

HERITAGE CANNABIS HOLDINGS CORP.

Consolidated Financial Statements

Years Ended October 31, 2023 and 2022

(Stated in Canadian Dollars)



HERITAGE CANNABIS HOLDINGS CORP.

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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, 2023, 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, 2023 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.

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 \$20,095,041 during the year ended October 31, 2023 and, as of that date, the Company's accumulated deficit was \$134,903,308. 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.

Key Audit Matters

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended October 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below to be the key audit matters to be communicated in our auditor's report.

Impairment of goodwill and intangible assets

Description of matter

As detailed in financial statement note 11, the Company recorded an intangible asset impairment loss for the year ended October 31, 2023 of \$11,400,000. Management conducts an impairment assessment when there are indicators of impairment. An impairment loss is recognized when the carrying value of a cash generating unit (CGU) exceeds the Company's recoverable amount. As at October 31, 2023 the Company's net asset carrying value significantly exceeded the Company's market capitalization, the Company's financial performance for the Canadian extraction CGU had not met previous forecasts and was generating negative cash flows. As a result of these factors management performed an impairment assessment as at October 31, 2023 that required the calculation of the recoverable amount of the Canadian extraction CGU.

Why the matter is a key audit matter

The determination of a CGU's recoverable amount requires significant judgement when determining the inputs into the calculation of the recoverable amount including estimating the expected future net cash flows and the discount rate. This estimation uncertainty required significant auditor judgement and specialized skills and knowledge to evaluate management's estimate.

How the matter was addressed in the audit

The primary procedures performed to address the key audit matter included the following:

We evaluated the appropriateness of the future net cash flows by reviewing key assumptions used including forecasted growth rates against historical results and industry data, planned changes to legacy customer revenue, planned changes in margin against historical trends and management plans relative to industry data.

We involved a valuation professional with specialized skills and knowledge, who assisted in:

evaluating the appropriateness of the valuation methodology used by the Company to calculate the recoverable amount, and evaluating the Company's discount rate by comparing against discount rate ranges that were independently developed using available market and industry data.

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.

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.



Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
February 20, 2024.

Welch LLP[®]

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

	Notes	As at October 31, 2023	As at October 31, 2022
Assets			
Current			
Cash		\$ 3,924,713	\$ 5,107,617
Short-term investments	4	950,000	950,000
Sales tax recoverable		266,891	210,457
Accounts receivable	25(a)	6,760,532	7,488,117
Inventories	5	17,259,565	16,788,609
Prepaid expenses and deposits	6	2,263,015	2,013,977
Current portion of notes receivable	8	754,449	302,171
		32,179,165	32,860,948
Notes receivable	8	2,506,972	1,712,303
Other investments and deposits	9	1,095,000	799,812
Investment in associate	10	3,196,000	3,214,393
Intangible assets and goodwill	11	6,643,700	19,784,401
Property, plant and equipment	12	10,231,774	20,040,335
Total Assets		\$ 55,852,611	\$ 78,412,192
Liabilities			
Current			
Accounts payable and accrued liabilities	22(c),25(b)	\$ 20,338,063	\$ 15,197,496
Sales tax payable		1,233,408	519,275
Deferred revenue		502,044	681,548
Current portion of lease liabilities	14	182,214	89,591
Current portion of long-term debt	15	6,493	5,878
Current portion of derivative liabilities	17	2,817,368	1,636,766
		25,079,590	18,130,554
Lease liabilities	14	1,862,825	639,406
Long-term debt	15	7,305,367	16,815,481
Derivative liabilities	17	48,117	945,530
Deferred tax liability	21	704,000	1,931,000
Total Liabilities		34,999,899	38,461,971
Equity			
Share capital	18	148,475,181	147,746,456
Contributed surplus	19	6,982,806	6,902,629
Accumulated other comprehensive income	10,25(c)(i)	298,033	109,403
Accumulated deficit		(134,903,308)	(114,808,267)
Total Equity		20,852,712	39,950,221
Total Liabilities and Equity		\$ 55,852,611	\$ 78,412,192

Going Concern (Note 1(a))

Commitments (Note 23)

Subsequent Events (Note 30)

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
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HERITAGE CANNABIS HOLDINGS CORP.
Consolidated Statements of Operations and Comprehensive Loss
Years Ended October 31, 2023 and 2022
(Stated in Canadian Dollars)

	Notes	Years Ended October 31,	
		2023	2022
Gross Revenue		\$ 42,054,936	\$ 41,996,297
Excise taxes		(12,260,647)	(12,429,912)
Net Revenue	27	29,794,289	29,566,385
Cost of Sales	5	17,709,500	21,599,867
Gross Margin		12,084,789	7,966,518
General and Administrative Expenses			
Advertising, travel and promotion		1,571,342	768,397
Amortization and depreciation	5,11,12	3,733,185	3,732,493
Management and consulting fees	22	958,994	1,097,624
Occupancy, general and administrative		3,455,634	5,705,218
Professional fees		767,840	947,258
Share-based payments	18,19,22	463,852	770,095
Salaries, wages and benefits	22	9,193,276	7,567,711
		20,144,123	20,588,796
Other Income (Expense)			
Interest and other income	8	321,821	172,987
Interest and finance expense	14,15,17	(1,911,382)	(1,144,990)
Share of loss from investment in associate	10	(68,718)	(135,211)
Impairment of intangible assets and goodwill	11	(11,400,000)	(21,215,000)
Unrealized gain on other investments	9(i)(ii)	-	572,774
Unrealized gain (loss) on contingent consideration payable	16	-	9,137,267
Unrealized gain (loss) on derivative liabilities	17	15,510	214,323
Forgiveness of debt	15(b)	431,860	-
Loss on sale-and-leaseback	13	(651,798)	-
Loss on debt extinguishment	15, 19(a)	-	(1,793,251)
Impairment of deposit	9(i)	-	(106,104)
		(13,262,707)	(14,297,205)
Income (Loss) Before Taxes		(21,322,041)	(26,919,483)
Income tax recovery			
Deferred income tax recovery	21	(1,227,000)	(2,675,000)
		(1,227,000)	(2,675,000)
Net Income (Loss)		\$ (20,095,041)	\$ (24,244,483)
Other comprehensive income that may be reclassified to net loss			
Gain (loss) on foreign currency translation	25(c)	188,630	306,710
Comprehensive Income (Loss)		\$ (19,906,411)	\$ (23,937,773)
Comprehensive Income (Loss) attributed to:			
Shareholders of the Company		\$ (19,906,411)	\$ (24,837,930)
Non-controlling interest	20	-	900,157
		\$ (19,906,411)	\$ (23,937,773)
Weighted average number of outstanding shares			
Basic	24	937,114,796	872,786,254
Diluted	24	937,114,796	872,786,254
Income (loss) per share			
Basic	24	\$ (0.02)	\$ (0.03)
Diluted	24	\$ (0.02)	\$ (0.03)

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

HERITAGE CANNABIS HOLDINGS CORP.
Condensed Consolidated Statements of Changes in Equity
Years Ended October 31, 2023 and 2022
(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
Balance at October 31, 2021		786,128,570	\$ 140,482,057	\$ 5,779,474	\$ (197,307)	\$ (91,538,667)	\$ 694,882	\$ 55,220,439
Share-based payments - vesting of options	19(b)	-	-	389,895	-	-	-	389,895
Share-based payments - issuance of restricted 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 for Premium 5 acquisition	16(d),18(b)	107,142,857	6,428,571	-	-	-	-	6,428,571
Shares issued as contingent consideration for PureFarma acquisition	16(a)(d),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 loss for the year	20	-	-	-	306,710	(25,144,640)	900,157	(23,937,773)
Balance at October 31, 2022		916,205,755	\$ 147,746,456	\$ 6,902,629	\$ 109,403	\$ (114,808,267)	\$ -	\$ 39,950,221
Balance at October 31, 2022		916,205,755	\$ 147,746,456	\$ 6,902,629	\$ 109,403	\$ (114,808,267)	\$ -	\$ 39,950,221
Share-based payments - vesting of options	19	-	-	80,177	-	-	-	80,177
Share-based payments - issuance of shares	18(b)	7,253,985	217,619	-	-	-	-	217,619
Share-based payments - issuance of shares	18(b)	11,699,143	408,420	-	-	-	-	408,420
Shares released from Escrow	18(b)	9,706,849	135,757	-	-	-	-	135,757
Share issuance cost	18(b)	-	(33,071)	-	-	-	-	(33,071)
Comprehensive loss for the year		-	-	-	188,630	(20,095,041)	-	(19,906,411)
Balance at October 31, 2023		944,865,732	\$ 148,475,181	\$ 6,982,806	\$ 298,033	\$ (134,903,308)	\$ -	\$ 20,852,712

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, 2023 and 2022
(Stated in Canadian Dollars)

	Notes	Years Ended October 31,	
		2023	2022
Operating Activities			
Net loss for the period		\$ (20,095,041)	\$ (24,244,483)
Items not affecting cash:			
Amortization and depreciation	11,12	3,733,185	3,732,493
Loss on sale-and-leaseback	13	651,798	-
Loss on disposal of property, plant and equipment		-	2,849
Bad debt expense		140,788	-
Capitalized depreciation recognized in cost of sales	4	-	103,341
Deferred income tax recovery	21	(1,227,000)	(2,675,000)
Non-cash items included in interest and other income	8	(285,352)	(97,574)
Non-cash interest and finance expense	15,17	730,474	280,380
Share-based payments	18(b),19(b)	463,852	770,095
Loss on debt extinguishment, net of cash-settled transaction costs	15(b), 19(a)	-	1,793,251
Share of loss from investment in associate	10	68,718	135,211
Unrealized loss (gain) on contingent consideration payable	16	-	(9,137,267)
Unrealized (gain) on derivative liabilities	17	(15,510)	(214,323)
Forgiveness of debt	15(b)	(431,860)	-
Unrealized foreign exchange loss	10, 25(c)(i)	138,305	1,289
Impairment of intangible assets and goodwill	11	11,400,000	21,215,000
Unrealized (gain) on other investments	9(ii)(iii)	-	(572,774)
Impairment of deposit	9(i)	-	106,104
		(4,727,643)	(8,801,408)
Net changes in non-cash working capital, net of business combination			
Sales tax recoverable		(56,434)	804,348
Accounts receivable		586,797	(2,714,832)
Inventories	4	(470,956)	521,150
Prepaid expenses and deposits		(267,282)	333,763
Other investments and deposits		(295,188)	(503,113)
Accounts payable and accrued liabilities		5,163,719	7,247,290
Sales tax payable		714,133	243,243
Deferred revenue		(179,504)	440,843
Net changes in non-cash working capital		5,195,285	6,372,692
Cash Flows Provided by (Used in) Operating Activities		467,642	(2,428,716)
Investing Activities			
Acquisition of property, plant and equipment	12	(485,561)	(1,069,382)
Acquisition of intangible assets	11	(55,000)	-
Proceeds from disposal of property, plant and equipment	12	-	28,690
Payments on right-of-use asset prior to lease commencement	12,14	(91,520)	-
Issuance of note receivable	8	(1,719,701)	(1,916,900)
Repayment of note receivable	8	758,106	-
Proceeds from sale of other investment	9(ii)	-	608,649
Maturity of convertible promissory note receivable	7	-	259,481
Cash Flows (Used in) Investing Activities		(1,593,676)	(2,089,462)
Financing Activities			
Proceeds from exercise of options and warrants	18(b)	-	20,866
Principal payments on lease obligation	14	(153,678)	(80,106)
Principal payments on long-term debt	15	(5,878)	(5,321)
Proceeds from shares released from escrow	18(b)	135,757	-
Share issuance cost	18(b)	(33,071)	-
Proceeds from long-term debt, net of cash-settled transaction costs	15	-	4,939,009
Proceeds from derivative liabilities	17(b)	-	1,037,770
Cash payment for the acquisition of non-controlling interest	20	-	(50,000)
Cash Flows (Used in) Provided by Financing Activities		(56,870)	5,862,218
Net (Decrease) Increase in Cash During the Year		(1,182,904)	1,344,040
Cash, Beginning of Year		5,107,617	3,763,577
Cash, End of Year		\$ 3,924,713	\$ 5,107,617

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

Supplementary information

Interest received		\$ 25,794	\$ 3,836
Interest paid	15	\$ 1,061,475	\$ 788,513
Shares issued for Premium 5 acquisition	16(d),18(b)	\$ -	\$ 6,428,571
Shares issued for Purefarma acquisition	16(a)(d),18(b)	\$ -	\$ 515,057
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	19(b)	\$ -	\$ 140,000
Release of accrual for share-based payments	18	\$ (242,364)	\$ -
Share-based payments in accrued liabilities for shares to be issued		\$ -	\$ 24,745
Capitalized depreciation expense during the period	4	\$ -	\$ 1,288,859
Right-of-use asset additions	12,14	\$ 3,515,698	\$ -
Debt repaid from proceeds on sale-and-leaseback transaction	13	\$ 9,503,536	\$ -

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Stated in Canadian Dollars)

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 1450 St. Paul Street, Kelowna, British Columbia, Canada, V1Y 2E6 and the registered office of the Company is located at Suite 300-20 Holly Street, Toronto, Ontario, Canada, M4S 3B1 c/o Owens Wright.

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 sales, industrial hemp and research license, operates out of a 15,500 square foot facility in Falkland, British Columbia. Heritage East, a holder of a cultivation, processing, medicinal sales, industrial hemp and research license, operates out of a 122,000 square foot facility in Fort Erie, Ontario. Purefarma Solutions Inc. (“Purefarma”), a wholly-owned subsidiary, provides the Company with the experience and know-how necessary to manufacture, refine and formulate cannabis oils. CALYX Life Sciences Corp. (“CALYX”), a wholly-owned subsidiary, creates products and services aimed at providing an integrative approach to cannabinoid therapy for healthcare consumers and healthcare practitioners. On November 1, 2022, Purefarma and CALYX amalgamated, with Purefarma as the resulting amalgamated company. On January 25, 2021, the Company acquired 100% of Premium 5 Ltd., a Canada-based recreational and medical cannabis company in high-quality full spectrum concentrates. In the United States, the Company operates under Opticann, Inc., a Colorado based oral and topical cannabinoid company.

1. Basis of presentation

(a) Going concern

Although the Company was awarded licenses and has invested resources into its business, the Company 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 \$20,095,041 for the year ended October 31, 2023 (2022 - \$24,244,483), and had an accumulated deficit of \$134,903,308 as at October 31, 2023 (2022 - \$114,808,267). The Company’s ability to arrange additional financing in the future depends, in part, on the prevailing capital market conditions. These factors indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern.

The 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, 2023 and 2022
(Stated in Canadian Dollars)

1. Basis of presentation (continued)

(b) Statement of compliance

For the years ended October 31, 2023 and 2022, 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 20, 2024.

(c) Basis of measurement

These Consolidated Financial Statements have been prepared on the going concern basis, under the historical cost convention except for notes receivable 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, 2023, 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, 2023 and 2022
(Stated in Canadian Dollars)

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
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. (formed by amalgamation between Purefarma Solutions Inc. and CALYX Life Sciences Inc.)	100%	British Columbia, Canada

Certain subsidiaries are controlled, indirectly, through other subsidiaries.

(f) Estimates and critical judgements made by management

The preparation of these 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, 2023 and 2022
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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 11.

(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.

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Consolidated Financial Statements
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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 notes receivable 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).

HERITAGE CANNABIS HOLDINGS CORP.
Notes to Consolidated Financial Statements
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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.

HERITAGE CANNABIS HOLDINGS CORP.
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2. 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 notes receivable 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, 2023 and 2022.

(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.

(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.

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Notes to Consolidated Financial Statements
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2. Significant accounting policies (continued)

(i) De-recognition of financial instruments (continued)

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 10). 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.

In a sale and leaseback transaction, the transfer of an asset is recognized as a sale when the customer has obtained control of the underlying asset which is aligned with the Company's revenue recognition policy, otherwise the Company continues to recognize the transferred asset on the statement of financial position and record a financial liability equal to the proceeds transferred. When the transfer of an asset satisfies the Company's revenue recognition policy to be accounted for as revenue, a partial recognition of the profit or loss from the sale is recorded immediately after the sale, which is equivalent to the proportion of the asset not retained by the Company through the lease. The proportion of the asset retained by the Company through the lease is recognized as a right-of-use asset and the lease liability is measured as the present value of future lease payments.

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Notes to Consolidated Financial Statements
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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 delivered 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.

HERITAGE CANNABIS HOLDINGS CORP.
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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, 2023 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 \$502,044 (2022 - \$681,548 to be earned in the 2023 fiscal year) is expected to be earned in the 2024 fiscal year from contracts and orders in place as at October 31, 2023.

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.

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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

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

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

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

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2024.

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

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

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

(c) Amendments to IAS 12, Income Taxes

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

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

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

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3. New accounting standards and pronouncements (continued)

(e) Amendments to IFRS 16, Leases

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted.

4. Short-term investments

As at October 31, 2023, short-term investments consisted of \$950,000 (2022 - \$950,000) in guaranteed investment certificates maintained with a Canadian chartered bank. The carrying value of these short-term investments approximates their fair value as at October 31, 2023 due to the short term to maturity. Of the total balance, \$50,000 is restricted and held as security against the Company's corporate credit card (2022 - \$50,000).

5. Inventories

	As at October 31, 2023	As at October 31, 2022
Supplies and packaging materials	\$ 4,121,602	\$ 3,795,521
Dried cannabis and hemp	919,238	1,356,397
Manufacturing work in progress	2,450,363	2,925,024
Finished goods	9,768,362	8,711,667
	<u>\$ 17,259,565</u>	<u>\$ 16,788,609</u>

During the year ended October 31, 2023, inventories expensed to cost of sales was \$17,709,500 (2022 - \$21,599,867). As at October 31, 2023, \$nil (2022 - \$1,288,859) of capitalized depreciation remained in inventories. The Company had a provision for slow moving and obsolete inventory of \$nil during the year October 31, 2023 (2022 - \$nil).

6. Prepaid expenses and deposits

	As at October 31, 2023	As at October 31, 2022
Inventory deposits	\$ 1,478,104	\$ 1,115,500
Prepaid insurance and consulting	78,853	46,071
Equipment deposits	158,960	309,929
Marketing	210,369	130,023
Other prepaid expenses	336,729	412,454
	<u>\$ 2,263,015</u>	<u>\$ 2,013,977</u>

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7. 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, 2022, the convertible promissory note receivable was fully repaid in cash.

8. Notes receivable

	Heritage Cannabis Holdings Corp. (a)	Heritage (US) Oregon Corp. (b)	Total
Balance as at October 31, 2021	\$ -	\$ -	\$ -
Advances	1,613,877	299,954	1,913,831
Interest income	97,574	3,069	100,643
Balance as at October 31, 2022	\$ 1,711,451	\$ 303,023	\$ 2,014,474
Advances	1,037,652	682,049	1,719,701
Repayments	(744,277)	(13,829)	(758,106)
Interest income	206,810	78,542	285,352
Balance as at October 31, 2023	\$ 2,211,636	\$ 1,049,785	\$ 3,261,421
Less: current portion	(544,491)	(209,958)	(754,449)
Long-term portion	\$ 1,667,145	\$ 839,827	\$ 2,506,972

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

On May 3, 2021, the Company entered into an agreement ("Missouri 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, 2023, the Company has disbursed \$2,523,823 CDN (equivalent to \$1,871,415 USD) in total (2022 - \$1,613,877 CDN (equivalent to \$1,182,488 USD)).

On April 24, 2023, the Company entered into a 2-year agreement ("Bevcanna Agreement"), pursuant to which the Company agreed to advance funds for purchase orders, with an option to renew for one additional year. The advances bear an interest rate of 2% monthly and are payable on receipt of proceeds from sales. The Company has a general security agreement over the borrowers' assets. As at October 31, 2023, the Company has disbursed \$127,706 (Note 30).

(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, 2023, the Company has disbursed \$982,003 CDN (equivalent to \$728,155 USD) in total (2022 - \$299,954 CDN (equivalent to \$219,776 USD)).

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8. 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, 2023 (2022 - \$Nil).

During 2023, the borrowers commenced sales and \$758,106 in repayments have been made (\$nil - October 31, 2022). 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	Total
Contractual cash flows	\$ 677,250	\$ 2,198,176	\$ -	\$ 2,875,426
Add: Interest income	77,199	308,796	-	385,995
Total	\$ 754,449	\$ 2,506,972	\$ -	\$ 3,261,421

9. Other investments and deposits

	As at October 31, 2023	As at October 31, 2022
Long-term deposits (iv)	\$ 1,095,000	\$ 799,812

- (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, 2023, the fair value of the investment was determined to be \$nil (2022 - \$nil) based on management's best estimates, with an unrealized loss of \$nil recognized in profit or loss (2022 - \$35,875).
- (iv) As at October 31, 2023, the long-term deposits were comprised of an excise duty deposit of \$875,000 (2022 - \$710,000) and security deposits of \$220,000 (2022 - \$89,812).

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10. Investment in associate

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

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

Balance as at October 31, 2021	\$	3,044,182
Share of net loss		(135,211)
Foreign currency translation		305,422
Balance as at October 31, 2022	\$	3,214,393
Share of net loss		(68,718)
Foreign currency translation		50,325
Balance as at October 31, 2023	\$	3,196,000

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

	As at October 31, 2023	As at October 31, 2022
Cash and cash equivalents	\$ 9,097	\$ 10,509
Other current assets	271,203	187,060
Non-current assets	41,828	16,516
Current liabilities	235,518	186,456
Non-current liabilities	305,000	195,000
	For the year ended October 31, 2023	For the year ended October 31, 2022
Revenue	\$ 264,660	\$ 284,676
Depreciation and amortization expense	-	216,110
Loss from continuing operations	169,837	349,026
Total comprehensive loss	169,837	349,026

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11. Intangible assets and goodwill

	Licenses	Board Relationships	Intellectual property	Brands	Goodwill (i)	Total
Cost						
As at October 31, 2022	\$ 17,748,404	\$ 648,601	\$ 5,097,897	\$ 6,199,927	\$ -	\$ 29,694,829
Additions	-	-	-	55,000	-	55,000
Impairment	(7,537,403)	(258,494)	(1,374,649)	(2,229,454)	-	(11,400,000)
As at October 31, 2023	\$ 10,211,001	\$ 390,107	\$ 3,723,246	\$ 4,025,473	\$ -	\$ 18,349,829
Accumulated amortization						
As at October 31, 2022	\$ 5,061,802	\$ 182,437	\$ 2,494,794	\$ 2,171,395	\$ -	\$ 9,910,428
Additions	792,912	58,271	433,966	510,552	-	1,795,701
As at October 31, 2023	\$ 5,854,714	\$ 240,708	\$ 2,928,760	\$ 2,681,947	\$ -	\$ 11,706,129
Net book value as at October 31, 2023	\$ 4,356,287	\$ 149,399	\$ 794,488	\$ 1,343,526	\$ -	\$ 6,643,700

	Licenses	Board Relationships	Intellectual property	Brands	Goodwill (i)	Total
Cost						
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)
As at October 31, 2022	\$ 17,748,404	\$ 648,601	\$ 5,097,897	\$ 6,199,927	\$ -	\$ 29,694,829
Accumulated amortization						
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
Net book value as at October 31, 2022	\$ 12,686,602	\$ 466,164	\$ 2,603,103	\$ 4,028,532	\$ -	\$ 19,784,401

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11. 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, 2023	As at October 31, 2022	
Heritage East cultivation, processing and sales licenses	\$ 3,594,324	\$ 10,467,574	Approximately 15 years
Purefarma intellectual property	794,488	2,603,103	Approximately 5 years
Premium 5 board relationships	149,399	466,163	Approximately 7 years
Premium 5 brand	1,343,526	4,020,549	Approximately 7 years
Heritage West processing and sales licenses	761,963	2,219,028	Approximately 15 years

(i) Below is a reconciliation of changes in the goodwill balance for the years ended October 31, 2023 and 2022:

	Purefarma	Heritage East	Heritage West	Premium 5	Total
As at October 31, 2021	\$ 341,587	\$ 708,404	\$ 108,125	\$ 3,700,124	\$ 4,858,330
Impairment	(341,587)	(708,404)	(108,125)	(3,700,124)	(4,858,330)
As at October 31, 2022 and 2023	\$ -	\$ -	\$ -	\$ -	\$ -

The Company has assessed that there is a single cash generating unit.

As at October 31, 2022, the full goodwill balance was allocated to the Canadian extraction CGU. 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. 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% 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%.

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 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.

As at October 31, 2023, the Company determined there were indicators of impairment for its definite life intangibles, and therefore, performed an impairment test 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 \$22,600,000. 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 17.55% 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 8%.

As the recoverable amount was below the carrying value by \$11,400,000 as at October 31, 2023, an impairment loss was recognized and allocated to 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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12. Property, plant and equipment

	Equipment	Buildings and improvements	Land	Total
Cost				
At October 31, 2022	\$ 9,563,699	\$ 14,965,165	\$ 930,157	\$ 25,459,021
Additions	467,400	3,533,858	-	4,001,258
Disposals (Note 13)	-	(14,018,647)	(930,157)	(14,948,804)
At October 31, 2023	\$ 10,031,099	\$ 4,480,376	\$ -	\$ 14,511,475
Accumulated depreciation				
At October 31, 2022	\$ 2,837,102	\$ 2,581,584	\$ -	\$ 5,418,686
Additions	1,014,953	922,531	-	1,937,484
Disposals (Note 13)	-	(3,076,469)	-	(3,076,469)
At October 31, 2023	\$ 3,852,055	\$ 427,646	\$ -	\$ 4,279,701
Net book value at October 31, 2023	\$ 6,179,044	\$ 4,052,730	\$ -	\$ 10,231,774

	Equipment	Buildings and improvements	Land	Total
Cost				
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
Accumulated depreciation				
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
Net book value at October 31, 2022	\$ 6,726,597	\$ 12,383,581	\$ 930,157	\$ 20,040,335

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12. Property, plant and equipment (continued)

During the year ended October 31, 2023, the Company disposed of equipment, with a recognition of loss on disposal of \$nil in profit or loss (2022 - \$2,489).

During the year ended October 31, 2023, the Company disposed of land, buildings and improvements pursuant to a sale-and-leaseback transaction, resulting in the recognition of loss on disposal of \$651,798 in profit or loss (2022 - \$nil) (Note 13).

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:

	Right-of-use assets
Cost	
As at October 31, 2021	\$ 832,800
As at October 31, 2022	\$ 832,800
Accumulated depreciation	
As at October 31, 2021	\$ 77,838
Additions	110,593
As at October 31, 2022	\$ 188,431
Net book value as at October 31, 2022	\$ 644,369
	Right-of-use assets
Cost	
As at October 31, 2022	\$ 832,800
Additions (Notes 13 and 14)	3,515,698
As at October 31, 2023	\$ 4,348,498
Accumulated depreciation	
As at October 31, 2022	\$ 188,431
Additions	215,460
As at October 31, 2023	\$ 403,891
Net book value as at October 31, 2023	\$ 3,944,607

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

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13. Sale-and-Leaseback

On October 31, 2023, the Company sold its buildings and improvements related to the 15,500 square foot facility in Falkland, British Columbia and leased the building and improvements back. The terms of the lease include a rent-free period until October 31, 2024, with escalating monthly lease payments of \$39,500 to \$51,970 until October 2026 and monthly lease payments as determined by the fair market rent until October 2033. There is an option by either party to terminate the lease after 2 years. The Company applied a discount rate of 5.45% in the calculation of lease liability (Note 14). The Company has an option to repurchase the buildings and improvements for \$5,321,980 until October 31, 2025. The option was not considered substantive and valued at \$nil. The sale-and-leaseback transaction enabled the Company to repay their long-term debt (Note 15(b)) and have access to more capital while continuing to use the buildings and improvements. The Company recognized a loss on sale-and-leaseback of \$371,594.

On October 31, 2023, the Company sold its buildings and improvements related to the 122,000 square foot facility in Fort Erie, Ontario and leased the building and improvements back. The terms of the lease include a rent-free period until October 31, 2024, with escalating monthly lease payments of \$60,500 to \$79,599 until October 2026 and monthly lease payments as determined by the fair market rent until October 2033. There is an option by either party to terminate the lease after 2 years. The Company applied a discount rate of 5.45% in the calculation of lease liability (Note 14). The Company has an option to repurchase the buildings and improvements for \$7,093,250 until October 31, 2025. The option was not considered substantive and valued at \$nil. The sale-and-leaseback transaction enabled the Company to repay their long-term debt (Note 15(b)) and have access to more capital while continuing to use the buildings and improvements. The Company recognized a loss on sale-and-leaseback of \$280,204.

Total proceeds	\$ 9,714,475
Less:	
Transaction costs, netted from proceeds	(210,939)
Other transaction costs	(219,212)
Net book value of building and improvements sold (Note 12)	(11,872,336)
Lease liability (Note 14)	(1,103,640)
Prepaid assets	(18,244)
Add:	
Right-of-use asset (Note 12)	3,058,098
Loss on sale-and-leaseback	<u>\$ (651,798)</u>

14. Lease liabilities

The Company has 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.

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

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14. Lease liabilities (continued)

The following is a continuity of lease liabilities:

	As at October 31, 2023	As at October 31, 2022
Beginning balance	\$ 728,997	\$ 809,103
Additions (Note 13)	1,469,720	-
Interest expense	119,433	76,097
Lease payments	(273,111)	(156,203)
Ending balance	\$ 2,045,039	\$ 728,997
Less: current portion	(182,214)	(89,591)
Long-term portion	\$ 1,862,825	\$ 639,406

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	\$ 285,311	\$ 1,935,977	\$ 223,300

During the year ended October 31, 2023, the Company has recognized rent expenses of \$218,218 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 (2022 - \$195,402).

15. Long-term debt

	As at October 31, 2023	As at October 31, 2022
(a) Term loan - non-interest bearing, principal-only payments of \$585 per month, 6-year term, maturing on January 18, 2025	\$ 8,220	\$ 14,098
(b) Term loan – comprised of two credit facilities for up to \$10,256,379 (2022 – \$19,760,000), with the facilities bearing variable interest disclosed in Note 15(b). The loan is monthly interest-only payments, 15-month term, maturing on January 31, 2025.	7,303,640	16,807,261
	\$ 7,311,860	\$ 16,821,359
Less: current portion	(6,493)	(5,878)
Long-term portion	\$ 7,305,367	\$ 16,815,481

(a) The effective interest at a rate of 10% per annum has been imputed on the term loan, determined based on the Company's incremental cost of borrowing at the time of initial recognition. As at October 31, 2023, the face value of the term loan was \$8,779 (as at October 31, 2022 - \$15,802). The term loan was unsecured as at October 31, 2022.

(b) The Company, along with its subsidiaries Heritage East, 333 Jarvis Realty Inc., Heritage West and 5450 Realty Inc., (together the "Borrowers") have 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;

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15. Long-term debt (continued)

- (vi) assignments and postponements of creditors' claims from creditors of the Borrowers;
- (vii) joint and several unlimited guarantees inclusive of assignments and postponements of creditors' claims from each of the guarantors, including five of the Company's remaining subsidiaries (together the "Guarantors");
- (viii) general security agreements from the Borrowers and Guarantors inclusive of serial specific registration on certain assets;
- (ix) a pledge by the Company, each of its subsidiaries and all the investees in which the Company holds interests;
- (x) an assignment of material contracts and insurance agreements granted by the Company and each guarantor; and
- (xi) solicitors' opinions for Borrowers.

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

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

As part of the First Amendment, the Company also issued 10,000,000 warrants to the lender. Each warrant is exercisable into one Heritage Common Share at an exercise price of \$0.25 per share and has a term of 24 months expiring on October 8, 2023. See Note 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 during the year ended October 31, 2021.

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;

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15. Long-term debt (continued)

- (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 had received a total of \$16,807,261 in principal, with the remaining line of credit \$2,952,739 available for advance.

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

Based on management's assessment, the Second Amendment of the Loan resulted in a substantial change in the carrying amount of the Loan, and therefore was accounted for as an extinguishment of the original loan and a recognition of the new loan. The Company initially valued the Loan at its fair value at the modification date, using the effective interest rate of 12% per annum implicit in the Loan. The difference between the fair value of consideration and the original loan, as well as the transaction costs incurred as part of the Second Amendment in the amount of \$1,793,251, including all 60,000,000 warrants issued as transaction costs with a value of \$747,260 (Note 19(a)), were recognized in profit or loss at the modification date.

On October 31, 2023, the Company repaid the lender \$9,503,536 using the proceeds from the sale-and-leaseback transaction (Note 13), the lender forgave \$431,860 of interest expense incurred, amended the loan agreement (the "Third Amendment") by consolidating Facility 1, Facility 2 and Facility 4 and establishing two credit facilities for a maximum of \$10,256,379 (collectively the "Loan") as follows:

- (i) Facility 3: A revolving line of credit up to a maximum of \$5,000,000. The interest rate is the greater of the Royal Bank of Canada rate plus 10% and 15% per annum to January 31, 2025;
- (ii) Facility 5: \$5,256,379. The interest rate is the Royal Bank of Canada rate minus 1.75% per annum to January 31, 2025.

The Loan due date was extended to January 31, 2025, with an option to extend to January 31, 2026. 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 part of the Third Amendment, the Company extended the expiry date of the 60,000,000 warrants from February 28, 2025 to February 28, 2026 and amended the exercise price of the 10,000,000 warrants from \$0.25 to \$0.07 and the exercise price of the 50,000,000 warrants from \$0.10 to \$0.07. The amendment to the aggregate 60,000,000 warrants was accounted for as a cancellation of the old warrants and an issuance of new warrants. At the modification date, the modified warrants were considered exchangeable into a fixed number of Heritage Common Shares, and thus were classified as equity.

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15. Long-term debt (continued)

Based on management's assessment, the Third Amendment of the Loan resulted in a substantial modification in the carrying amount of the Loan for Facility 5, 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 17% per annum implicit in the Loan. The difference between the fair value of consideration and the original loan, were recognized in profit or loss at the modification date.

Based on management's assessment, the Third Amendment of the Loan resulted in a non-substantial modification in the carrying amount of the Loan for Facility 3, and therefore accounted for as an adjustment to the existing liability. The Company initially valued the Loan at its fair value at the modification date, using the effective interest rate of 17% per annum implicit in the Loan. The difference between the revised cash flows discounted at the original effective interest rate and the original loan, were recognized in profit or loss at the modification date.

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

Balance as at October 31, 2021	\$	10,822,261
Advances, net of cash-settled transaction costs		1,000,000
Interest expense		741,420
Interest payments		(741,420)
Balance as at September 29, 2022, the modification date	\$	11,822,261
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 ⁽ⁱ⁾		1,045,991
Interest expense		47,093
Interest payments		(47,093)
Balance as at October 31, 2022	\$	16,807,261
Interest expense		1,493,250
Interest payments		(1,061,475)
Forgiveness of debt		(431,860)
Repayment of debt (Note 13)		(9,503,536)
Balance as at October 31, 2023	\$	7,303,640

⁽ⁱ⁾ 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.

16. Contingent Consideration Payable

Balance as at October 31, 2021	\$	16,530,176
Payment made through issuance of common shares on contingent consideration issued in Premium 5 acquisition		(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)
Balance as at October 31, 2022 and 2023	\$	-

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16. Contingent Consideration Payable (continued)

(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. The contingent consideration was settled in accordance with (b) disclosed below.

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

The Company was required to make certain performance payments, in cash, to a company controlled by the former shareholders of Purefarma as additional purchase consideration. The remaining performance payment was based on 3% of extraction-generated gross margin for Purefarma's fiscal year 2022, immediately prior to the Company's settlement of total Purefarma contingent consideration payable during the year ended October 31, 2022 (the "Settlement") as disclosed below.

As at October 31, 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.

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16. Contingent Consideration Payable (continued)

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

In October of 2014, the Company entered into an agreement with the non-controlling shareholder of Heritage West, the terms of which state that the non-controlling shareholder had the right to require the Company to purchase from its certain preferred shares in Heritage West. The non-controlling shareholder had the ability to exercise this right upon Heritage West meeting certain license procurement and the cumulative earnings before interest, taxes, depreciation and amortization (“EBITDA”) milestones of \$1,500,000 and \$2,500,000, respectively. If all milestones were met and the non-controlling shareholder exercised its right, the Company would be required to purchase these shares for total consideration of \$550,000.

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

As at October 31, 2022, management settled all the contingent consideration payable issued in Heritage West acquisition as part of Heritage’s purchase of additional non-controlling interest in Heritage West (the “NCI purchase”) (Note 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. 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

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

As at October 31, 2021, the Company recognized the fair value of the First Performance Milestone payment in an amount of \$15,000,000, which represented the maximum pay-out for such milestone given the Company has exceeded the milestone expectations by January 25, 2022. As at October 31, 2022, the Company issued 107,142,857 Heritage Common Shares as full payment for First Performance Milestone, with a fair value of \$6,428,571 determined based on the quoted market price on the date of issuance (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, and recorded a gain from remeasurement of \$940,000 in profit or loss, based on the probability of meeting gross margin targets across all recreational products by January 25, 2023. As at October 31, 2023, the second performance milestone payment expired at a value of \$nil.

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16. Contingent Consideration Payable (continued)

The following is a continuity of contingent consideration payable:

	Purefarma	Heritage West	Premium 5	Total
Balance as at October 31, 2021	\$ 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)
Balance as at October 31, 2022 and 2023	\$ -	\$ -	\$ -	\$ -

17. Derivative liabilities

	Heritage Cannabis Exchange Corp. (a)	Heritage Cannabis Holdings Corp. (b)	Total
Balance as at October 31, 2021	\$ 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)
Balance as at October 31, 2022	\$ 10,819	\$ 2,571,477	\$ 2,582,296
Addition	-	-	-
Interest expense	-	298,699	298,699
Unrealized loss from changes in fair value	(10,819)	(4,691)	(15,510)
Balance as at October 31, 2023	\$ -	\$ 2,865,485	\$ 2,865,485
Less: current portion	-	(2,817,368)	(2,817,368)
Long-term portion	\$ -	\$ 48,117	\$ 48,117

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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, 2023, the Class 2 Warrants expired unexercised and were revalued immediately prior to expiry.

As at October 31, 2023, 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:

At October 31, 2022	Class 1 Warrants (immediately prior to expiry)	Class 2 Warrants
Number of warrants issued	7,919,493	3,511,110
Risk-free interest rate	3.92%	3.92%
Expected life (years)	0.00	0.93
Expected annualized volatility	0.00%	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

At October 31, 2023	Class 2 Warrants (immediately prior to expiry)
Number of warrants issued	3,511,110
Risk-free interest rate	4.79%
Expected life (years)	0.00
Expected annualized volatility	0.00%
Expected annual dividend yield	0.00%
Exercise price	\$0.30
Share price	\$0.015
Calculated fair value per warrant at the earlier of the expiry date or year-end	\$0.000

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.

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17. Derivative liabilities (continued)

(a) Heritage Cannabis Exchange Corp (continued)

The following table summarizes warrant activities in Heritage Cannabis Exchange Corp. during the years ended October 31, 2023 and 2022:

	Number of warrants	Weighted average exercise price
Balance as at October 31, 2021	11,430,603	\$ 0.23
Expired	(7,919,493)	0.20
Balance as at October 31, 2022	3,511,110	\$ 0.30
Expired	(3,511,110)	0.30
Balance as at October 31, 2023	-	\$ -

(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, 2023 and 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, 2023, the Company revalued all the Notes at fair value, calculated as the greater of the amount payable in equity and the amount payable in cash if no conversion right is exercised. The Warrants were re-valued at fair value using the same valuation technique as that used for initial recognition with the following inputs, assumptions and results:

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17. Derivative liabilities (continued)

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

As at October 18, 2023, \$1,170,397 of the loan was past due and continues to be in default until the cause of the default is cured by the Company. As at October 31, 2023, the carrying amount of the loan is \$1,174,173 (Note 30).

Tranche 1	As at October 31, 2022	As at October 31, 2023
Estimated number of Warrant Shares issuable	6,434,528	6,539,185
Risk-free interest rate	3.92%	4.67%
Expected life (years)	1.97	0.97
Expected annualized volatility	114%	289%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.035	\$0.015
Calculated standalone fair value per Warrant	\$90,708	\$66,677

Tranche 2	As at October 31, 2022	As at October 31, 2023
Estimated number of Warrant Shares issuable	3,655,982	3,715,446
Risk-free interest rate	3.92%	4.67%
Expected life (years)	2.00	1.00
Expected annualized volatility	113%	286%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.035	\$0.015
Calculated standalone fair value per Warrant	\$51,811	\$38,047

Tranche 3	As at October 31, 2022	As at October 31, 2023
Estimated number of Warrant Shares issuable	3,655,982	3,715,446
Risk-free interest rate	3.92%	4.67%
Expected life (years)	2.08	1.08
Expected annualized volatility	116%	278%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.035	\$0.015
Calculated standalone fair value per Warrant	\$55,563	\$38,774

Tranche 4	As at October 31, 2022	As at October 31, 2023
Estimated number of Warrant Shares issuable	877,435	891,707
Risk-free interest rate	3.92%	4.67%
Expected life (years)	2.17	1.17
Expected annualized volatility	114%	269%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.08	\$0.08
Share price	\$0.035	\$0.015
Calculated standalone fair value per Warrant	\$13,487	\$9,343

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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
Balance as at October 31, 2021	\$ 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
Balance as at October 31, 2022	\$ 2,359,838	\$ 211,639	\$ 2,571,477
Additions	-	-	-
Interest expense	298,699	-	298,699
Unrealized (gain) loss from changes in fair value	54,107	(58,798)	(4,691)
Balance as at October 31, 2023	\$ 2,712,644	\$ 152,841	\$ 2,865,485

The following table summarizes warrant activities for warrants classified as financial liabilities at FVTPL during the years ended October 31, 2023 and 2022:

	Number of warrants
Balance as at October 31, 2021	1
Issued	3
Balance as at October 31, 2022 and 2023	4

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, 2023, the following share issuances took place:

(i) Equity line of credit

On November 1, 2022, the Company entered into an equity line of credit, (the "Agreement") whereby the Company offers to sell common shares on a private placement basis over a thirty-six month period, for aggregate gross proceeds of up to US\$20,000,000. Pursuant to the Agreement, the Company has the right, but not the obligation to direct the counterparty, and the counterparty shall have the obligation, to purchase the number of common shares specified (each such purchase, a "Drawdown"). Each drawdown takes place at either of the following options: (1) the amount of common shares the

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18. Share capital (continued)

(b) Issued share capital (continued)

Company can demand the counterparty to purchase is equal to 30% of the aggregate trading volume of the common shares on the Canadian Securities Exchange (the "Exchange") in the ten trading days prior to the Drawdown notice, with the price of such Drawdown being the greater of 95% of the lowest daily volume weighted average price ("VWAP") of the common shares on the Exchange following the date a Drawdown notice is issued and \$0.05 per common share. (2) the amount of common shares the Company can demand the counterparty to purchase is equal to the average trading volume of the common shares on the Exchange during the three trading days prior to the Drawdown notice, the price of such drawdown being the greater of 90% of the lowest closing price of the common shares on the Exchange in the three trading days prior to the Drawdown notice and \$0.05 per common share. In either of the aforementioned options, if the closing price of the common shares on the trading day immediately preceding the date of the applicable Drawdown notice is less than \$0.0625, the Company will issue to the counterparty additional common shares equal to the difference between number of common shares issuable if the common shares had been issued using the pricing in (1) and (2) above, and the number of common shares issuable if the common shares had been issued at \$0.05 per common share.

During the year October 31, 2023 (2022 - n/a), there were no shares issued pursuant to this Agreement.

As compensation for entering into this Agreement, the counterparty received 11,699,143 common shares, which have been recognized at the fair value of the services received, \$408,420. This amount has been recognized as an expense during the year ended October 31, 2023 (2022 – n/a).

(ii) Shares issued as compensation

During the year ended October 31, 2022, the Company accrued \$217,619 related to compensation expense to be paid in shares. During the year ended October 31, 2023, 7,253,985 common shares were issued in satisfaction of this accrued liability. Of this amount 1,170,833 shares were issued to key members of management in satisfaction of \$35,125 in accrued compensation (Note 22).

(iii) Shares in escrow

Pursuant to the terms of the Agreement described in (i) above, there were 79,030,611 shares advanced in escrow. These shares are subject to statutory lock up and the contractual escrow terms per the equity line of credit. During the year ended October 31, 2023, 9,706,849 common shares were released from escrow for cash consideration of \$135,757. The Company also paid legal fees of \$33,071.

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.

19. Contributed surplus

(a) Warrants

Movements in the number of warrants outstanding during the year ended October 31, 2023 and 2022 are as follows:

	Number of warrants	Weighted average exercise price
Balance as at October 31, 2021	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
Balance as at October 31, 2022	165,823,000	0.18
Expired	(105,823,000)	0.21
Modified (Note 15(b))		(0.06)
Balance as at October 31, 2023	60,000,000	\$ 0.07

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19. Contributed surplus (continued)

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

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

Expiry date	Number of warrants	Weighted average exercise price
February 28, 2026 (Note 15(b))	60,000,000	\$ 0.07
	60,000,000	\$ 0.07

Of the 60,000,000 warrants outstanding, all 60,000,000 are standard common share purchase warrants.

(b) Stock options

(i) Stock option plan details

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

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

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19. Contributed surplus (continued)

(b) Stock options (continued)

Movements in the number of options outstanding during the year ended October 31, 2023 are as follows:

	Number of options	Weighted average exercise price
Balance as at October 31, 2022	22,353,440	\$ 0.20
Expired	(2,745,964)	0.43
Forfeited	(6,595,000)	0.16
Balance as at October 31, 2023	13,012,476	\$ 0.17

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

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

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

Expiry date	Number of options outstanding	Number of options exercisable	Weighted average exercise price
April 10, 2025	892,476	892,476	0.20
February 8, 2024	2,000,000	2,000,000	0.34
September 20, 2024	1,250,000	1,250,000	0.36
September 17, 2026	8,870,000	8,870,000	0.10
	13,012,476	13,012,476	\$ 0.17

As at October 31, 2023, the weighted average remaining contractual life of all options outstanding was 2.19 years (2022 – 2.85 years). The weighted average exercise price for exercisable options was \$0.17 (2022 - \$0.23).

(i) Amounts arising from share-based payment transactions

During the year ended October 31, 2023, the Company recognized an expense of \$80,177 relating to the vesting of options held by employees, directors, officers and consultants (2022 - \$389,895). The Company also accrued a share-based payment of \$nil (2022 - \$24,745) relating to sales staff shares to be issued.

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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 net changes in non-controlling interest are as follows:

	Heritage West	Mainstrain	Total
Balance as at October 31, 2021	\$ 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 combination (Note 11)	(55,355)	-	(55,355)
Decrease in NCI	(1,582,776)	(12,263)	(1,595,039)
Balance as at October 31, 2022 and 2023	\$ -	\$ -	\$ -

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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, 2023 and 2022. The Company's provision for income taxes for the years ended October 31, 2023 and 2022 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:

	2023	2022
Income tax recovery at statutory rate	\$ (2,177,000)	\$ (615,000)
Non-deductible and non-taxable permanent differences	440,000	266,000
Financing fees charged to equity and debt	(470,000)	(472,000)
Capital gain	182,000	
Terminal loss	(479,000)	
Unrealized gain or loss on contingent consideration payable, derivative liabilities, and investments	(4,000)	(2,678,000)
Income tax benefits not recognized and other	1,281,000	824,000
Provision for income taxes	\$ (1,227,000)	\$ (2,675,000)

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

Balance as at October 31, 2021	\$ 4,606,000
Deferred income tax recovery	(2,675,000)
Balance as at October 31, 2022	1,931,000
Deferred income tax recovery	(1,227,000)
Balance as at October 31, 2023	\$ 704,000

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, 2023 and 2022 were as follows:

	2023	2022
Deferred tax assets (liabilities)		
Non-capital loss carry forward	\$ 17,623,000	\$ 15,495,000
Capital loss carry forward	31,000	-
Inventories	1,000	(344,000)
Property, plant and equipment	(576,000)	(194,000)
Lease liabilities	528,000	176,000
Financing costs	476,000	666,000
Intangible assets	(1,690,000)	(5,096,000)
Share issuance costs	210,000	490,000
Resource deductions	280,000	280,000
Other	442,000	415,000
	17,328,000	11,888,000
Less: Tax assets not recognized	(18,029,000)	(13,819,000)
Deferred tax liability	\$ (704,000)	\$ (1,931,000)

The Company has accumulated non-capital losses for Canadian tax purposes of approximately \$66,352,000 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)

Year of Expiry	Amount
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	492,000
2037	2,093,000
2038	5,725,000
2039	9,807,000
2040	7,322,000
2041	15,560,000
2042	14,652,000
2043	8,152,000
	\$ 66,352,000

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, 2023 and 2022 are as follows:

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

	Year ended October 31,	
	2023	2022
Management fees	\$ 84,750	\$ 50,000
Consulting fees	207,228	269,000
	\$ 291,978	\$ 319,000

(b) Key management compensation

	Year ended October 31,	
	2023	2022
Salary and short-term benefits	\$ 502,139	\$ 395,053
Share-based payments	17,627	323,383
	\$ 519,766	\$ 718,436

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22. Related party transactions and balances (continued)

(c) Related party balances

	As at October 31, 2023	As at October 31, 2021
Included in accounts payable and accrued liabilities	\$ 45,249	\$ 198,350

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

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

- (a) \$2,600,000 USD payable upon the Company's achievement of certain milestones, including its receipt of first purchase order for certain goods and reaching \$2,000,000 USD and \$1,000,000 CDN sales of certain goods, respectively;
- (b) Royalty payment of 20% on all gross margins from the sale of certain goods, payable quarterly;
- (c) Additional milestone payments, calculated as 10% of the value of any upfront milestone payments received by the Company for certain agreements with certain parties and 15% of the gross margin received on net sales as a result of certain agreements between the Company and certain parties; and
- (d) Dedication of a minimum 11% of net sales per year for marketing activities, which commences at the same time as the purchase right noted below.

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

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

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.

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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, 2022, unless otherwise stated.

(a) Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company has moderate exposure to credit risk from its cash, short-term investments, accounts receivable, and notes 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, 2023	As at October 31, 2022
Trade accounts receivable from customers	\$ 6,960,969	\$ 7,798,057
Expected credit losses	(201,164)	(353,420)
Net trade receivables	6,759,805	7,444,637
Interest and other receivables	727	43,480
	<u>\$ 6,760,532</u>	<u>\$ 7,488,117</u>

The Company provides credit to certain customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk for customers is assessed on a case-by-case basis and a provision is recorded where required. As at October 31, 2023, the Company identified certain accounts that may result in a credit loss on its accounts receivable, for which expected credit losses were recognized.

The Company has assessed that there is a concentration of credit risk, as 53% of the Company's net trade accounts receivable is due from three customers as at October 31, 2023 (as at October 31, 2022 - 68% 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, 2023	As at October 31, 2022
Current (30 days or less)	\$ 3,425,372	\$ 4,371,452
31-60 days	1,219,468	1,152,874
61-90 days	275,532	57,804
Greater than 90 days	1,839,433	1,862,507
	<u>\$ 6,759,805</u>	<u>\$ 7,444,637</u>

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the financial obligations associated with its financial liabilities as they come due. The Company manages liquidity risk through the management of its capital structure. As at October 31, 2023, the Company had working capital of \$7,099,575 (as at October 31, 2022 – \$14,730,394). 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	\$ 20,338,063	\$ -	\$ -
Long-term debt	7,023	7,305,396	-
Derivative liabilities with cash settlement option (Note 17(b))	2,068,374	-	-
Total	\$ 23,413,460	\$ 7,305,396	\$ -

(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 10), 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, 2023 and October 31, 2022, the Company has not entered into any hedging agreements to mitigate foreign currency risk. As such, the Company's financial position and financial results may be adversely affected by the unfavorable fluctuations in foreign currency exchange rates.

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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, 2023	As at October 31, 2022
Cash	\$ 80,383	\$ 4,030
Accounts receivable	-	659
Accounts payable and other liabilities	-	24,459
Investment in associate	2,304,088	2,355,039
Derivative liabilities	1,942,664	1,721,190

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by \$61,284 (2022 - \$90,492). A 10% weakening of the Canadian dollar against the foreign currencies listed above would result in an equal, but opposite effect.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's short-term investments, convertible promissory note receivable and notes receivable earn fixed rates of interest in the range from 0.7% to 1.05% per annum, 10% per annum and 24% 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, 2023 and 2022, the Company had no hedging agreements in place.

(iii) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. As at October 31, 2023 and 2022, 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.

Financial instruments measured at fair value	
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)
Financial instruments measured at amortized cost	
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, 2023 and 2022, there were no transfers of amounts between levels.

27. Entity-wide disclosures

The Company's trade net revenue for the year ended October 31, 2023 is comprised of the following:

	Domestic (Canada)
Net revenue from sale of Heritage branded products	\$ 26,505,036
Net revenue from sale of White Label products	2,945,004
Net revenue from provision of services	344,249
	\$ 29,794,289

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	-
	\$ 29,566,385

During the year ended October 31, 2023, the Company earned 75% of its total trade revenue from four major customers (2022 – 83% from four major customers).

28. Operating segment information

During the years ended October 31, 2023 and 2022, 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. Subsequent events

As at October 31, 2023, \$1,850,170 of the convertible promissory notes issued to Merida Fund III and Merida Fund IV were past due and continues to be in default until the cause of the default is cured by the Company. The promissory notes will be paid by converting the principal and interest of the notes into Common Shares of the Company, and the Company is working with Merida Fund III and Merida Fund IV to convert the outstanding balance of the notes.

Between December 4, 2023 to February 2, 2024, the Company received certain equipment pursuant to a lease agreement, requiring a down payment of \$115,015, thirty-six monthly payments of \$22,704, as well as the issuance of 1,454,226 warrants with an exercise price of \$0.05 per share and an expiry date of January 22, 2027.

On November 29, 2023, the Company entered into a debt settlement agreement with Bevcanna Enterprises Inc. ("Bevcanna"), whereby the Company would receive 4,749,137 common shares in the capital of Bevcanna to settle \$166,220 of notes receivable owing by Bevcanna to the Company.

On January 22, 2024, the Company issued 44,549,726 Common Shares to certain employees and management of the Company as consideration for annual bonuses and sales commissions for the employees' performances during the year ended October 31, 2023.

On February 8, 2024, 2,000,000 options expired unexercised.