)	(49,879)
Principal payments on long-term debt, net of cash transaction costs	15	(5,321)	(4,677,029)
Proceeds from long-term debt, net of cash-settled transaction costs	15	4,939,009	9,151,618
Proceeds from derivative liability	17(b)	1,037,770	817,500
Cash payment for the acquisition of non-controlling interest	20	(50,000)	-
<b>Cash Flows Provided by Financing Activities</b>		5,862,218	17,993,545
<b>Net Increase in Cash During the Year</b>		1,344,040	2,317,918
Cash, Beginning of Year		3,763,577	1,445,659
<b>Cash, End of Year</b>		\$ 5,107,617	\$ 3,763,577

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

**Supplementary information**

Interest received		\$ 3,836	\$ 71,711
Interest paid	14,15	\$ -	\$ 414,241
Shares and restricted shares issued for debt	18(b)	\$ -	\$ 342,142
Shares issued for Premium 5 acquisition	16(d),18(b)	\$ 6,428,571	\$ 30,626,629
Shares issued for Purefarma acquisition	16(a)(b),18(b)	\$ 515,507	\$ -
Other receivable settled as contingent consideration payment for Purefarma acquisition	16(a)(b)	\$ 48,831	\$ -
Shares issued for the acquisition of non-controlling interest	18(b),20	\$ 70,000	\$ -
Shares cancelled as consideration for debt assumed	18(b)	\$ 140,000	\$ -
Non-cash share issuance costs	18(b),19(a)	\$ -	\$ 598,392
Share-based payments in accrued liabilities for shares to be issued		\$ 24,745	\$ -
Capitalized depreciation expense during the year		\$ 1,288,859	\$ 275,628
Right-of-use asset additions	13	\$ -	\$ 286,456

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended October 31, 2022 and 2021**  
**(Stated in Canadian Dollars)**

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**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. Subsequent to October 31, 2022, Purefarma and CALYX amalgamated as disclosed in Note 32. On January 25, 2021, the Company acquired 100% of Premium 5 Ltd., a Canada-based recreational and medical cannabis company in high-quality full spectrum concentrates. In the United States, the Company operates under Opticann, Inc., a Colorado based oral and topical cannabinoid company.

**1. Basis of presentation**

**(a) Going concern**

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

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes that the Company will operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company incurred net loss of \$24,244,483 for the year ended October 31, 2022 (2021 - \$57,452,213), and had an accumulated deficit of \$114,808,267 as at October 31, 2022 (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 consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments other than in the normal course of business and at amounts different from those in these consolidated financial statements.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended October 31, 2022 and 2021**  
**(Stated in Canadian Dollars)**

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**1. Basis of presentation (continued)**

(b) Statement of compliance

The consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") applicable to the preparation of these consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on February 23, 2023.

(c) Basis of measurement

These 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., convertible promissory note receivable, notes receivable, acquisition-related contingent consideration payable, and derivative liabilities which are measured at fair value. These consolidated financial statements have been prepared on an accrual basis except for cash flow information.

(d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars ("CDN") unless otherwise noted. The functional currency of Heritage US Holdings Corp., Heritage (US) Cali Corp., Heritage (US) Oregon Corp., Heritage (US) Colorado Corp., Opticann, Inc. and Endocanna Health, Inc. ("Endocanna") is the U.S. dollar ("USD"). The functional currency of the remaining entities is the Canadian dollar.

(e) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, with intercompany balances and transactions eliminated on consolidation. Subsidiaries are those entities over which the Company has control, which exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. As of October 31, 2022, subsidiaries over which the Company has control are listed below.

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2022 and 2021**  
**(Stated in Canadian Dollars)**

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**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. (Note 32)	100%	British Columbia, Canada
Heritage Cannabis East Corp. (formerly CannaCure Corp.)	100%	Ontario, Canada
Heritage Cannabis West Corp. (Note 20) (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 20)	100%	British Columbia, Canada
Opticann, Inc.	100%	Colorado, United States
Premium 5 Ltd.	100%	Alberta, Canada
Purefarma Solutions Inc. (Note 32)	100%	British Columbia, Canada

Certain subsidiaries are controlled, indirectly, through other subsidiaries.

(f) Estimates and critical judgements made by management

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

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

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Notes to Consolidated Financial Statements**  
**For the Years ended October 31, 2022 and 2021**  
**(Stated in Canadian Dollars)**

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**1. Basis of presentation (continued)**

(f) Estimates and critical judgements made by management (continued)

(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 assets and intangible assets with finite lives

Depreciation and amortization of property, plant and equipment, right-of-use assets 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.

(iv) Impairment of property, plant and equipment, right-of-use assets 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.

(v) 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. See Note 12.

(vi) 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.



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**1. Basis of presentation (continued)**

(f) Estimates and critical judgements made by management (continued)

(vii) Valuation of financial instruments

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.

(viii) 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.

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

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimates 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.

(x) Inventory

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

(xi) 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.

(xii) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. Management monitors future cash requirements to assess the Company's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 1(a).

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**1. Basis of presentation (continued)**

(f) Estimates and critical judgements made by management (continued)

(xiii) 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.

(xiv) 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 consolidated financial statements.

**2. Significant accounting policies**

(a) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition date amounts of identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

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

**(a) Business combination (continued)**

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for those items for which the accounting is incomplete. The provisional amounts are adjusted during the measurement period, not to exceed 12 months, or additional assets or liabilities may be recognized to reflect additional information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

**(b) Cash and cash equivalents**

Cash includes cash on hand and demand deposits. Cash equivalents comprises short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of change and have maturities of three months or less from the date of acquisition, held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. The Company had no cash equivalents at the end of the reporting periods presented.

**(c) Inventories**

Inventories are initially valued at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis.

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

(d) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the assets' estimated useful lives.

Licenses	4 to 20 years
Intellectual property	10 years
Brands	3 to 10 years
Board relationships	10 years

Estimated useful lives and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is thereafter regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

Property, plant and equipment and right-of-use assets are carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized on a straight-line basis over the assets' estimated useful lives.

Buildings and improvements	20 years
Equipment	10 years
Right-of-use assets	Lesser of lease term or useful life

An asset's residual value, useful life and depreciation method are reviewed at the end of each reporting period and adjusted if appropriate. When parts of an item of plant, property and equipment have different useful lives, they are accounted for as separate items.

During their construction, property, plant and equipment are not subject to depreciation. When the asset is available for use, depreciation commences.

Gains and losses on the disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in profit or loss.

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

(f) Impairment of long-lived assets

Impairment tests on goodwill and intangible assets with indefinite useful lives are undertaken annually at the financial year-end and whenever there is an indication that these assets may be impaired. For other long-lived assets, the Company reviews their carrying amounts at the end of each reporting period to determine whether there is any indication that the carrying amount is not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the carrying value of an asset exceeds its recoverable amount, the asset is written down accordingly.

The recoverable amount is the higher of VIU and FVLCD. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows resulting from the asset's use and eventual disposition are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

When an individual asset does not generate independent cash flows, the Company estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

(g) Financial instruments

All financial instruments are initially recorded at fair value at the time of acquisition. The Company aggregates its financial instruments in accordance with IFRS 9, Financial Instruments, into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized, which is normally the date of the transaction. The Company's accounting policy for each class of financial instruments is as follows:

(i) Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest ("SPPI") criterion, and financial liabilities which are not required, and for which the Company has not elected to subsequently record at fair value through profit or loss.

Financial instruments in this category are initially recognized at fair value plus directly attributable transaction costs. Subsequently, these instruments are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Financial assets are adjusted for any expected credit losses ("ECLs").

Financial assets in this category include cash, short-term investments, and accounts receivable. Financial liabilities in this category include accounts payable and accrued liabilities and long-term debt.

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

(g) Financial instruments (continued)

(ii) Fair value through profit or loss ("FVTPL")

This category includes derivative instruments and debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

These financial instruments are initially recognized at fair value; all transaction costs are recognized immediately in profit or loss. Subsequently, these instruments are recognized at fair value at each reporting date. Any changes in fair value, and gains or losses upon disposition of the financial instruments are recognized in profit or loss.

Financial assets and liabilities in this category include convertible promissory note receivable, notes receivable, investments in 1186366 B.C. Ltd., investment in SPD, contingent consideration payable and derivative liabilities.

(iii) Fair value through other comprehensive income ("FVOCI")

This category only includes equity instruments, which the Company intends to hold for the foreseeable future and which the Company has irrevocably elected to so classify upon initial recognition or transition.

Equity instruments in this category are subsequently measured at fair value with changes recognized in other comprehensive income, with no recycling of gains or losses to profit or loss upon derecognition. Dividend income is recognized in earnings. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9.

The Company did not have any financial instruments in this category as at October 31, 2022 and 2021.

(h) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on cash, short-term investments and accounts receivable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Company recognizes lifetime ECLs for accounts receivable. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. For all other financial instruments, the Company recognizes the loss allowance for that financial instrument at an amount equal to 12-month ECLs. However, when there has been a significant increase in credit risk on these other financial instruments since initial recognition, lifetime ECLs are recognized. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

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

(i) De-recognition of financial instruments

The Company de-recognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and reward of ownership of the asset to another party. On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

The Company de-recognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in profit or loss.

(j) Investments in associates

Significant influence is the power to participate in the financial and operating policy decisions of the associate without control or joint control over those policies. Significant influence is presumed to exist if the Company holds between 20% and 50% of the voting rights, unless evidence exists to the contrary. The Company has assessed that it has significant influence over Endocanna (Note 11). Associates in which the Company has significant influence are accounted for using the equity method. The Company's interest is initially recorded at cost, including transaction costs, and is subsequently adjusted for the Company's share of the associate's profit or loss and other comprehensive income, less any impairment in the value of individual investments, less any dividends received. Where the Company transacts with an associate, profits and losses are eliminated to the extent of the Company's interest in the associate. If the Company's share of losses equals or exceeds its interest in the associate, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

(k) Leases

The Company accounts for lease contracts in accordance with IFRS 16, Leases.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use assets are adjusted for impairment losses, if any. The estimated useful lives and recoverable amounts of right-of-use assets are determined on the same basis as those of property, plant and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases and leases for which the underlying asset is of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

(l) Income taxes

Income tax expense is comprised of current and deferred tax. Current and deferred income tax are recognized in the consolidated statements of operations and comprehensive loss except to the extent that they relate to a business combination or items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income. Current income taxes are the expected taxes payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustments to taxes payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the asset can be utilized.

At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Deferred income tax assets and liabilities are presented as non-current.

(m) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share options, restricted shares, restricted share units ("RSU") and certain warrants are classified as equity instruments.

(n) Share-based payments

Equity-settled share-based payments to directors, officers and employees are measured at the fair value of the equity instruments at the grant date and are recognized as an expense over the relevant vesting periods with a corresponding credit to contributed surplus.

Equity-settled share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments granted, if it is determined that the fair value of the goods or services received cannot be reliably measured. The fair value of equity-settled share-based payments to non-employees is recorded as an expense at the date the goods or services are received with a corresponding credit to contributed surplus.

The number of equity instruments expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. After the vesting date, amounts recorded for expired instruments remain in contributed surplus.

In the case of stock options, proceeds received from stock option holders are recorded as an increase to share capital upon exercise and the related reserve balance in contributed surplus is transferred to share capital. In the case of RSUs, the related reserve balance in contributed surplus is transferred to share capital upon release of the underlying restrictions.



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

(o) Basic and diluted income (loss) per share

Basic income (loss) per share is computed by dividing the net income (loss) for the reporting period by the weighted average number of common shares outstanding for the relevant reporting period. Diluted income (loss) per common share is computed by dividing the net income (loss) applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

(p) Share purchase warrants

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in private placements is determined to be the more easily measurable component and they are valued at their fair value, as determined by the closing quoted bid price on the measurement date. The remainder, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded in contributed surplus.

(q) Revenue recognition

Revenue is recognized at the amount of the transaction price that is allocated to the performance obligation. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

Regarding the cannabis concentrate sales, the Company has three revenue streams: White label production, which includes bulk sales of crude oil, own branded products and tolling services.

White label production requires the Company to purchase dried cannabis either through long-term supply agreements or through spot purchases. The Company extracts, and depending on the requirements of the Licensed Producers ("LP"), may also purify, formulate and/or package the oil. The Company sells the cannabis concentrates to the LP customers at wholesale prices. Revenue from white label production is recognized when control of the product is transferred, that being when the product is delivered to the LP customer or in certain cases when delivery is deemed to have occurred. Deemed delivery occurs in situations where the white label contract has two deliverables – an initial sale and transfer of wholesale bulk crude oil, and, at the option of the customer, a subsequent sale of post-extraction refinement, formulation and packaging services. In this case, upon completion of the initial bulk oil extraction, the Company provides a formal notification to its customer of completion, readiness for delivery and timing of title transfer. At the request of the customer, the bulk oil may be held by the Company and undergo further refinement services, essentially taking on the characteristics of tolling services.

Sales of branded products include the sale of products to the various provincial boards. Revenue is recognized when control of the product is transferred, that being when the products are shipped to the various provincial boards as per purchase order and shipping document.

Tolling services work by LP partners supplying the Company with dried cannabis flower and the Company receives a tolling fee for producing cannabis concentrates. Revenue from tolling services is recognized when delivered or deemed delivered, in the case of a bill-and-hold arrangement, to the LP partner. Under tolling service agreements, the Company does not have any inventory risk as control over the inventory stays with the LP and the Company's consideration is in the form of a fee.

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

(q) Revenue recognition (continued)

(i) Remaining performance obligations

The Company's outstanding performance obligations in relation to customer contracts as at October 31, 2022 will be completed upon transfer of ownership (or deemed transfer) of extracts and as services are rendered. The Company's payment terms require payment without penalty to be made within 30 days after the customer accepts transfer of ownership or a notice of completion.

The outstanding performance obligations at year end require the Company to either (i) deliver crude cannabis extracts, and/or (ii) provide post extraction refinement, formulation, and packaging services. Revenue in the amount of \$681,548 (2021 - \$240,705 to be earned in the 2022 fiscal year) is expected to be earned in the 2023 fiscal year from contracts and orders in place as at October 31, 2022.

The contract to manufacture includes a standard limited warranty which holds the Company to certain assurances surrounding manufacturing practices and compliance with the Cannabis Act and its Regulations as well as other applicable laws.

(r) Foreign exchange translation

(i) Translation of foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using the exchange rate prevailing at the date of the transaction. At each reporting date, foreign currency denominated monetary assets and liabilities are translated at year-end exchange rates. Exchange differences are recorded in profit or loss for the period.

(ii) Translation of foreign operations

The assets and liabilities of foreign operations are translated into Canadian dollars at year-end exchange rates. Income and expenses, and cash flows are translated into Canadian dollars using average exchange rates. Differences resulting from translating foreign operations are reported as translation differences in other comprehensive income and accumulated in equity. When a foreign operation is disposed of, the translation differences previously recognized in equity are reclassified to profit or loss.

(s) Government grants

Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attached to them and the government grants will be received. Grants are recognized as either income over the period(s) necessary to match them with the related costs or if related to a specific expense, as a reduction or contra to the expenses for which they are intended to compensate, on a systematic basis. Grants receivable for costs already incurred or for immediate financial support, with no future related costs, are recognized as income in the period in which the grant is receivable.

If a grant becomes repayable, it is treated as a change in estimate. Where the original grant related to income, the repayment would be applied first against any related unamortized deferred credit, and any excess would be expensed. Where the original grant related to an asset, the repayment would be treated as increasing the carrying amount of the asset or reducing the deferred income balance. The cumulative depreciation which would have been charged had the grant not been received would be charged as an expense.

The Company has elected to present the Canada Emergency Wage Subsidy ("CEWS"), a form of government grants, as a reduction of the corresponding payroll expenses. See Note 30.

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

(t) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

**3. New accounting standards and pronouncements**

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

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 37, Provisions, Contingent Liabilities and Contingent Assets

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.

(c) Amendment to IAS 16, Property, Plant and Equipment

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.

(d) 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.

(e) 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.

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**3. New accounting standards and pronouncements (continued)**

- (f) 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.

- (g) Amendments to IFRS 3, Business Combinations

The amendments introduce new exceptions to the recognition and measurement principles in IFRS 3 to ensure that the update in references to the revised conceptual framework does not change which assets and liabilities qualify for recognition in a business combination. An acquirer should apply the definition of a liability in IAS 37 – rather than the definition in the Conceptual Framework – to determine whether a present obligation exists at the acquisition date as a result of past events. For a levy in the scope of IFRIC 21, the acquirer should apply the criteria in IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. In addition, the amendments clarify that the acquirer should not recognize a contingent asset at the acquisition date. The amendments are effective for annual periods beginning on January 1, 2022.

**4. Business combination**

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

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

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

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**4. Business combination (continued)**

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

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

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

<b>Total consideration paid</b>	
180,156,643 Heritage Common Shares	\$ 30,626,629
Contingent performance payments (Note 16(d))	11,505,000
	<b>42,131,629</b>

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

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**4. Business combination (continued)**

Goodwill represents expected synergies, future income and growth potential, and other intangibles that do not qualify for separate recognition. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

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

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

**5. Short-term investments**

As at October 31, 2022, short-term investments consisted of \$950,000 (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 October 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 (2021 - \$50,000).

**6. Inventories**

	As at October 31, 2022	As at October 31, 2021
Supplies and packaging materials	\$ 3,795,521	\$ 3,032,189
Dried cannabis and hemp	1,356,397	1,615,938
Manufacturing work in progress	2,925,024	3,250,178
Finished goods	8,711,667	8,101,748
Other	-	124,188
	<b>\$ 16,788,609</b>	<b>\$ 16,124,241</b>

During the year ended October 31, 2022, inventories expensed to cost of sales was \$21,599,867 (2021 - \$9,827,525). As at October 31, 2022, \$1,288,859 (2021 - \$103,341) of capitalized depreciation remained in inventories.

**7. Prepaid expenses and deposits**

	As at October 31, 2022	As at October 31, 2021
Inventory deposits	\$ 1,115,500	\$ 1,913,665
Prepaid insurance and consulting	46,071	65,577
Equipment deposits	309,929	40,971
Marketing	130,023	65,145
Other prepaid expenses	412,454	262,382
	<b>\$ 2,013,977</b>	<b>\$ 2,347,740</b>

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**8. 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 was due on demand and matured on December 31, 2021. The promissory note was guaranteed by Empower Health and Empower Clinics Inc. ("Empower Clinics"), an affiliated company of Empower Health. At the Company's option, the promissory note was convertible into the common shares of Empower Clinics based on the value of the common 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 was classified and measured at FVTPL. As at October 31, 2021, the convertible promissory note receivable had a fair value of \$259,481. As at October 31, 2022, the convertible promissory note receivable was fully repaid in cash.

**9. Notes receivable**

	Heritage Cannabis Holdings Corp. (a)	Heritage (US) Oregon Corp. (b)	Total
<b>Balance as at October 31, 2021</b>	\$ -	\$ -	\$ -
Advances	1,613,877	299,954	1,913,831
Interest income	97,574	3,069	100,643
<b>Balance as at October 31, 2022</b>	1,711,451	303,023	2,014,474
Less: current portion	(256,718)	(45,453)	(302,171)
Long-term portion	\$ 1,454,733	\$ 257,570	\$ 1,712,303

(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 October 31, 2022, the Company has disbursed \$1,613,877 CDN (equivalent to \$1,182,488 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 the Missouri Agreement. As at October 31, 2022, the Company has disbursed \$299,954 CDN (equivalent to \$219,776 USD) in total.

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**9. Notes receivable (continued)**

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 year ended October 31, 2022.

All the borrowers expect to commence sales imminently with monthly repayments starting in February 2023. Future undiscounted principal payments for the notes receivable, excluding variable service fees which are excluded from notes receivable, are as follows:

	<1 year	2-5 years	> 5 years
Contractual cash flows	\$ 287,075	\$ 1,531,065	\$ 95,691

**10. Other investments and deposits**

	As at October 31, 2022	As at October 31, 2021
Refundable deposit for development costs (i)	\$ -	\$ 106,104
Investment in SPD (ii)	-	-
Investment in 118366 B.C. Ltd (iii)	-	35,875
Long-term deposits (iv)	799,812	296,699
	\$ 799,812	\$ 438,678

- (i) On February 16, 2018, Heritage East entered into an agreement with its municipality to conduct land development where its production facility is located. As part of this agreement, Heritage East deposited with the municipality a \$106,104 refundable letter of credit to guarantee the completion of these land development costs. As at October 31, 2022, management determined that the project was no longer viable and therefore wrote off the deposit in full.
- (ii) 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.
- (iii) On June 15, 2020, the Company received 76,923 common shares of 118366 B.C. Ltd. at a price of \$0.61 per share as settlement of \$46,914 accounts receivable for storage and other services provided. As a result, the Company acquired 5% interest in 118366 B.C. Ltd. As at October 31, 2022, the fair value of the investment was determined to be \$nil (2021 - \$35,875) based on management's best estimates, with an unrealized loss of \$35,875 recognized in profit or loss.
- (iv) As at October 31, 2022, the long-term deposits were comprised of an excise duty deposit of \$710,000 (2021 - \$215,000) and security deposits of \$89,812 (2021 - \$81,699).



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**11. Investment in associate**

On July 26, 2019, the Company acquired a 30% strategic interest in Endocanna, a company based in California, U.S.A. that develops saliva collection kits used in identifying genetic variants to facilitate cannabinoid formulation and dosing decisions.

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

<b>Balance as at October 31, 2020</b>	\$	3,515,379
Share of net loss		(235,393)
Foreign currency translation		(235,804)
<b>Balance as at October 31, 2021</b>	\$	3,044,182
Share of net loss		(135,211)
Foreign currency translation		305,422
<b>Balance as at October 31, 2022</b>	\$	3,214,393

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

	As at October 31, 2022	As at October 31, 2021
Cash and cash equivalents	\$ 10,509	\$ 72,529
Other current assets	187,060	241,766
Non-current assets	16,516	205,840
Current liabilities	186,456	347,010
Non-current liabilities	195,000	-
	For the year ended October 31, 2022	For the year ended October 31, 2021
Revenue	\$ 284,676	\$ 152,250
Depreciation and amortization expense	216,110	216,844
Loss from continuing operations	349,026	619,275
Total comprehensive loss	349,026	619,275

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**12. Intangible assets and goodwill**

	<b>Licenses</b>	<b>Board Relationships</b>	<b>Intellectual property</b>	<b>Brands</b>	<b>Goodwill (i)</b>	<b>Total</b>
<b>Cost</b>						
As at October 31, 2021	\$ 29,208,072	\$ 1,034,000	\$ 7,250,000	\$ 9,530,500	\$ 4,858,330	\$ 51,880,902
Deduction as a result of fully impaired license	(971,073)	-	-	-	-	(971,073)
Impairment	(10,488,595)	(385,399)	(2,152,103)	(3,330,573)	(4,858,330)	(21,215,000)
Aa at October 31, 2022	\$ 17,748,404	\$ 648,601	\$ 5,097,897	\$ 6,199,927	\$ -	\$ 29,694,829
<b>Accumulated amortization</b>						
As at October 31, 2021	\$ 4,621,026	\$ 79,037	\$ 1,769,794	\$ 1,157,766	\$ -	\$ 7,627,623
Deduction as a result of fully impaired license	(971,073)	-	-	-	-	(971,073)
Additions	1,411,849	103,400	725,000	1,013,629	-	3,253,878
As at October 31, 2022	\$ 5,061,802	\$ 182,437	\$ 2,494,794	\$ 2,171,395	\$ -	\$ 9,910,428
<b>Net book value as at October 31, 2022</b>	<b>\$ 12,686,602</b>	<b>\$ 466,164</b>	<b>\$ 2,603,103</b>	<b>\$ 4,028,532</b>	<b>\$ -</b>	<b>\$ 19,784,401</b>

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

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

The details of individually material intangible assets are as follows:

Description	Carrying Amount		Remaining Amortization Period
	As at October 31, 2022	As at October 31, 2021	
Heritage East cultivation, processing and sales licenses	\$ 10,467,574	\$ 20,280,098	Approximately 16 years
Purefarma intellectual property	2,603,103	5,480,206	Approximately 6 years
Premium 5 board relationships	466,163	954,963	Approximately 8 years
Premium 5 brand	4,020,549	8,236,323	Approximately 8 years
Heritage West processing and sales licenses	2,219,028	4,306,948	Approximately 16 years

(i) Below is a reconciliation of changes in the goodwill balance for the years ended October 31, 2022 and 2021:

	Purefarma	Heritage East	Heritage West	Premium 5	Total
As at October 31, 2020	\$ 2,711,016	\$ 5,622,278	\$ 858,139	\$ -	\$ 9,191,433
Acquired through business combination (Note 4)	-	-	-	29,366,897	29,366,897
Impairment	(2,369,429)	(4,913,874)	(750,014)	(25,666,683)	(33,700,000)
As at October 31, 2021	\$ 341,587	\$ 708,404	\$ 108,125	\$ 3,700,214	\$ 4,858,330
Impairment	(341,587)	(708,404)	(108,125)	(3,700,214)	(4,858,330)
As at October 31, 2022	\$ -	\$ -	\$ -	\$ -	\$ -

As at October 31, 2022 and October 31, 2021, the full goodwill balance was allocated to the Canadian extraction CGU. The Company has assessed that there is a single cash generating unit. The Company assesses whether there are events or changes in circumstances that would more likely than not reduce the fair value of its CGU to below its carrying value and, therefore, require goodwill to be tested for impairment at the end of each reporting period.

As at October 31, 2022, the Company performed its annual impairment test on the goodwill based on the higher of VIU and FVLCD of the CGU, determined in accordance with the expected cash flow approach, a level 3 valuation technique. The recoverable amount was determined to be the FVLCD, in the amount of \$44,340,000. The key assumptions used in the calculation of the recoverable amount relate to five-year future cash flows, weighted average cost of capital, and five-year average growth rate. These key assumptions were based on historical data from internal sources as well as industry and market trends. The discount rate used was 18.2% (2021 – 12.5%) representing the weighted average cost of capital (after-tax) determined based on mid-year discounting, and the five-year average growth rate in gross revenue was estimated as 24% (2021 – 36.2%).

As the recoverable amount was below the carrying value by \$21,125,000 as at October 31, 2022, an impairment loss of \$4,858,330 (2021 - \$33,700,000) was recognized and allocated to goodwill, with the remaining allocated to other intangible assets based on their relative carrying amounts. Management has determined that the impairment was primarily due to shifting market dynamics.

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**13. Property, plant and equipment**

	<b>Equipment</b>	<b>Buildings and improvements</b>	<b>Land</b>	<b>Total</b>
<b>Cost</b>				
At October 31, 2021	\$ 8,733,798	\$ 14,763,772	\$ 930,157	\$ 24,427,727
Additions	867,989	201,393	-	1,069,382
Disposals	(38,088)	-	-	(38,088)
At October 31, 2022	\$ 9,563,699	\$ 14,965,165	\$ 930,157	\$ 25,459,021
<b>Accumulated depreciation</b>				
At October 31, 2021	\$ 1,888,354	\$ 1,769,407	\$ -	\$ 3,657,761
Additions	955,297	812,177	-	1,767,474
Disposals	(6,549)	-	-	(6,549)
At October 31, 2022	\$ 2,837,102	\$ 2,581,584	\$ -	\$ 5,418,686
<b>Net book value at October 31, 2022</b>	<b>\$ 6,726,597</b>	<b>\$ 12,383,581</b>	<b>\$ 930,157</b>	<b>\$ 20,040,335</b>

	<b>Equipment</b>	<b>Buildings and improvements</b>	<b>Land</b>	<b>Total</b>
<b>Cost</b>				
At October 31, 2020	\$ 6,971,560	\$ 13,636,149	\$ 930,157	\$ 21,537,866
Acquisitions from business combination (Note 4)	136,761	589,280	-	726,041
Additions	1,625,477	591,755	-	2,217,232
Deduction as a result of terminated lease	-	(53,412)	-	(53,412)
At October 31, 2021	\$ 8,733,798	\$ 14,763,772	\$ 930,157	\$ 24,427,727
<b>Accumulated depreciation</b>				
At October 31, 2020	\$ 935,348	\$ 1,033,112	\$ -	\$ 1,968,460
Additions	953,006	789,707	-	1,742,713
Deduction as a result of terminated lease	-	(53,412)	-	(53,412)
At October 31, 2021	\$ 1,888,354	\$ 1,769,407	\$ -	\$ 3,657,761
<b>Net book value at October 31, 2021</b>	<b>\$ 6,845,444</b>	<b>\$ 12,994,365</b>	<b>\$ 930,157</b>	<b>\$ 20,769,966</b>

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

During the year ended October 31, 2022, the Company disposed of equipment, with a recognition of loss on disposal of \$2,489 in profit or loss

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 the underlying assets:

	<b>Right-of-use assets</b>
<b>Cost</b>	
As at October 31, 2020	\$ 53,412
Additions (Note 14)	286,456
Acquisitions from business combination (Note 4)	546,344
Deduction as a result of terminated lease	(53,412)
As at October 31, 2021	\$ 832,800
<b>Accumulated depreciation</b>	
As at October 31, 2020	\$ 29,134
Additions	102,116
Deduction as a result of terminated lease	(53,412)
As at October 31, 2021	\$ 77,838
<b>Net book value as at October 31, 2021</b>	<b>\$ 754,962</b>
	<b>Right-of-use assets</b>
<b>Cost</b>	
As at October 31, 2021	\$ 832,800
As at October 31, 2022	\$ 832,800
<b>Accumulated depreciation</b>	
As at October 31, 2021	\$ 77,838
Additions	110,593
As at October 31, 2022	\$ 188,431
<b>Net book value as at October 31, 2022</b>	<b>\$ 644,369</b>

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

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**14. 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 to \$7,700 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 to \$6,423 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 which would require a recognition of right-of-use assets and lease liabilities during the year ended October 31, 2022.

The following is a continuity of lease liabilities:

	As at October 31, 2022	As at October 31, 2021
<b>Beginning balance</b>	\$ 809,103	\$ 26,182
Acquired through business combination (Note 4)	-	546,344
Additions	-	286,456
Interest expense	76,097	62,235
Lease payments	(156,203)	(112,114)
<b>Ending balance</b>	\$ 728,997	\$ 809,103
Less: current portion	(89,591)	(79,359)
<b>Long-term portion</b>	\$ 639,406	\$ 729,744

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	\$ 157,953	\$ 541,857	\$ 315,700

During the year ended October 31, 2022, the Company has recognized rent expenses of \$195,402 in 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 (2021 - \$94,757).

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**15. Long-term debt**

	As at October 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	\$ 14,098	\$ 19,419
(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.	16,807,261	10,822,261
	\$ 16,821,359	\$ 10,841,680
Less: current portion	(5,878)	(5,321)
Long-term portion	\$ 16,815,481	\$ 10,836,359

(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 October 31, 2022, the face value of the term loan was \$15,802 (as at October 31, 2021 - \$22,825). The term loan was secured by an equipment with a carrying value of \$25,087 as at October 31, 2021. During the year ended October 31, 2022, the Company disposed of the underlying equipment. Consequently, the term loan became unsecured as at October 31, 2022.

(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.

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

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 19(a). These warrants were considered exchangeable into a fixed number of Heritage Common Shares, and thus were classified as equity.

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

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 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.



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

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 (Note 19(a)), were recognized in profit or loss at the modification date.

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

Proceeds from term loan	\$ 7,000,000
Transaction costs, cash-settled	(1,111,433)
Transaction costs, equity-settled	(28,000)
<b>Balance at inception of the term loan</b>	<b>5,860,567</b>
Interest expense	129,500
Interest payments	(129,500)
Accretion	357,553
<b>Balance as at October 6, 2021, the modification date</b>	<b>\$ 6,218,120</b>
Advances, net of cash-settled transaction costs	3,263,051
Loss on debt extinguishment from changes in carrying amount and transaction costs withheld by lender as a result of modification <sup>(i)</sup>	1,341,090
Interest expense	31,556
Interest payments	(31,556)
<b>Balance as at October 31, 2021</b>	<b>\$ 10,822,261</b>
Advances, net of cash-settled transaction costs	1,000,000
Interest expense	741,420
Interest payments	(741,420)
<b>Balance as at September 29, 2022, the modification date</b>	<b>\$ 11,822,261</b>
Advances, net of cash-settled transaction costs	3,939,009
Loss on debt extinguishment from changes in carrying amount and cash-settled transaction costs as a result of modification <sup>(i)</sup>	1,045,991
Interest expense	47,093
Interest payments	(47,093)
<b>Balance as at October 31, 2022</b>	<b>\$ 16,807,261</b>

<sup>(i)</sup> In addition, the fair value of \$747,260 of the 60,000,000 warrants, issued as non-cash transaction costs in connection with the modification, was recognized as loss on debt extinguishment.

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**16. Contingent Consideration Payable**

<b>Balance as at October 31, 2020</b>	\$ 1,510,311
Issued in Premium 5 acquisition (Note 4)	11,505,000
Loss from remeasurement	3,514,865
<b>Balance as at October 31, 2021</b>	\$ 16,530,176
Payment made through issuance of common shares on contingent consideration issued in Premium 5 acquisition (Note 4)	(6,428,571)
Payment made through issuance of common shares on contingent consideration issued in Purefarma acquisition and settlement of other receivable (Note 16(b) and Note 18(b))	(564,338)
Settlement of contingent consideration payable issued in Heritage West acquisition as a result of purchase of non-controlling interest in Heritage West (Note 20)	(400,000)
(Gain) from remeasurement	(9,137,267)
<b>Balance as at October 31, 2022</b>	\$ -

(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 was required to make certain pro-rata earn-out payments, payable in common shares, to former shareholders of Purefarma as additional purchase consideration. These payments were based on Purefarma's ability to meet certain extraction-related cumulative gross margin targets, as follows:

Upon Purefarma achieving a cumulative gross margin of \$25,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company would 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 would 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 would 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 would 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.

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**16. 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.

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 would have been required in December of 2022, if not settled during the year ended October 31, 2022.

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

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 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 (Note 18(b)). 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.

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

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

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 20). 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 (2021 - \$345,000). 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 20).

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

As detailed in Note 4, 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 (see Note 18(b)). 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 (2021 - \$940,000), 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.

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

The following is a continuity of contingent consideration payable:

	Purefarma	Heritage West	Premium 5	Total
<b>Balance as at October 31, 2020</b>	\$ 1,110,311	\$ 400,000	\$ -	\$ 1,510,311
Addition from Premium 5 acquisition (Note 4)	-	-	11,505,000	11,505,000
Unrealized loss (gain) from changes in fair value	(865,135)	(55,000)	4,435,000	3,514,865
<b>Balance as at October 31, 2021</b>	\$ 245,176	\$ 345,000	\$ 15,940,000	\$ 16,530,176
First Performance Milestone payment for Premium 5 acquisition	-	-	(6,428,571)	(6,428,571)
Settlement as part of NCI purchase in Heritage West	-	(400,000)	-	(400,000)
Purefarma contingent consideration payment through share issuance and other receivable settled	(564,338)	-	-	(564,338)
Unrealized loss (gain) from changes in fair value	319,162	55,000	(9,511,429)	(9,137,267)
<b>Balance as at October 31, 2022</b>	\$ -	\$ -	\$ -	\$ -

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 26.

**17. Derivative liabilities**

	Heritage Cannabis Exchange Corp. (a)	Heritage Cannabis Holdings Corp. (b)	Total
<b>Balance as at October 31, 2020</b>	\$ 893,377	\$ -	\$ 893,377
Addition	-	817,500	817,500
Interest expense	-	4,364	4,364
Unrealized loss (gain) from changes in fair value	(600,168)	363,396	(236,772)
<b>Balance as at October 31, 2021</b>	\$ 293,209	\$ 1,185,260	\$ 1,478,469
Addition	-	1,037,770	1,037,770
Interest expense	-	280,380	280,380
Unrealized loss (gain) from changes in fair value	(282,390)	68,067	(214,323)
<b>Balance as at October 31, 2022</b>	\$ 10,819	\$ 2,571,477	\$ 2,582,296
Less: current portion	-	(1,636,766)	(1,636,766)
<b>Long-term portion</b>	\$ 10,819	\$ 934,711	\$ 945,530

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**17. Derivative liabilities (continued)**

(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 October 31, 2022, the Class 1 Warrants expired unexercised and were revalued immediately prior to expiry.

As at October 31, 2022, the Company re-valued the warrant derivative liabilities using a level 3 valuation technique, as detailed in Note 26 with the following inputs, assumptions and results, respectively:

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

<b>At October 31, 2022</b>	<b>Class 1 Warrants (immediately prior to expiry)</b>	<b>Class 2 Warrants</b>
Number of warrants issued	7,919,493	3,511,110
Risk-free 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 the earlier of the expiry date or year-end	\$0.000	\$0.003

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

The following table summarizes warrant activities in Heritage Cannabis Exchange Corp. during the years ended October 31, 2022 and 2021:

	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
Balance as at October 31, 2020 and 2021	11,430,603	\$ 0.23
Expired	(7,919,493)	0.20
Balance as at October 31, 2022	3,511,110	\$ 0.30

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**17. Derivative liabilities (continued)**

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

On October 18, 2021, the Company entered into a note and warrant purchase agreement (the “Agreement”) with two lenders, each to provide the Company \$750,000 USD for an aggregate funding of \$1,500,000 USD. The \$1,500,000 USD is to be disbursed in four tranches from October 18, 2021 through 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 October 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 October 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 26. As at October 31, 2022, 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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**17. Derivative liabilities (continued)**

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

<b>Tranche 1</b>	As at October 31, 2021	As at October 31, 2022
Estimated number of Warrant Shares issuable	5,834,400	6,434,528
Risk-free interest rate	1.14%	3.92%
Expected life (years)	2.97	1.97
Expected annualized volatility	91%	114%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.065	\$0.035
Calculated standalone fair value per Warrant	\$363,637	\$90,708

<b>Tranche 2</b>	As at November 1, 2021, the issuance date	As at October 31, 2022
Estimated number of Warrant Shares issuable	3,317,142	3,655,982
Risk-free interest rate	1.14%	3.92%
Expected life (years)	3	2.00
Expected annualized volatility	91%	113%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.065	\$0.035
Calculated standalone fair value per Warrant	\$113,313	\$51,881

<b>Tranche 3</b>	As at November 30, 2021, the issuance date	As at October 31, 2022
Estimated number of Warrant Shares issuable	2,998,125	3,655,982
Risk-free interest rate	1.07%	3.92%
Expected life (years)	3	2.08
Expected annualized volatility	91%	116%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.080	\$0.035
Calculated standalone fair value per Warrant	\$136,271	\$55,563

<b>Tranche 4</b>	As at December 31, 2021, the issuance date	As at October 31, 2022
Estimated number of Warrant Shares issuable	815,014	877,435
Risk-free interest rate	1.02%	3.92%
Expected life (years)	3	2.17
Expected annualized volatility	91%	114%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.065	\$0.035
Calculated standalone fair value per Warrant	\$27,696	\$13,487



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**17. Derivative liabilities (continued)**

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

Expected annualized volatility was estimated using the Company's average historical volatility for a time period equal to the 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
<b>Balance as at October 31, 2020</b>	\$ -	\$ -	\$ -
Additions	602,837	214,663	817,500
Interest expense	4,364	-	4,364
Unrealized (gain) loss from changes in fair value	214,422	148,974	363,396
<b>Balance as at October 31, 2021</b>	\$ 821,623	\$ 363,637	\$ 1,185,260
Additions	822,150	215,620	1,037,770
Interest expense	280,380	-	280,380
Unrealized (gain) loss from changes in fair value	435,685	(367,618)	68,067
<b>Balance as at October 31, 2022</b>	\$ 2,359,838	\$ 211,639	\$ 2,571,477

The following table summarizes warrant activities for warrants classified as financial liabilities at FVTPL during the years ended October 31, 2022 and 2021:

	Number of warrants
<b>Balance as at October 31, 2021</b>	1
Issued	3
<b>Balance as at October 31, 2022</b>	4

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

**18. Share capital**

(a) Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value.

(b) Issued share capital

During the year ended October 31, 2022, the following share issuances took place:

On November 4, 2021, the Company issued 29,809 common 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 common shares to Premium 5 former shareholders as its First Performance Milestone payment in full (See Note 16(d)). The fair value of the common shares was measured at \$6,428,571, determined based on the quoted share price at the issuance date.

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**18. Share capital (continued)**

(b) Issued share capital (continued)

On June 3, 2022, the Company agreed to settle legal costs owing by certain Opticann former shareholders to a third party in the amount of \$140,000, which was included in the accounts payable and accrued liabilities in the statement of financial position as at October 31, 2022. In exchange, the Company cancelled 933,333 common shares held by these Opticann former shareholders. The original carrying amount of the cancelled common shares in the amount of \$126,000 was recorded as a reduction from share capital, with the difference of \$14,000 between the amount of liabilities assumed and the carrying amount of cancelled common shares aforementioned recorded as a decrease in contributed surplus. No gain or loss was recognized on this transaction.

On June 17, 2022, the Company issued 7,109,090 common shares to certain executives and consultants as compensation bonus, of which 3,745,454 common shares were issued to key management (Note 22). The fair value of common shares issued was measured at \$355,455 determined based on the quoted share price of \$0.05 per share at the issuance date.

On September 15, 2022, the Company issued 2,000,000 common shares as part of the purchase consideration for the acquisition of additional non-controlling interest in Heritage West. The fair value of common shares issued was measured at \$70,000 determined based on the quoted share price of \$0.035 per share at the issuance date (Note 20).

On September 15, 2022, the Company issued 14,728,762 common shares for the settlement of all the outstanding equity-settled and cash-settled Purefarma contingent consideration payable (Note 16 (b)). The fair value of common shares issued was measured at \$515,507 determined based on the quoted share price of \$0.035 per share at the issuance date.

During the year ended October 31, 2021, the following share issuances took place:

On November 12, 2020, the Company issued 2,549,644 common shares as a result of 2,549,644 options exercised at an exercise price of \$0.10. Total proceeds of \$250,000 were credited to share capital, in addition to the transfer of \$578,259 from contributed surplus. Refer to Note 19(b).

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

On January 31, 2021 and April 11, 2021, as part of the purchase consideration for the Premium 5 acquisition as described in Note 4, the Company issued a total of 150,000,000 and 30,156,643 common shares, respectively. The fair value of these shares was measured at \$30,626,629, determined based on the closing share price of the Company at the acquisition date.

On March 17, 2021, the Company issued 98,900,000 units (each, a "Unit"), at a price of \$0.14 per unit for aggregated gross proceeds of \$13,846,000. Each Unit consists of one common share and one common share purchase warrant (each, a "Warrant"). Each Warrant is exercisable for one common share at any time for a period of 24 months ending on March 17, 2023 at an exercise price of \$0.21 per Warrant. The proceeds were first allocated to the common shares in accordance with the residual method, resulting in \$nil being allocated to the warrants. The Company paid issuance costs of \$1,344,665 in cash and \$598,392 through the issuance of 6,923,000 broker warrants (each, "Broker Warrants"). Each Broker Warrant is exercisable into one Unit at a price of \$0.14 per unit, expiring on March 17, 2023. The value of the Broker Warrants was measured based on the fair value of the equity instruments granted.

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**18. Share capital (continued)**

(b) Issued share capital (continued)

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

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

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

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

**19. Contributed surplus**

(a) Warrants

Movements in the number of warrants outstanding during the year ended October 31, 2022 and 2021 are as follows:

	Number of warrants	Weighted average exercise price
<b>Balance as at October 31, 2020</b>	31,281,960	\$ 0.54
Issued as part of March 2021 private placement (Note 18(b))	98,900,000	0.21
Issued as settlement of share issuance costs (Note 18(b))	6,923,000	0.14
Issued as part of loan amendment (Note 15(b))	10,000,000	0.25
Expired	(12,666,260)	0.35
<b>Balance as at October 31, 2021</b>	134,438,700	\$ 0.27
Issued as part of loan amendment (Note 15(b))	50,000,000	0.10
Exercised (Note 18(b))	(29,809)	0.70
Expired	(18,585,891)	0.68
<b>Balance as at October 31, 2022</b>	165,823,000	\$ 0.18

The fair value of modified warrants and issued warrants as part of the second loan amendment (Note 15(b)) during the year ended October 31, 2022 was determined at the time of issuance using the Black-Scholes option pricing model with the following weighted average inputs, assumptions and results:

	Modified warrants	Issued warrants
Risk-free annual interest rate	3.79%	3.79%
Expected life (years)	2.42	2.42
Expected annualized volatility	105%	105%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.25	\$0.10
Share price	\$0.035	\$0.035
Calculated fair value per warrant at grant date	\$0.01	\$0.01
Number of warrants	10,000,000	50,000,000

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**19. Contributed surplus (continued)**

(a) Warrants (continued)

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

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

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

See Note 15(c) and Note 18(b) for the valuation of warrants issued as part of loan amendment and private placement during the year ended October 31, 2021, respectively.

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

Expiry date	Number of warrants	Weighted average exercise price
March 17, 2023	98,900,000	\$ 0.21
March 17, 2023	6,923,000	0.14
February 28, 2025 (Note 15(b))	10,000,000	0.25
February 28, 2025 (Note 15(b))	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.

(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.

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**19. Contributed surplus (continued)**

(b) Stock options (continued)

(i) Stock option plan details (continued)

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 year ended October 31, 2022 are as follows:

	Number of options	Weighted average exercise price
<b>Balance as at October 31, 2021</b>	24,763,440	\$ 0.19
Expired	(2,000,000)	0.10
Forfeited	(410,000)	0.26
<b>Balance as at October 31, 2022</b>	22,353,440	\$ 0.20

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

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

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

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

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

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**19. Contributed surplus (continued)**

(b) Stock options (continued)

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

Expiry date	Number of options outstanding	Number of options exercisable	Weighted average exercise price
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	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
	22,353,440	17,781,773	\$ 0.20

As at October 31, 2022, the weighted average remaining contractual life of all options outstanding was 2.85 years (2021 – 3.60 years). The weighted average exercise price for exercisable options was \$0.23 (2021 - \$0.25).

(i) Amounts arising from share-based payment transactions

During the year ended October 31, 2022, the Company recognized an expense of \$389,895 relating to the vesting of options held by employees, directors, officers and consultants (2021 - \$342,123). The Company also accrued a share-based payment of \$24,745 (2021 - \$nil) relating to sales staff shares to be issued (Note 31).

(c) Restricted shares

During the year ended October 31, 2022, there were no movements in restricted shares.

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

During the year ended October 31, 2022, the Company recorded share-based payments of \$nil (2021 - \$350,693) for the vesting of restricted shares.

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**20. 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 detailed in Note 18(b) 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 16(c)), 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 16(c)) and the fair value of the consideration paid at \$120,000 was transferred into the retained earnings of the Company.

The following table presents the summarized financial information for Heritage West and Mainstrain, the Company's subsidiaries which each had NCI of 25% immediately prior to September 15, 2022, the NCI purchase date. This information represents amounts before intercompany eliminations for the stub period from November 1, 2021 to September 14, 2022, and as at September 14, 2022. NCI was measured at fair value at the acquisition date.

	Heritage West	Mainstrain
Current assets	\$ 24,791,989	\$ 19
Non-current assets	6,599,343	-
Current liabilities	28,804,207	146,581
Non-current liabilities	-	-
Net revenue	25,621,765	-
Net income (loss) and comprehensive income (loss)	3,823,176	(1,126)

The following table presents the summarized financial information before intercompany eliminations for the year ended and as at October 31, 2021.

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

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

	Heritage West	Mainstrain	Total
<b>Balance as at October 31, 2020</b>	\$ 627,521	\$ 12,665	\$ 640,186
Share of income (loss)	118,154	(120)	118,034
Share of amortization of Heritage West licenses acquired through business combination (Note 12)	(63,338)	-	(63,338)
<b>Balance as at October 31, 2021</b>	\$ 682,337	\$ 12,545	\$ 694,882
Share of income (loss)	955,794	(282)	955,512
Share of amortization of Heritage West licenses acquired through business acquisitions (Note 12)	(55,355)	-	(55,355)
Decrease in NCI	(1,582,776)	(12,263)	(1,595,039)
<b>Balance as at October 31, 2022</b>	\$ -	\$ -	\$ -

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**21. Income taxes**

The Company's combined Canadian federal and provincial statutory income tax rate is 26.5% for the year ended October 31, 2022 and 2021. The Company's provision for income taxes for the years ended October 31, 2022 and 2021 differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates to the net and comprehensive loss as a result of the following:

	2022	2021
<b>Income tax expense (recovery) at statutory rate</b>	\$ (615,000)	\$ (5,244,000)
Non-deductible and non-taxable permanent differences	266,000	103,000
Financing fees charged to equity and debt	(472,000)	(458,000)
Unrealized gain or loss on contingent consideration payable, derivative liabilities, and investments	(2,678,000)	888,000
Income tax benefits not recognized and other	824,000	1,692,040
<b>Provision for income taxes</b>	<b>\$ (2,675,000)</b>	<b>\$ (3,018,960)</b>

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

<b>Balance as at October 31, 2020</b>	<b>\$ 5,336,000</b>
Deferred tax liability assumed from business combination (Note 5)	2,288,960
Deferred income tax recovery	(3,018,960)
<b>Balance as at October 31, 2021</b>	<b>4,606,000</b>
Deferred income tax recovery	(2,675,000)
<b>Balance as at October 31, 2022</b>	<b>\$ 1,931,000</b>

The tax effects of temporary timing differences that give rise to significant components of the Company's deferred tax assets and liabilities for the years ended October 31, 2022 and 2021 were as follows:

	2022	2021
<b>Deferred tax assets (liabilities)</b>		
Non-capital loss carry forward	\$ 15,495,000	\$ 12,081,000
Inventories	(344,000)	(28,000)
Property, plant and equipment	(194,000)	60,000
Lease liabilities	176,000	197,000
Financing costs	666,000	371,000
Intangible assets	(5,096,000)	(10,153,000)
Share issuance costs	490,000	772,000
Resource deductions	280,000	280,000
Contingent consideration payable	-	(705,000)
Other	415,000	367,000
	11,888,000	3,242,000
Less: Tax assets not recognized	(13,819,000)	(7,848,000)
<b>Deferred tax liability</b>	<b>\$ (1,931,000)</b>	<b>\$ (4,606,000)</b>

The Company has accumulated non-capital losses for Canadian tax purposes of approximately \$58,376,000 which may be carried forward and used to reduce taxable income in future years. The accumulated non-capital losses expire as follows:



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**21. Income taxes (continued)**

<b>Year of Expiry</b>	<b>Amount</b>
2028	\$ 81,000
2029	148,000
2030	247,000
2031	267,000
2032	187,000
2033	422,000
2034	711,000
2035	486,000
2036	498,000
2037	2,093,000
2038	5,725,000
2039	9,808,000
2040	7,322,000
2041	15,729,000
2042	14,652,000
	<u>\$ 58,376,000</u>

The Company has cumulative Canadian exploration and development expenses in the amount of approximately \$1,039,000, which can be carried forward indefinitely. No benefit has been recognized in respect of these amounts.

**22. Related party transactions and balances**

All amounts either due to or from related parties, unless disclosed otherwise, are non-interest bearing, unsecured and due on demand. Transactions undertaken with related parties during the years ended October 31, 2022 and 2021 are as follows:

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

	<b>Year ended October 31,</b>	
	<b>2022</b>	<b>2021</b>
Management fees	\$ 50,000	\$ 194,000
Consulting fees	269,000	391,311
	<u>\$ 319,000</u>	<u>\$ 585,311</u>

(b) Key management compensation

	<b>Year ended October 31,</b>	
	<b>2022</b>	<b>2021</b>
Salary and short-term benefits	\$ 395,053	\$ 432,299
Share-based payments	323,383	116,511
	<u>\$ 718,436</u>	<u>\$ 548,810</u>

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

(b) Key management compensation (continued)

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

(c) Related party balances

	As at October 31, 2022	As at October 31, 2021
Included in accounts payable and accrued liabilities	\$ 198,350	\$ 27,229
Included in other current asset (Note 16(b))	-	48,831

**23. Commitments**

As detailed in Note 17(a), 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 October 31, 2022 and 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) \$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 October 31, 2022 and 2021, none of the payment milestones were met and, therefore, no provision was recognized.

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**24. Loss per share**

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

**25. Financial instruments**

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

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them since October 31, 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 note receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash and short-term investments is mitigated by holding these balances with highly-rated Canadian financial institutions. The Company therefore does not expect any credit losses on its cash and short-term investments.

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

	As at October 31, 2022	As at October 31, 2021
Trade accounts receivable from customers	\$ 7,798,057	\$ 4,621,574
Expected credit losses	(353,420)	(91,194)
Net trade receivables	7,444,637	4,530,380
Interest and other receivables (Note 30)	43,480	242,905
	\$ 7,488,117	\$ 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 October 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 68% of the Company's net trade accounts receivable is due from three customers as at October 31, 2022 (as at October 31, 2021 - 77% of the balance due from three customers).

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**25. Financial instruments (continued)**

(a) Credit risk (continued)

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

	As at October 31, 2022	As at October 31, 2021
Current (30 days or less)	\$ 4,371,452	\$ 2,397,231
31-60 days	1,152,874	1,558,194
61-90 days	57,804	93,189
Greater than 90 days	1,862,507	481,766
	<b>\$ 7,444,637</b>	<b>\$ 4,530,380</b>

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the financial obligations associated with its financial liabilities as they come due. The Company manages liquidity risk through the management of its capital structure. As at October 31, 2022, the Company had working capital of \$14,730,394 (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 14:

	<1 year	2-5years	> 5 years
Accounts payable and accrued liabilities	\$ 15,197,496	\$ -	\$ -
Long-term debt	7,023	16,816,039	-
Derivative liabilities with cash settlement option (Note 17(b))	1,412,672	634,679	-
<b>Total</b>	<b>\$ 16,617,191</b>	<b>\$ 17,450,718</b>	<b>\$ -</b>

(c) Market risk

(i) Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. The Company is exposed to this risk on its investment in Endocanna (Note 11), an associate that bears the U.S. dollar as its functional currency. The Company is required to translate the financial position and operating results of Endocanna into Canadian dollars and to recognize its share of the resulting translation gain or loss in other comprehensive 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 17(b)). As at October 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.

**HERITAGE CANNABIS HOLDINGS CORP.**  
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**(Stated in Canadian Dollars)**

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**25. Financial instruments (continued)**

(c) Market risk (continued)

(i) Foreign currency risk (continued)

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

	As at October 31, 2022	As at October 31, 2021
Cash	\$ 4,030	\$ 3,579
Accounts receivable	659	659
Accounts payable and other liabilities	24,459	39,484
Investment in associate	2,355,039	2,459,747
Derivative liabilities	1,721,190	663,526

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by \$90,492 (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, convertible promissory note receivable and notes receivable earn fixed rates of interest in the range from 0.7% to 1.05% per annum, 2% per annum and 10% per annum respectively. The Company is exposed to this risk on its long-term debt, part of which bears variable interests as detailed in Note 15. As at October 31, 2022 and 2021, the Company had no hedging agreements in place.

(iii) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. As at October 31, 2022 and 2021, the Company is exposed to this risk on the derivative liabilities payable in Heritage Common Shares (Note 17(b)).

**26. 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).

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**26. Fair value of financial instruments (continued)**

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

<b>Financial instruments measured at fair value</b>	
Convertible promissory note receivable	Amount due on demand (Level 3)
Other investments	Market value (Level 3)
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)
<b>Financial instruments measured at amortized cost</b>	
Cash; Short-term investments; Accounts receivable; Other current asset; Accounts payable and accrued liabilities	Carrying amount (approximates fair value due to short-term nature)
Long-term debt	Carrying value at the effective interest rate which approximates fair value

During the year ended October 31, 2022 and 2021, there were no transfers of amounts between levels.

**27. Entity-wide disclosures**

The Company's trade net revenue for the year ended October 31, 2022 is comprised of the following:

	Domestic (Canada)
Net revenue from sale of Heritage branded products	\$ 29,566,385
Net revenue from sale of White Label products	-
Net revenue from provision of services	-
	<b>\$ 29,566,385</b>

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

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

During the year ended October 31, 2022, the Company earned 83% of its total trade revenue from four major customers (2021 – 75% from four major customers).

**28. Operating segment information**

During the year ended October 31, 2022 and 2021, the Company identified a single reportable operating segment.

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**29. Capital management**

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

**30. Government grant**

As a response to the COVID-19, the Canadian Federal government introduced CEWS for qualifying businesses, which suffered a drop in gross revenues by a certain amount from March 2020. The purpose of the CEWS is to support businesses and employers to continue to employ workers or to re-hire workers that were previously laid off. The CEWS is considered as a form of government grant.

During the year ended October 31, 2021, the Company had not applied for any additional CEWS. As a result of CEWS applied in prior year, \$nil (2021 - \$133,243) was included in accounts receivable as at October 31, 2022.

**31. Supplementary cash flow information**

The net changes in non-cash working capital items for the years ended October 31, 2022 and 2021 are as follows:

	2022	2021
Sales tax recoverable	\$ 804,348	\$ (845,954)
Accounts receivable	(2,714,832)	(3,427,115)
Inventories	521,150	(8,059,636)
Prepaid expenses and deposits	333,763	(1,587,918)
Other current asset	-	369,630
Other investments and deposits	(503,113)	(285,660)
Accounts payable and accrued liabilities	7,247,290	4,648,603
Sales tax payable	243,243	(97,633)
Deferred revenue	440,843	239,799
<b>Net changes in non-cash working capital</b>	<b>\$ 6,372,692</b>	<b>\$ (9,045,884)</b>

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**32. Subsequent events**

(a) Amalgamation between CALYX and Purefarma

On November 1, 2022, CALYX and Purefarma were amalgamated, with Purefarma as the resulting amalgamated company.

(b) Expiry of options

On November 15, 2022, 80,000 options expired unexercised.

(c) Equity financing with Obsidian Global Partners, LLC

On November 1, 2022, the Company entered into an equity line of credit agreement (the “ELOC Agreement” with Obsidian Global Partners, LLC (the “Investor”) whereby the Investor proposes to purchase Heritage Common Shares for the aggregate gross proceeds of up to US\$20,000,000 by private placement, at Heritage’s discretion (the “Offering”). On closing, the Company will pay the Investor an initial fee in an amount equal to 1.5% of US\$20,000,000, which will be satisfied by the issuance of Heritage Common Shares. An additional fee equal to 1.5% of US\$20,000,000 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 Heritage Common Shares at the option of the Company. The Company will also advance 79,030,611 Heritage Common Shares to the Investor in escrow (the “Escrow Shares”). The Escrow Shares will only be released to the Investor in tranches as and when the Company requests that the Investor purchase Heritage 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.

(d) Issuance of common shares

On January 13, 2023, the Company issued 7,253,985 Heritage Common Shares as settlement of unpaid bonus of \$217,619, which was included in the accrued liabilities as at October 31, 2022.



SCHEDULE "B"  
THE ISSUER'S MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE YEARS ENDED OCTOBER 31, 2022 AND  
2021

*[Please see attached]*



# HERITAGE CANNABIS HOLDINGS CORP.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ANNUAL AND QUARTERLY HIGHLIGHTS

For the Year Ended October 31, 2022

February 28, 2023

*This Management Discussion and Analysis for Heritage Cannabis Holdings Corp. provides analysis of the Company's audited consolidated financial results for the year ended October 31, 2022. The following information should be read in conjunction with the accompanying audited consolidated financial statements and related notes for the years ended October 31, 2022 and October 31, 2021.*



## 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 audited 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 February 28, 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 audited consolidated financial statements and related notes for the years ended October 31, 2022 and October 31, 2021, are the responsibility of Management. In the preparation of the accompanying audited consolidated financial statements and related notes for the years ended October 31, 2022 and October 31, 2021, 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 annual 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. 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.

## Fourth 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

On August 8, 2022, Heritage announced a 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 of which two are currently in operation. Harvest Care was granted one of ten cultivation licenses last year and will contribute the use of the license to the relationship. Similar to Heritage’s relationship in Missouri, under the agreement Heritage will supply production equipment to Harvest Care as well as provide training and supervision of staff on the proprietary methods of extraction and manufacturing of Heritage developed and branded products.

On September 9, 2022, Heritage announced that it changed its auditors from Davidson & Company LLP (“Former Auditor”) to Welch LLP (“Successor Auditor”). At the request of the Company, the Former Auditor resigned as the auditor of the Company effective September 8, 2022 and the Board appointed the Successor Auditor as the Company’s Auditor effective as of September 9, 2022. There were no reservations or modified opinions in the Former Auditor’s reports on the Company’s financial statements during the period that the Former Auditor acted as the Company’s auditor. In addition, there are no reportable events, including disagreements, consultations or unresolved issues (as defined in National Instrument 51-102 – Continuous Disclosure Obligations (“NI 51-102”)) between the Company and the Former Auditor.

On September 29, 2022, Heritage announced that it entered into a second loan amending agreement (the “Second Amending Agreement”) to an original loan agreement dated March 31, 2021, as amended October 6, 2021 with BJK Holdings Ltd. (“BJK”) in the total amount of \$19,760,000 across four facilities (collectively the “Loan”). As a result of the Second Amending Agreement, the maturity date on the Loan has been extended to November 30th, 2024 (the “Maturity Date”), and an additional loan facility in the amount of \$4,985,000 has been extended to the Company, bringing the total amount of proceeds that the Company has access to through the Loan to \$19,760,000. A one-time loan amendment fee of \$985,000 was paid to BJK on September 29, 2022.

On September 29, 2022, in connection with the Loan, Heritage issued a new warrant certificate to BJK, entitling them to subscribe for and purchase up to 50,000,000 common shares in the capital of Heritage at an exercise price of \$0.10 per common share (the “Additional Warrants”). The Additional Warrants have an expiry date of February 28, 2025. Heritage has also agreed to amend an existing warrant certificate held by BJK dated October 6, 2021, which entitled BJK to subscribe for and purchase up to 10,000,000 common shares in the capital of Heritage at an exercise price of \$0.25 per share (the “Existing Warrants”). Effective September 29, 2022, the Company amended the Existing Warrants so that the expiry date for BJK to exercise the Existing Warrants is extended from October 8, 2023 until February 28, 2026.

### Recreational and Med-Rec Products

On October 3, 2022, Heritage announced the commencement of operations in the state of Missouri after Como Health LLC, doing business as 3Fifteen Primo Cannabis (“3Fifteen”), received an Approval to Operate from the Missouri Section for Medical Marijuana Regulation. Initial production on vape products, concentrates, and pre-rolls has already commenced in the State.

On October 4, 2022, Heritage announced the launch of RAD Razzlers, a cannabis gummy that marks the entry into a new product category for Heritage. Following on the immense popularity of other cannabis products sold across



the country under the RAD brand, RAD Razzlers are a new addition to the edibles category and offer unique and popular flavour profiles sought after by cannabis consumers, including Cousin Eddies Eggnog which will be a limited edition flavour offered only during the holidays. RAD Razzlers will initially be offered in packages containing a total of 10 mg of THC, with each gummy containing 2.5 mg of THC.

On October 11, 2022, Heritage announced the commencement of operations in the state of West Virginia after Harvest Care Medical, LLC (“Harvest Care”), received its processing license from the West Virginia Office of Medical Cannabis. Initial production on vape products and concentrates commenced in the State shortly thereafter. This milestone marks Heritage’s second U.S. state where it is operating, and with additional states on the horizon, the U.S. strategy is gaining traction and taking shape as the U.S. moves closer to decriminalizing cannabis. Heritage has been working with Harvest Care, a leading grower, processor, and provider of top-quality medical cannabis products in the state of West Virginia, with ten dispensary licenses of which two are currently in operation. Harvest Care was granted one of ten cultivation licenses last year and will contribute that and the processing license to the relationship, allowing Heritage to produce branded products to be offered to medical cannabis consumers in West Virginia.

### Equity Issuance

On September 15, 2022, Heritage acquired the remaining 25% interest in Heritage West and now owns 100% of the issued and outstanding shares in the capital of Heritage West, a holder of various Health Canada cannabis licenses, through a share cancellation acquisition with Estek Ventures Corp. As consideration for the cancellation of 500 Class A Voting Common Shares and 400,000 Class G Non-Voting Preferred Shares in the capital of Heritage West, the Company has issued Estek Ventures Corp. 2,000,000 Common Shares plus an additional CAD\$50,000 in cash.

On September 16, 2022, Heritage entered into a settlement agreement with the original shareholders of Purefarma Solutions Inc. (the “Original Purefarma Shareholders”) to settle all outstanding obligations of Heritage to the Original Purefarma Shareholders pursuant to the terms of a share exchange agreement and share purchase agreement each dated December 7, 2018. In satisfaction of all claims related to earn-out share obligations and contingent cash payment obligations, the Original Purefarma Shareholders directed Heritage to issue 14,728,762 Common Shares to its corporate shareholder, 1187940 B.C. Ltd.

### Corporate Developments Subsequent to the end of the Fourth Quarter

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 proposes to purchase common shares in the capital of Heritage (“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 will pay the Investor an initial fee in an amount equal to 1.5% of US\$20 million, which will be 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 will also advance 79,030,611 Common Shares to the Investor in escrow (the “Escrow Shares”). The Escrow Shares will be 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.

## Selected Annual Information

(in \$CDN)	For the years ended October 31,		
	2022	2021	2020
	\$	\$	\$
Net revenue	29,566,385	14,059,130	8,256,435
General and administrative expenses	20,588,796	18,474,262	8,244,186
Net income (loss)	(24,244,483)	(57,452,213)	(8,632,771)
Comprehensive income (loss)	(23,937,773)	(57,685,532)	(8,596,759)
Basic and diluted income (loss) per share	(0.03)	(0.08)	(0.02)
Total assets	78,412,192	97,788,065	83,431,808
Long-term financial liabilities	(20,331,417)	(33,590,572)	(11,661,870)

For the year ended October 31, 2022, net revenues increased by \$15,507,255 to \$29,566,385 from \$14,059,130 for the comparable period. Net revenue increased as the Company continued drive more active listings throughout all the provinces while at the same increasing its medical sales through sales on third party platforms, Heritage exited the year with 453 listings compared to 263 in 2021.

As at October 31, 2022, total assets decreased by \$19,375,873 to \$78,412,192 from \$97,788,065 for the comparable period. The decrease was primarily driven by an impairment of \$21,215,000 recognized across its intangible categories as a result of the Company's performance of its annual impairment test on goodwill and related cash generating unit.

As at October 31, 2022, long-term financial liabilities decreased by \$13,259,155 to \$20,331,417 from \$33,590,572 for the comparable period. The decrease was primarily as a result of a reduction in the contingent consideration payable due to the settlements of the Heritage West and Purefarma milestones, which decreased the balance to nil in 2022 from \$15,940,000 in 2021, partially offset by an increase in long-term debt as the Company refinanced its existing facility by amending and extending the maturity date until November 2024. Concurrently with the refinancing, the Company increased the total facility by \$4,985,000 entering into a long-term credit facility with an addition of \$5,979,122 on its balance sheet as at October 31, 2022.

## Results of Operations

Selected financial highlights for the three-month periods and years ended October 31, 2022 and October 31, 2021 include the following:

(in \$CDN)	Three months ended		Years ended	
	Oct 31, 2022	Oct 31, 2021	Oct 31, 2022	Oct 31, 2021
	\$	\$	\$	\$
Total Gross revenue	11,148,059	7,132,942	41,996,297	18,676,958
Net revenue (net of excise tax)	8,038,105	4,649,025	29,566,385	14,059,130
Cost of sales	7,611,993	7,329,654	21,599,867	13,492,997
Gross margin	426,112	(2,680,629)	7,966,518	566,133
General and administrative expenses	5,953,751	(420,566)	20,588,796	18,474,262
Other Income (Expenses)	(22,718,884)	(41,433,121)	14,297,205	(42,563,044)
Comprehensive Income (Loss)	(26,895,045)	(42,685,990)	(23,937,773)	57,685,532

The Company reported gross revenue of \$11,148,059 for the three months ended October 31, 2022, an increase of \$4,015,117 compared to gross revenue of \$7,132,942 for the three months ended October 31, 2021, representing an increase of 56%. The growth was driven by continued strength in the vape and concentrate category which increased 37% (see the table below for additional detail). As the Company continued to penetrate the flower market, its pre-roll and infused offerings have continued to grow especially since the Canadian marketplace remains primarily focused on flower products.

For the year ended October 31, 2022, the Company recorded gross revenue of \$41,996,297 an increase of \$23,319,339 compared to gross revenue of \$18,676,958 for the year ended October 31, 2021, representing an increase of 125%. The increase in gross revenue was the result of the Company's continued strong listing demand particularly for its flower products which grew over 2000% year over year.

See table below for additional details on total gross revenue.

(in \$CDN)	Three months ended			Years ended		
	Oct 31, 2022	Oct 31, 2021	Change	Oct 31, 2022	Oct 31, 2021	Change
	\$	\$	%	\$	\$	%
Revenue Category						
Vape and Concentrates	7,740,706	5,642,793	37%	30,252,687	15,460,173	96%
Flower	2,404,650	288,122	735%	7,282,219	299,694	2330%
Tincture Sales	520,733	1,041,058	(50%)	2,577,507	3,031,002	(15%)
Edibles	59,856	67,466	(11%)	1,377,541	67,466	1942%
Other	422,144	93,503	583%	506,343	(181,377)	n.m.%
Total Gross Revenue	11,148,059	7,132,942	56%	41,996,297	18,676,958	125%

Cost of sales for the three months ended October 31, 2022 was \$7,611,993, an increase of \$282,339 compared to \$7,329,654 for the three months ended October 31, 2021. Cost of sales, decreased on a percentage of gross revenue, as a result of operational efficiencies which increased capacity output, a reduction in outsource product costs as a result of internalizing manufacturing that was previously outsourced and decreasing the reliance of

external oil to offset the internal production scale up.

Cost of sales for the year ended October 31, 2022 was \$21,599,867, an increase of \$8,106,870, compared to \$13,492,997 for the year ended October 31, 2021. Cost of sales decreased on percentage of gross revenue as a result of increased operational efficiencies and significantly less reliance on third party manufacturers.

Gross margin for the three months ended October 31, 2022 was \$426,112 compared to gross margin of \$(2,680,629) for the three months ended October 31, 2021. The increase of \$3,106,741 was primarily a result of increased sales activity, greater facility productivity, a lower excise percentage and end of year re-classifications. Regulatory taxes continue to be one of the largest expenses of the business.

Gross margin for the year ended October 31, 2022 was \$7,966,518 compared to gross margin of \$566,133 for the year ended October 31, 2021. The increase of \$7,400,385 was a result of increased sales activity as highlighted in the table above combined with improved operational efficiencies and less third party reliance which were partially offset by a higher excise percentage, which increased by almost 500bps, from the prior period driven by the production of higher THC products as well as increased sales in provinces with higher tax rates.

For the three months ended October 31, 2022, the Company recorded a net comprehensive loss of \$26,895,045 or \$0.03 loss per share compared to a comprehensive loss of \$42,685,990 or \$0.01 loss per share for the three months ended October 31, 2021. The improvement over the prior period was due to the gross margin gains noted above and the cost management in general and administrative expenses which was partially offset by the intangible asset and goodwill impairment.

For the year ended October 31, 2022, the Company recorded a comprehensive loss of \$23,937,773 or \$0.03 loss per share compared to a comprehensive loss of \$57,685,532 or \$0.08 loss per share for the year ended October 31, 2021. The decrease in loss was primarily attributable to a lower impairment of intangible assets and goodwill of \$21,215,000 for the year ended October 31, 2022 as compared to \$36,337,826 for the year ended October 31, 2021, and an unrealized gain on contingent consideration payable of \$9,137,267 for the year ended October 31, 2022 as compared to an unrealized loss of \$3,514,865 in 2021.

General and administrative expenses for the three months ended October 31, 2022 were \$5,953,751, an increase of \$6,374,317 from \$(420,566) for the comparable period in 2021. General and administrative expenses for the year ended October 31, 2022 were \$20,588,796, an increase of \$2,114,534 from \$18,474,262 for the comparable period in 2021. The net changes in general and administrative expenses were attributable to the following:

- a) Advertising, travel and promotion for the three months ended October 31, 2022 was \$189,120, a decrease of \$315,402 from \$504,522 for the comparable period in 2021, as a result of a continued focus on cost control and minimizing non-essential travel. Advertising, travel and promotion for the year ended October 31, 2022 was \$768,397, a decrease of \$886,222 from \$1,654,619 for the comparable period in 2021, due to continued cost control over the current year.
- b) Amortization expense for the three months ended October 31, 2022 was \$(55,560), an increase of \$2,668,179 from \$(2,723,739) for the comparable period in 2021. The increase was largely due to a reduction in the intangible asset base resulting from the impairment charges in the fourth quarter of 2022. Amortization expense for the year ended October 31, 2022 was \$3,732,493, a decrease of \$1,491,174 from \$5,223,667 for the comparable period in 2021. The decrease as mentioned above was a result of a lower intangible asset base resulting from impairment charges recorded on the intangible asset base in 2021 and 2022.
- c) Management and consulting fees for the three months ended October 31, 2022 were \$173,593, a decrease of

\$262,069 from \$435,662 for the comparable period in 2021 as the Company maintained its focus on remaining lean as it moved from the pandemic period. Management and consulting fees for the year ended October 31, 2022 were \$1,097,624, a decrease of \$936,986 from \$2,034,610 for the comparable period in 2021 as a result of a continued focus to remain lean.

- d) Occupancy, general and administrative expense for the three months ended October 31, 2022 was \$2,696,919, an increase of \$3,413,142 from \$(716,223) for the comparable period in 2021, was primarily a result of a reduction in absorption rates and reclassifications in the current year compared to the prior year in addition to higher regulatory fees and financing charges. Occupancy, general and administrative expense for the year ended October 31, 2022 was \$5,705,218, an increase of \$2,862,638 from \$2,842,580 for the comparable period in 2021, primarily a function of increased customer shipping costs, financing charges and supplies resulting from the increased business activity which was also compounded by the reductions in rates and classifications mentioned above.
- e) Professional fees for the three months ended October 31, 2022 were \$337,665, an increase of \$228,483 from \$109,182 for the comparable period in 2021, due to increased legal work to deal with the various contingent liability settlements. Professional fees for the year ended October 31, 2022 were \$947,258, a decrease of \$113,392 from \$1,060,650 for the comparable period in 2021, due to reduced external accounting fees.
- f) Share-based payments for the three months ended October 31, 2022 were \$93,661, a decrease of \$244,129 from \$337,790 for the comparable period in 2021. The decrease is a result of the vesting schedule of the options granted in Q4 2021, such that a portion vested immediately and therefore, \$336,789 of the vesting expense was recognized in Q4 2021. Share-based payments for the year ended October 31, 2022 were \$770,095, an increase of \$77,279 from \$692,816 for the comparable period in 2021. The difference is primarily a result of a bonus paid to key management in shares valued at \$355,455 in 2022, offset by a \$nil amount recognized in 2022 for the vesting of restricted shares as compared to \$350,693 in 2021.
- g) Salaries, wages and benefits for the three months ended October 31, 2022, were \$2,518,353 an increase of \$886,113 from \$1,632,240 for the comparable period in 2021. The increase is a result of a continued increase in the personnel as well as year-end bonuses. Salaries, wages and benefits for the year ended October 31, 2022, were \$7,567,711, an increase of \$2,602,391 from \$4,965,320 for the comparable period in 2021. The increase is a result of a continued increase in the Company's internal resources to facilitate both continued growth and to address regulatory controls and planning as well as year-end bonuses.

#### Other Income and Expenses

Interest and other income for the three months ended October 31, 2022 was an expense of \$9,560, a decrease of \$47,853 compared to income of \$38,293 for the same period in 2021. Interest and other income for the year ended October 31, 2022 was \$172,987, an increase of \$51,396 compared to \$121,591 for the same period in 2021. The increase was primarily due to interest accruing on the notes receivable as described in note 9 of the consolidated financial statements.

Interest and finance expenses for the three months ended October 31, 2022 were \$(333,291), a decrease of \$35,754 compared to \$(297,537) for the same period in 2021. The decrease the impact of the lower interest rates as part of the negotiated refinancing. Interest and finance expenses for the year ended October 31, 2022 were \$(1,144,990), a decrease of \$186,142 compared to \$(958,848) for the same period in 2021. The decrease was due rising interest rates throughout the year which more than offset the decrease in rates in the recent quarter.

The share of loss from investment in associate for the three months ended October 31, 2022 was \$(39,881), an increase of \$50,562 compared to a loss of \$(90,443) for the same period in 2021. The results were primarily improved as Endocanna built on the improved performance via cost reductions and increased revenues from earlier in the year. The share of loss from investment in associate for the year ended October 31, 2022 was \$(135,211), an

increase of \$100,182 compared to \$(235,393) for the same period in 2021. The increase was a result of improved performance earlier in the year driven by cost reductions.

During the three months ended October 31, 2022, the unrealized gain on other investments for the year ended October 31, 2022 was \$572,774 compared to \$nil for the same period in 2021, and was a loss of \$(35,875) for the three months ended October 31, 2022 and nil for the same period in 2021. The increase of \$572,774 related to a revaluation to fair value of the investment in Stanley Park Digital immediately preceding the sale of the investment in the second quarter of 2022.

During the three months ended October 31, 2022, the Company had an unrealized gain on contingent consideration payable of \$805,838, an increase of \$3,309,487 compared to unrealized loss of \$(2,503,649) for the comparable period in 2021 primarily due to the completion of the remaining milestone payments. During the year ended October 31, 2022, the Company had an unrealized gain on contingent consideration payable of \$9,137,267, an increase of \$12,652,132 compared to unrealized loss of \$(3,514,865) for the comparable period in 2021. The decrease in the unrealized loss was mainly due to a non-cash gain relating to valuing the Premium 5 milestone payment at the share price at time of issuance compared to the share price used for the milestone award.

During the three months ended October 31, 2022, the unrealized gain on derivative liabilities was \$8,240, an increase of \$375,724 compared to a loss of \$(367,484) for the same period in 2021. The increase in the unrealized gain mainly relates to the revaluation of warrants issued to the former shareholders of Opticann and the revaluation of the notes and warrants issued to Merida Fund III & IV ("Notes and Warrants"), whose value decreased as a result of decreased share price, and a decrease in expected life based on time elapsed in 2022 as compared to 2021 during current period. During the year ended October 31, 2022, the Company had a gain of \$214,323, a decrease of \$22,449, compared to a gain of \$236,772 for the comparable period in 2021, as a result of a decrease in share price and decrease in expected life based on time elapsed in 2022 as compared to 2021.

The loss on debt extinguishment for the year ended October 31, 2022 was \$(1,793,251), a decrease of \$431,913 compared to a loss of \$(1,361,338) for the same period in 2021. The decrease in the unrealized loss was a result of the unrealized loss arising from the decreased fair value of warrants issued to the former shareholders of Opticann due to the decreased share price during the year and shorter contractual term as time elapses, which was partially offset by an unrealized loss of \$68,067 as a result of the revaluation of the Notes and Warrants. An unrealized loss of \$435,685 was recognized on the Notes due to the revaluation to the greater of the amount payable in equity and the amount payable in cash, offset by an unrealized loss of \$367,618 on the Warrants whose value decreased as a result of time elapsed and a decrease in the share price.

## 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.

	October 31, 2022 \$	July 31, 2022 \$	April 30, 2022 \$	January 31, 2022 \$
Net revenues <sup>(1)</sup>	8,038,105	7,495,885	7,491,184	6,541,211
Comprehensive (loss) income	(26,895,045)	(2,799,327)	(500,614)	6,257,213
Basic and fully diluted (loss) income per share <sup>(2)</sup>	(0.03)	(0.00)	(0.00)	0.01



	October 31, 2021 \$	July 31, 2021 \$	April 30, 2021 \$	January 31, 2021 \$
Net revenues <sup>(1)</sup>	4,649,025	4,314,314	3,575,175	1,520,616
Comprehensive (loss) income	(42,685,990)	(6,637,449)	(5,151,011)	(3,211,082)
Basic and fully diluted (loss) income per share <sup>(2)</sup>	(0.06)	(0.01)	(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 first quarter of 2021, the Company began to realize the impact of the transitioning from operating primarily a contract manufacturer to focusing on branded sales, which began in the fourth quarter of 2020, and resulted in an increase in sales revenue for the Company.

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 5<sup>th</sup> 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, continued its sequential revenue increase for the 8<sup>th</sup> consecutive quarter while the quarterly losses were primarily a result of the impairment charges for intangible assets and goodwill.

## Outlook

The market continues to be burdened by overcapacity, inadequate tax reform and an extremely crowded marketplace with limited customer interaction due to regulations, however the Company has continued to grow its top-line through innovative product launches as well as dropping new brands to backfill white space in the market. The Company expects to continue to remain on the front edge of the innovation spectrum and drive similar growth in its newly launched “Thrifty” brand as it did with its “RAD” brand launch in 2021.

The Company has a continued focus of attaining consistent and growing EBITDA. Having crossed the positive threshold in two of four quarters in 2022 for the first time in its history, the Company is looking to build on that success in 2023. The Company has increased its focused on building its available capacity through efficiency improvements, it has partnered in areas of the market that is not a Company strength to increase its market exposure and is continually looking it to increase its revenue to dollar spent. This focus will be a core tenet in 2023 as the Company looks to continue to build into its available space in its east coast facility. ,

Heritage's asset light U.S. strategy continues to move forward in both the Missouri and West Virginia. The Company believes it will begin seeing positive impact in Q1/23 and growing throughout the year. The Company continues to look at various opportunities to grow its US presence but is continuing to be strategic in both the market and potential partners.

As the Company continues to execute its Canadian and U.S. strategies, the potential impact of COVID-19 and the continued sector volatility could have a negative impact on production efficiency and product launches.

## 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, 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:

- (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 October 31, 2022 and October 31, 2021.

	October 31, 2022	October 31, 2021
	\$	\$
Current Assets	32,860,948	29,281,960
Current Liabilities	18,130,554	8,977,054
Working Capital	14,730,394	20,304,906

As at October 31, 2022, the Company had cash and short-term investments of \$6,057,617 compared to \$4,713,577 at October 31, 2021.

The table below summarizes the Company's use of cash for the three-month periods and years ended October 31, 2022 and October 31, 2021.

	Three-month periods ended		Years ended	
	October 31, 2022	October 31, 2021	October 31, 2022	October 31, 2021
	\$	\$	\$	\$
Cash Flows Provided by (Used in):				
Operating Activities	(3,485,748)	(3,658,258)	(2,428,716)	(20,126,192)
Investing Activities	(371,645)	1,203,005	(2,089,462)	4,450,565
Financing Activities	3,866,321	4,055,863	5,862,218	17,993,545

During the three-month period ended October 31, 2022, cash flows used in the operating activities was (\$3,485,748) compared to cash flows used of (\$3,658,258) for the three months ended October 31, 2021. The outflows increased by \$172,510 as the Company continued to manage its cash cycle throughout the period given the payment cycles of the provincial boards which was more than offset by the decrease in inventories during the current period.

During the year ended October 31, 2022, cash flows used in the operating activities was (\$2,428,716) compared to cash flows used of (\$20,126,192) for the year ended October 31, 2021. The outflows increased by \$17,697,476 as the Company continued to focus on spending control efficiencies while converting inventory buildup into cash generating opportunities and stretching its payment cycles to better reflect cash receipt cycle.

During the three-month period ended October 31, 2022, cash flows used in investing activities were (\$371,645) compared to cash flows provided of \$1,203,005 for the three months ended October 31, 2021. The decrease in cash was a function of spending on for the US strategy compared to short term investment redemptions in the prior

year.

During the year ended October 31, 2022, cash flows used in investing activities were (\$2,089,462) compared to cash flows provided by investing activities of \$4,450,565 for the year ended October 31, 2021. The decrease in cash of (\$6,540,027) was a function of no redemptions of short-term investments during the current period while an additional \$2,986,282 was spent to increase facility capacity and loan out to US opportunities.

During the three months ended October 31, 2022, cash flows provided from financing activities was \$3,866,321 compared to cash flows provided from financing activities of \$4,055,863 in the comparable period. The inflows were essentially driven by the refinancing of the long-term debt.

During the year ended October 31, 2022, cash flows provided by financing activities was \$5,862,218 compared to \$17,993,545 in the comparable period. The decrease of \$12,131,327 was primarily due to a long-term debt issuance and proceeds from issuance of units in the prior periods.

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 \$32,860,948 of current assets, which is primarily comprised of \$6,057,617 in cash and short-term investments, \$7,488,117 in accounts receivable and \$16,788,609 in inventory with an additional \$2,952,739 available under the Company's 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 constraints could require additional capital resources.

At the reporting date, the Company had long-term financial debts amounting to \$18,400,417, including \$16,815,481 of long-term debt (as detailed under the "Long-Term Debt" heading of this MD&A and Note 15 of the audited consolidated financial statements, \$639,406 of lease liabilities (as described more particularly under Note 14 of the audited consolidated financial statements), , and \$945,530 relating to derivative liabilities issued as part of the consideration for the acquisition of Opticann and issued to Merida Fund III & IV (as described more particularly under Note 17 of the audited consolidated financial statements).

## Outstanding Share Capital

The Company has the following shares outstanding as of February 28, 2023:

	Number of shares outstanding
<b>Balance, October 31, 2019</b>	<b>473,718,024</b>
Shares issued for acquisition - Opticann	21,918,698
Shares issued for acquisition – Pura Vida brand	500,000
<b>Balance, October 31, 2020</b>	<b>496,136,722</b>
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
<b>Balance, January 31, 2021</b>	<b>653,762,994</b>
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

<b>Balance, April 30, 2021</b>	<b>782,989,637</b>
Shares issued for advisory services – Merida Capital	495,049
<b>Balance, July 31, 2021</b>	<b>783,484,686</b>
Shares issued for marketing services – Zoomer Media Ltd.	1,250,000
Shares issued for Merida loan – commitment fee	1,393,884
<b>Balance, October 31, 2021</b>	<b>786,125,570</b>
Shares issued for warrant exercise	29,809
Shares issued for Premium 5 milestone	107,142,857
<b>Balance, January 31, 2022</b>	<b>893,301,236</b>
-	-
<b>Balance, April 30, 2022</b>	<b>893,301,236</b>
Indemnity Share Cancellation - Opticann	(933,333)
Shares issued for management performance	7,109,090
<b>Balance, July 31, 2022</b>	<b>899,476,993</b>
Shares issued for Voyage and Purefarma settlements	16,728,762
<b>Balance, October 31, 2022</b>	<b>916,205,755</b>
Bonus shares for equity line financing	90,729,754
Shares issued for corporate bonuses	7,253,985
<b>Balance, February 28 2023</b>	<b>1,014,189,494</b>
Warrants	165,823,000
Outstanding Options	22,353,440
<b>Balance including unexercised warrants and options, February 28, 2023</b>	<b>1,202,365,934</b>

## 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 and years ended October 31, 2022 and October 31, 2021 are summarized as follows:

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

	Three months ended		Years ended	
	October 31, 2022	October 31, 2021	October 31, 2022	October 31, 2021
	\$	\$	\$	\$
Management fees	15,000	22,000	50,000	194,000
Consulting fees	67,250	67,250	269,000	391,311
	82,250	89,250	319,000	585,311
Key Management Compensation				
Salary and short-term benefits	98,763	98,762	395,053	432,299
Share-based payments	25,411	(236,564)	323,383	116,511
	124,174	(137,802)	718,436	548,810

(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 October 31, 2022 the Company was owed \$nil (October 31, 2021 - \$48,831) from related parties and owed

\$198,350 (October 31, 2021 - \$27,229) to related parties.

## Critical Accounting Estimates

The preparation of these audited 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 audited consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The audited consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the audited 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. These estimates are utilized noted in Note 19 and Note 22 of the audited consolidated financial statements.

### (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. These estimates are noted in Note 12 and Note 13 of the audited consolidated financial statements.

### (iv) 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. During the year ended October 31, 2022, an impairment loss of \$16,356,670 was recognized on intangible assets with finite useful lives as stated in Note 12 of the audited consolidated financial statements.

(v) 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. During the year ended October 31, 2022, an impairment loss of \$4,858,330 was recognized on goodwill.

(vi) 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.

(vii) Valuation of financial instruments

(viii) 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.

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

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

In addition, when the Company incurs losses for income tax purposes, it assesses the probability of taxable income being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences. These estimates are stated in Note 21 of the audited consolidated financial statements.

(x) 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. These are stated in Note 6 of the audited consolidated financial statements.

(xi) 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. These are stated in Note 25 of the audited consolidated financial statements.

(xii) 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 audited consolidated financial statements.

(xiii) 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. All obligations are noted in the liability section of the audited consolidated financial statements.

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

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 37, Provisions, Contingent Liabilities and Contingent Assets



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.

(c) Amendment to IAS 16, Property, Plant and Equipment

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.

(d) 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.

(e) 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.

(f) 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.

(g) Amendments to IFRS 3, Business Combinations

The amendments introduce new exceptions to the recognition and measurement principles in IFRS 3 to ensure that the update in references to the revised conceptual framework does not change which assets and liabilities qualify for recognition in a business combination. An acquirer should apply the definition of a liability in IAS 37 – rather than the definition in the Conceptual Framework – to determine whether a present obligation exists at the acquisition date as a result of past events. For a levy in the scope of IFRIC 21, the acquirer should apply the criteria in IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. In addition, the amendments clarify that the acquirer should not recognize a contingent asset at the acquisition date. The amendments are effective for annual periods beginning on January 1, 2022.

## 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 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:

	October 31, 2022	October 31, 2021
	\$	\$
Trade accounts receivable from customers	7,798,057	4,621,574
Expected credit losses	(353,420)	(91,194)
Net trade receivables	7,444,637	4,530,380
Interest and other receivables	43,480	242,905
	7,488,117	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 October 31, 2022, the Company identified certain accounts that may result in a credit losses on its accounts receivable, for which expected credit losses were recognized.

The Company has assessed that there is a concentration of credit risk, as 68% of the Company's trade accounts receivable is due from three customers as at October 31, 2022 (as at October 31, 2021 - 77% of the balance due from three customers).

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

	October 31, 2022	October 31, 2021
	\$	\$
Current (30 days or less)	4,371,452	2,397,231
31-60 days	1,152,874	1,558,194
61-90 days	57,804	93,189
Greater than 90 days	1,862,507	481,766
	7,444,637	4,530,380

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the financial obligations associated with its financial liabilities as they come due. The Company manages liquidity risk through the management of its capital structure. As at October 31, 2022, the Company had working capital of \$14,730,394 (as at October 31, 2021 –

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\$20,304,906). The Company does not yet have consistent and on-going 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	15,197,496	-	-
Long-term debt	7,023	16,816,039	-
Derivative liabilities with cash settlement option	1,412,672	634,679	-
Total	16,617,191	17,450,718	-

(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 October 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 currency exchange rates.

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

	October 31, 2022 \$	October 31, 2021 \$
Cash	4,030	3,579
Accounts receivable	659	659
Accounts payable and other liabilities	24,459	39,484
Investment in associate	2,355,039	2,459,747
Derivative liabilities	1,721,190	663,526

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by \$90,492 for the year ended October 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.

(i) 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, 2.00% per annum and 10.00% per annum respectively. The Company is exposed to this risk on its long-term debt, part of which bears variable interests. As at October 31, 2022 and October 31, 2021, the Company had no hedging agreements in place.

(ii) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. As at October 31, 2022 and October 31, 2021, the Company is exposed to this risk on the derivative liabilities payable in Heritage

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.

<b>Financial Instruments measured at fair value</b>	
Contingent consideration payable	Discounted cash flow (Level 3) or Black-Scholes model (Level 3)
Convertible promissory note receivable	Amount due on demand (Level 3)
Derivative liabilities	Market value (Level 3) or Black-Scholes model (Level 3)
Other investments	Market Value (Level 3)
Notes Receivable	Market Value (Level 3)
<b>Financial instruments measured at amortized cost</b>	
Cash; Short-term investments; Accounts receivable; Other current assets; Accounts payable and accrued liabilities	Carrying amount (approximates fair value due to short-term nature)
Long-term debt	Carrying value at the effective interest rate which approximates fair value

During the three-month periods and years ended October 31, 2022 and 2021, 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.

## 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;
- 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 THC 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, 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](http://www.heritagecann.com), the SEDAR website located at [www.sedar.com](http://www.sedar.com) or the Canadian Stock Exchange website located at [www.thecse.com/en](http://www.thecse.com/en).

BY ORDER OF THE BOARD

Heritage Cannabis Holdings Corp.

"David Schwede"

CEO and Director

February 28, 2023