

HERITAGE CANNABIS HOLDINGS CORP.

(Formerly Umbral Energy Corp.)

Interim Condensed Consolidated Financial Statements

Three and Nine Months Ended July 31, 2019 and

July 31, 2018

(Stated in Canadian Dollars)

(Unaudited)



HERITAGE **CANNABIS**
Holdings Corp

**NOTICE OF NO AUDITORS' REVIEW OF
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the interim condensed consolidated financial statements.

The accompanying unaudited interim condensed consolidated financial statements of Heritage Cannabis Holdings Corp. (formerly Umbral Energy Corp.) (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada ("CPA Canada") for a review of interim financial statements by an entity's auditor.

HERITAGE CANNABIS HOLDINGS CORP.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Interim Condensed Consolidated Statements of Financial Position
As at July 31, 2019 and October 31, 2018
(Stated in Canadian Dollars, Unaudited)

	Note	July 31, 2019	October 31, 2018
Assets			
Current			
Cash		\$ 1,366,963	\$ 1,174,600
Short-term investments	4	12,050,000	-
Sales tax recoverable and other receivables		1,029,365	278,924
Inventories	5	2,035,490	-
Prepaid expenses and deposits		1,493,167	339,693
Loans receivable	6	258,102	-
Other current asset	12	48,830	-
		18,281,917	1,793,217
Deposits	7	446,104	250,000
Investment in associate	8	3,971,928	-
Intangible assets	9	40,432,790	5,067,000
Property, plant and equipment	10	17,856,381	5,589,019
Total Assets		\$ 80,989,120	\$ 12,699,236
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 2,706,019	\$ 656,873
Due to related parties		-	55,458
Current portion of long-term debt	11	4,253	-
Current portion of contingent consideration payable	12	242,000	-
		2,952,272	712,331
Long-term debt	11	25,366	-
Contingent consideration payable	12	1,898,000	-
Total Liabilities		4,875,638	712,331
Shareholders' Equity			
Share capital	13	92,694,319	21,598,702
Contributed surplus	14	6,407,336	2,190,551
Share subscriptions	15	-	55,000
Accumulated deficit		(23,585,156)	(12,760,850)
Equity attributable to shareholders		75,516,499	11,083,403
Non-controlling interest		596,983	903,502
Total Equity		76,113,482	11,986,905
Total Liabilities and Equity		\$ 80,989,120	\$ 12,699,236

Going Concern (Note 1)

Commitments (Note 17)

Subsequent Events (Note 23)

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

Approved on behalf of the Board of Directors:

"Clint Sharples", CEO

Director

"Graeme Staley "

Director

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Interim Condensed Consolidated Statements of Operations and Comprehensive Loss
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in Canadian Dollars, Unaudited)

	Note	Three Months Ended July 31,		Nine Months Ended July 31,	
		2019	2018	2019	2018
Interest and Other Income		\$ 156,912	\$ -	\$ 238,813	\$ -
General and Administrative Expenses					
Advertising, travel and promotion		216,124	32,065	484,424	50,148
Amortization		418,001	2,375	1,181,196	7,126
Consulting fees	16(a)	606,241	360,418	1,528,828	752,636
Management fees	16(a)	45,000	40,000	135,000	130,000
Occupancy, office expense and other	16(a)	607,978	57,266	1,411,712	153,657
Professional fees		266,009	23,435	561,748	143,276
Regulatory fees		2,889	3,234	41,970	23,095
Shareholder communications		191,374	10,295	428,464	19,578
Share-based payments	13(b) & 14(a),(c),(d)	683,532	822,370	3,533,167	4,513,104
Transfer agent and shareholder information		56,330	6,511	81,067	13,604
Salaries, wages and benefits		658,318	-	1,452,062	-
		3,751,796	1,357,969	10,839,638	5,806,224
Other Items					
Gain on sale of investment		-	-	-	53,650
Unrealized loss on contingent consideration payable	20	(80,000)	-	(230,000)	-
Impairment of deposits	21	(150,000)	-	(150,000)	-
		(230,000)	-	(380,000)	53,650
Net Loss and Comprehensive Loss		\$ (3,824,884)	\$ (1,357,969)	\$ (10,980,825)	\$ (5,752,574)
Net Loss and Comprehensive Loss attributed to:					
Shareholders of the Company		\$ (3,714,393)	\$ (1,281,279)	\$ (10,674,306)	\$ (5,598,815)
Non-controlling Interest		(110,491)	(76,690)	(306,519)	(153,759)
		\$ (3,824,884)	\$ (1,357,969)	\$ (10,980,825)	\$ (5,752,574)
Weighted average number of outstanding shares, basic and diluted	18	468,296,095	170,124,373	412,832,054	157,724,321
Basic and diluted loss per share		\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.04)

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

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Interim Condensed Consolidated Statements of Changes in Equity
Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in Canadian Dollars, Unaudited)

	Note	Number of Shares	Share Capital	Contributed Surplus	Share Subscriptions	Accumulated Deficit	Non-controlling Interest	Total
Balance at October 31, 2017		136,275,097	\$ 11,420,360	\$ 1,063,882	\$ 380,000	\$ (6,330,157)	\$ 1,144,183	\$ 7,678,268
Issued shares for cash								
Share options exercised		6,559,000	2,200,046	(1,095,186)	-	-	-	1,104,860
Warrants exercised		30,304,686	3,119,765	(209,297)	-	-	-	2,910,468
Shares issued for acquisition		4,000,000	380,000	-	(380,000)	-	-	-
Stock based compensation – options granted		-	-	2,976,919	-	-	-	2,976,919
Stock based compensation – RSU's granted		-	-	1,536,183	-	-	-	1,536,183
Net loss for the period		-	-	-	-	(5,598,815)	(153,759)	(5,752,574)
Balance at July 31, 2018		177,138,783	\$ 17,120,171	\$ 4,272,503	\$ -	\$ (11,928,972)	\$ 990,424	\$ 10,454,126
Balance at October 31, 2018		203,919,450	\$ 21,598,702	\$ 2,190,551	\$ 55,000	\$ (12,760,850)	\$ 903,502	\$ 11,986,905
Shares issued as purchase consideration								
CannaCure Corporation	Note 3(a)	131,548,575	30,256,174	-	-	-	-	30,256,174
Purefarma Solutions Inc.	Note 3(b)	33,333,333	6,000,000	-	-	-	-	6,000,000
Share-based payments - acquisition costs								
CannaCure Corporation	Note 3(a)	5,784,751	1,610,493	175,818	-	-	-	1,786,311
Purefarma Solutions Inc.	Note 3(b)	1,200,000	234,000	-	-	-	-	234,000
Replacement warrants and options issued as purchase consideration								
CannaCure Corporation	Note 3(a)	-	-	1,818,407	-	-	-	1,818,407
Contingent consideration, equity-settled								
Purefarma Solutions Inc.	Note 17(e)	-	-	910,000	-	-	-	910,000
Shares issued for cash consideration								
Exercise of warrants	Note 14(a)	25,086,216	8,857,713	(712,154)	-	-	-	8,145,559
Exercise of options	Note 14(c)	4,241,919	1,677,818	(1,016,698)	-	-	-	661,120
Private placements								
Issuance and exercise of Special Warrants - February 2019	Note 14(b)	33,000,000	6,492,473	366,171	(55,000)	-	-	6,803,644
Issuance of Units - May 2019	Note 13(b)	32,660,000	14,575,839	1,238,892	-	-	-	15,814,731
Share-based payments - vesting of options	Note 14(c)	-	-	1,380,871	-	-	-	1,380,871
Share-based payments - vesting of restricted shares	Note 14(d)	-	-	55,478	-	-	-	55,478
Share-based payments - issuance of shares	Note 13(b)	153,265	76,507	-	-	-	-	76,507
Shares issued on Endocanna share exchange transaction	Note 8	2,710,515	1,314,600	-	-	-	-	1,314,600
Transaction with non-controlling interest	Note 17(c)	-	-	-	-	(150,000)	-	(150,000)
Net loss for the period		-	-	-	-	(10,674,306)	(306,519)	(10,980,825)
Balance at July 31, 2019		473,638,024	\$ 92,694,319	\$ 6,407,336	\$ -	\$ (23,585,156)	\$ 596,983	\$ 76,113,482

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

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Interim Condensed Consolidated Statements of Cash Flows
Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in Canadian Dollars, Unaudited)

	Note	Nine Months Ended July 31,	
		2019	2018
Operating Activities			
Net loss for the period		\$ (10,980,825)	\$ (5,752,574)
Items not affecting cash:			
Amortization		1,181,196	7,126
Non-cash items included in interest and other income		4,581	-
Gain on sale of marketable securities		-	(53,650)
Imputed interest expense on long-term debt	11	10,214	-
Share-based payments	13(b) & 14(a),(c),(d)	3,533,167	4,513,104
Acquiree's acquisition costs - non-equity-settled	3(a)	118,435	-
Unrealized loss on contingent consideration payable	20	230,000	-
		(5,903,232)	(1,285,994)
Net changes in non-cash working capital, net of business combinations:			
Sales tax recoverable and other receivables		(138,557)	(208,565)
Inventories		(2,035,490)	-
Prepaid expenses and deposits		(1,081,972)	(204,342)
Other current asset		(2,951)	-
Accounts payable and accrued liabilities		695,655	699,265
Payments to related parties		(55,458)	-
Cash Flows Used in Operating Activities		(8,522,005)	(999,636)
Investing Activities			
Acquisition of property, plant and equipment		(7,166,496)	(3,953,534)
Proceeds from sale of marketable securities		-	151,150
Cash acquired from business combinations		80,233	-
Deposits advanced		(90,000)	(250,000)
Purchase of short-term investments		(22,550,000)	-
Redemption of short-term investments		10,500,000	-
Issuance of loans receivable		(323,565)	-
Repayment of loans receivable		65,463	-
Issuance of advances, settled through business combination	3(b)	(89,983)	-
Purchase of investment in associate	8	(2,657,328)	-
Cash Flows Used in Investing Activities		(22,231,675)	(4,052,384)
Financing Activities			
Proceeds from exercise of warrants		8,145,559	2,910,468
Proceeds from exercise of options		661,120	1,104,860
Proceeds from issuance of Special Warrants, net of issuance costs		6,803,644	-
Proceeds from issuance of Units, net of issuance costs		15,814,731	-
Repayment of long-term debt		(329,011)	-
Cash paid to non-controlling interest	17(c)	(150,000)	-
Cash Flows Provided from Financing Activities		30,946,043	4,015,328
Net Increase (Decrease) in Cash During the Period		192,363	(1,036,692)
Cash, Beginning of Period		1,174,600	1,647,781
Cash, End of Period		\$ 1,366,963	\$ 611,089

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

Supplementary information

Interest received	\$ 30,362	\$ -
-------------------	-----------	------

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

Nature of Business

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

The Company is a vertically integrated cannabis business. Through its subsidiaries, Voyage Cannabis Corp. (formerly PhyeinMed Inc.) and CannaCure Corporation, the Company holds licenses under the Cannabis Act (Canada) and its relevant regulations. Voyage Cannabis Corp., a holder of a cultivation, processing and medicinal sales license, operates out of a 15,500 square foot facility in Falkland, British Columbia. CannaCure Corporation, a holder of a cultivation, processing and medicinal sales license, operates out of a 122,000 square foot facility in Fort Erie, Ontario. Purefarma Solutions Inc., a wholly owned-subsiidiary, provides the Company with the experience and know-how necessary to develop and manufacture cannabis oils. On December 18, 2018, CALYX Life Sciences Corp. (formerly BriteLife Sciences Ltd.), a wholly-owned subsidiary, was incorporated to create products and services aimed at providing an integrative approach to cannabinoid therapy for healthcare consumers and healthcare practitioners.

1. Basis of Presentation

(a) Going concern

Although the Company was awarded licenses and has invested resources into its business, the Company does not yet have any significant cash flow from operations and as such, it must rely on equity financing to fund operations. To date, the Company’s main source of funding has been the issuance of equity securities for cash through private placements to sophisticated investors and through public offerings to institutional investors. The Company has historically raised operating capital from the sale of equity, and will continue to do so.

The interim condensed consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes that the Company will operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred operating losses since inception, does not have positive operating cash flow, and there can be no assurances that sufficient funding, including adequate financing, will be available to develop its business plans and to cover general and administrative expenses necessary for the maintenance of a public company. The ability of the Company to arrange additional financing in the future depends in part, on the prevailing capital market conditions. These factors may cast significant doubt on the Company’s ability to continue as a going concern.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

1. Basis of Presentation (continued)

(a) Going concern (continued)

The interim condensed consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments other than in the normal course of business and at amounts different from those in these interim condensed consolidated financial statements.

(b) Statement of compliance

The interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards 34, "Interim Financial Reporting" ("IAS 34"), using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements. The accounting policies and critical estimates used in preparing these interim condensed consolidated financial statements are the same as those applied in the Company's annual consolidated financial statements as at and for the year ended October 31, 2018, except for the adoption of new accounting standards and policies described in Note 2.

These interim condensed consolidated financial statements were approved by the Board of Directors on September 26, 2019.

(c) Basis of measurement

These interim condensed consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for contingent consideration payable that is measured at fair value.

(d) Functional and presentation currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company, as determined by management.

(e) Basis of consolidation

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated on consolidation. Subsidiaries are those entities over which the Company has control. In turn, control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. As of July 31, 2019, major subsidiaries over which the Company has control are listed below.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

1. Basis of Presentation (continued)

(e) Basis of consolidation (continued)

Subsidiaries	Ownership Percentage	Jurisdiction of Incorporation
CannaCure Corporation	100%	Ontario, Canada
Purefarma Solutions Inc.	100%	British Columbia, Canada
CALYX Life Sciences Corp. (formerly BriteLife Sciences Ltd.)	100%	British Columbia, Canada
1005477 B.C. Ltd.	100%	British Columbia, Canada
Voyage Cannabis Corp. (formerly PhyeinMed Inc.)	75%	British Columbia, Canada
Mainstrain Markets Ltd.	75%	British Columbia, Canada
333 Jarvis Realty Inc.	100%	Ontario, Canada
Heritage US Holdings Corp.	100%	Delaware, United States
Heritage (US) Cali Corp.	100%	California, United States

Certain subsidiaries are controlled, indirectly, through other subsidiaries.

In March of 2019, the Company disposed of one of its wholly owned subsidiaries, Umbral Energy LLC, for nominal cash proceeds. The impact of this transaction on the Company was negligible. During the three months ended July 31, 2019, the Company incorporated three new subsidiaries: 333 Jarvis Realty Inc., Heritage US Holdings Corp., and Heritage (US) Cali Corp.

(f) Estimates and critical judgements by management

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

Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods. Actual results could differ from those estimates. Significant items that require estimates as the basis for determining the stated amounts include but are not limited to the valuation of inventories, the recoverability of investment in associate, the useful lives of property, plant and equipment and intangible assets, goodwill and intangible asset impairment, the fair value of identifiable net assets acquired, the fair value of consideration paid and contingent consideration payable stemming from business combinations, the fair value of share-based payments, and the fair value of financial instruments. While management believes the estimates are reasonable, actual results could differ materially from those estimates and may impact the future results of operations.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

2. Significant Accounting Policies

2.1 Amendments to IFRSs that are Mandatorily Effective for the Current Period

The Company has adopted the following new or amended IFRS standards for the period beginning November 1, 2018.

(a) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The Company adopted IFRS 9 using the retrospective approach where the cumulative impact of adoption will be recognized in retained earnings as of November 1, 2018 and comparatives will not be restated.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income ("OCI"), or (iii) fair value through profit or loss.

Amortized cost

Financial assets classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are measured using the effective interest method.

Fair value through other comprehensive income ("FVTOCI")

Financial assets classified and measured at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are SPPI.

This classification includes certain equity instruments where IFRS 9 allows an entity to make an irrevocable election to classify the equity instruments, on an instrument-by-instrument basis, that would otherwise be measured at FVTPL to present subsequent changes in FVTOCI.

Fair value through profit or loss ("FVTPL")

Financial assets classified and measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not SPPI 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 the financial asset.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

2.1 Amendments to IFRSs that are Mandatorily Effective for the Current Period (continued)

(a) IFRS 9 Financial Instruments (continued)

Consistent with IAS 39, financial liabilities under IFRS 9 are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost. The Company has contingent consideration payable arising from business combinations which is measured at fair value at initial recognition and subsequently measured at FVTPL.

The classification of the Company's financial instruments under IAS 39 and IFRS 9 are as follows:

Financial assets/liabilities	IAS 39 Classification	IFRS 9 Classification
Cash	Loans and receivables	Amortized cost
Short-term investments	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Other financial liabilities
Due to related parties	Other financial liabilities	Other financial liabilities
Long-term debt	Other financial liabilities	Other financial liabilities
Contingent consideration payable	FVTPL	FVTPL

The adoption of IFRS 9 did not have an impact on the Company's classification and measurement of financial assets and liabilities. Accordingly, on adoption of IFRS 9 on November 1, 2018, there was no change in the carrying value of the financial instruments upon transitioning from IAS 39.

IFRS 9 uses an expected credit loss impairment model as opposed to an incurred credit loss model under IAS 39. The impairment model is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. Under this model, the Company measures expected credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and other factors. The carrying amount of financial assets measured at amortized cost is reduced for any expected credit losses through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations and comprehensive loss. At the point when the Company is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off. The adoption of the expected credit loss impairment model had a negligible impact on the carrying amounts of financial assets measured at amortized cost.

(b) IFRS 15 Revenue from Contracts with Customers

The IASB replaced IAS 18 Revenue in its entirety with IFRS 15 Revenue from Contracts with Customers. The Company adopted IFRS 15 using the modified retrospective approach where the cumulative impact of adoption will be recognized in retained earnings as of November 1, 2018 and comparatives will not be restated.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

2.1 Amendments to IFRSs that are Mandatorily Effective for the Current Period (continued)

(b) IFRS 15 Revenue from Contracts with Customers (continued)

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time or over time. The model features the following contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized:

1. Identifying the contract with a customer;
2. Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligation(s).

To date, the Company does not have any material revenue streams and as such, there is no material impact on the interim condensed consolidated financial statements as a result of adopting this standard.

2.2 Newly Adopted Accounting Policies

(a) 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.

(b) Investments in associates

Significant influence is the power to participate in the financial and operating policy decisions of the investee 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 Health, Inc. Investees 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 investee'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 investee, profits and losses are eliminated to the extent of the Company's interest in that investee. 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.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

2.2 Newly Adopted Accounting Policies (continued)

(c) Biological assets

In accordance with IAS 41 and IFRS 13, the Company measures biological assets at fair value less costs to sell. Agricultural produce is measured at fair value less costs to sell at the point of harvest, which becomes the basis for the cost of inventory after harvest. Gains and losses arising from changes in fair values less cost to sell are included in net income or loss for the related period.

(d) Inventories

In accordance with IAS 2, inventories are initially valued at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest which becomes the deemed cost. Subsequent post-harvest costs, including direct costs attributable to processing and related overheads, are capitalized to inventory to the extent that the aggregate cost is less than 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.

2.3 Recently Issued Accounting Pronouncements Not Yet Adopted

(a) IFRS 16 Leases

In January of 2016, the IASB issued IFRS 16 Leases which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. The Company intends to adopt IFRS 16 on its effective date and is currently assessing the impact of this new standard on its condensed consolidated financial statements.

3. Business Combinations

(a) CannaCure Corporation

On November 5, 2018, the Company, through a wholly-owned subsidiary ("TransactionCo"), entered into a three-cornered amalgamation transaction which resulted in the acquisition of all the issued and outstanding shares of CannaCure Corporation ("CannaCure"), a company incorporated in Ontario, Canada that holds a licence issued by Health Canada under the Cannabis Regulations. Between November 1, 2018 and the date of amalgamation, November 5, 2018, TransactionCo did not have any activity other than the transaction specified above. The Company acquired CannaCure as a strategic manoeuvre to advance its goal of becoming a vertically integrated cannabis producer.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

3. Business Combinations (continued)

(a) CannaCure Corporation (continued)

As consideration for all 26,147,439 common shares in CannaCure, the Company issued 133,333,326 common shares with a fair value of \$30,666,667. Fair value was determined based on the closing share price of the Company on November 5, 2018. The amalgamation transaction resulted in the Company obtaining control of CannaCure. The transaction was accounted for as a business combination in accordance with IFRS 3, with the Company as the acquirer and CannaCure as the acquiree.

As part of the acquisition, the Company agreed to replace CannaCure's existing share-based payment awards, resulting in additional purchase consideration with a fair value of \$1,994,225, comprised of \$1,577,863 in stock options and \$416,362 in share purchase warrants. The fair value of the replacement stock options and warrants were determined using a level 3 pricing model with the inputs and assumptions detailed in Note 14(c) and Note 14(a) respectively.

As consideration for acquisition-related services, including legal costs and finder's fees, the Company paid \$61,883 and issued 4,000,000 common shares with a fair value of \$1,200,000, determined based on the fair value of the services received. Furthermore, of the total common shares and replacement warrants issued for purchase consideration, 1,784,751 common shares (fair value of \$410,493) and 764,893 warrants (fair value of \$175,818) are deemed to be reimbursements of the acquiree's acquisition costs. The Company is also deemed to have reimbursed the acquiree \$118,435 in other non-equity-settled acquisition costs.

Management is in the process of gathering the relevant information that existed as at the acquisition date to determine the fair value of consideration paid as well as the composition and fair value of net identifiable assets acquired. As such, the initial purchase price was provisionally allocated based on the Company's estimated fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date, and the estimated fair value of consideration paid. Management continues to work on finalizing the purchase price allocation for the fair value of net identifiable assets acquired, the fair value of consideration paid, and the resulting allocation to goodwill.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

3. Business Combinations (continued)

(a) CannaCure Corporation (continued)

Total consideration paid	
133,333,326 common shares	\$ 30,666,667
Replacement of share-based payment awards	1,994,225
Less: portion attributable to acquiree's acquisition costs	(704,746)
Net purchase consideration paid	31,956,146
Fair value of identifiable net assets acquired	
Cash	22,829
Sales tax recoverable	611,884
Prepaid expenses and deposits	59,815
Non-current deposits (Note 7(ii))	106,104
Licenses (Note 9)	26,320,000
Property purchase options (Note 9(b))	946,131
Property, plant and equipment (Note 10)	4,186,533
Accounts payable and accrued liabilities	(1,188,829)
	31,064,468
Goodwill	\$ 891,678

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

The fair value of the sales tax recoverable balance acquired in the business combination is equal to the gross amounts receivable. The Company has collected the full balance subsequent to the acquisition.

For the nine months ended July 31, 2019, CannaCure generated \$nil in trade revenues, \$98,183 in other income, and incurred a net and comprehensive loss of \$1,212,480 since November 5, 2018. If the acquisition had been completed on November 1, 2018, the financial impact would have been approximately the same.

During the Company's second quarter, management revised the preliminary acquisition date fair values disclosed in the interim condensed consolidated financial statements for its first quarter. Goodwill decreased by \$26,320,000 from \$27,211,678 to \$891,678. Licenses increased by \$26,320,000 from \$nil to \$26,320,000. Amortization expense for the three months ended January 31, 2019 increased by \$158,641 from \$195,156 to \$353,797. No such revisions were made during the three months ended July 31, 2019.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

3. Business Combinations (continued)

(b) Purefarma Solutions Inc.

On December 14, 2018, the Company acquired all the issued and outstanding shares of Purefarma Solutions Inc. ("Purefarma"), a company incorporated in British Columbia, Canada with expertise in the development of cannabis oils. The Company acquired Purefarma as a strategic manoeuvre to advance its goal of becoming a vertically integrated cannabis producer.

Purefarma's share capital, before and after the acquisition, is comprised of 1,000 Class A common shares. The Company acquired all 1,000 Class A common shares as follows:

(i) As consideration for 760 Class A common shares in Purefarma, the Company issued 33,333,333 common shares of the Company with a fair value of \$6,000,000. Fair value was determined based on the closing share price of the Company on December 14, 2018.

(ii) As consideration for 200 Class A common shares in Purefarma, the Company paid \$1 in cash plus a pro-rata earn-out, payable in common shares of the Company, based on Purefarma's ability to meet certain cumulative gross margin targets between December 14, 2018 and December 31, 2023. Details regarding the pro-rata earn-out are specified in Note 17(e).

(iii) As consideration for 40 Class A common shares in Purefarma, the Company paid \$1 in cash plus contingent performance payments, payable in cash, based on a fixed percentage of the gross margin generated from the extraction business between December 14, 2018 and December 31, 2022. Details regarding the contingent performance payments are specified in Note 12.

The above transactions resulted in the Company obtaining control of Purefarma. The transaction was accounted for as a business combination in accordance with IFRS 3, with the Company as the acquirer and Purefarma as the acquiree.

Included in the purchase consideration was the settlement of advances that were formerly owed to the Company by Purefarma in the amount of \$89,983.

As consideration for acquisition-related services, including legal costs and finder's fees, the Company paid \$37,969 and issued 1,200,000 common shares with a fair value of \$234,000, determined based on the fair value of the services received.

Management is in the process of gathering the relevant information that existed as at the acquisition date to determine the composition and fair value of net identifiable assets acquired, as well as the fair value of contingent consideration paid. As such, the initial purchase price was provisionally allocated based on the Company's estimated fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date, and the estimated fair value of contingent consideration paid. Management continues to work on finalizing the purchase price allocation for the fair value of net identifiable assets acquired, contingent consideration paid and the allocation to goodwill.

There were no changes to preliminary acquisition date fair values during the nine months ended July 31, 2019.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

3. Business Combinations (continued)

(b) Purefarma Solutions Inc. (continued)

Purchase consideration paid

Cash	\$ 2
33,333,333 common shares	6,000,000
Contingent consideration, equity-settled (Note 17(e))	910,000
Contingent consideration, cash-settled (Note 12)	1,910,000
Settlement of advances	89,983
	8,909,985

Fair value of identifiable net assets acquired

Cash	57,404
Prepaid expenses and deposits	11,688
Other current asset	45,879
Property, plant and equipment (Note 10)	467,135
Accounts payable and accrued liabilities	(164,662)
Long-term debt (Note 11)	(336,000)
	81,443
Goodwill	\$ 8,828,541

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

For the nine months ended July 31, 2019, Purefarma generated \$3,000 in revenues and incurred a net and comprehensive loss of \$1,344,339 since December 14, 2018. If the acquisition had been completed on November 1, 2018, the Company estimates it would have incurred a net and comprehensive loss of \$1,556,380, with no change in revenue, for the nine months ended July 31, 2019.

4. Short-term Investments

Short-term investments held at July 31, 2019 consist of \$12,050,000 (October 31, 2018 - \$nil) in guaranteed investment certificates ("GICs") maintained with a Canadian chartered bank. The carrying value of these short-term investments approximates their fair value at July 31, 2019. Of the total balance, \$50,000 is restricted and held as security against the Company's corporate credit card.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

5. Inventories

	As at July 31, 2019	As at October 31, 2018
Supplies and packaging materials	\$ 58,358	\$ -
Dried cannabis and hemp	1,862,084	-
Cannabis oil	103,569	-
Other	11,479	-
	\$ 2,035,490	\$ -

Inventories expensed to operating expenses during the three and nine months ended July 31, 2019 amounted to approximately \$181,000 (three and nine months ended July 31, 2018 - \$nil).

6. Loans Receivable

	As at July 31, 2019	As at October 31, 2018
Loan receivable earning interest at the greater of 2% per annum and the Bank of Canada's overnight rate target, currently due, and secured by the debtor's shareholdings in the Company	\$ 2,398	\$ -
Loan receivable from a director of the Company (Note 16(a)), earning interest at the greater of 2% per annum and the Bank of Canada's overnight rate target, maturing on September 30, 2019, and secured by the debtor's shareholdings in the Company	255,704	-
	\$ 258,102	\$ -

The carrying value of the loans receivable approximates their fair value at July 31, 2019.

7. Deposits

	As at July 31, 2019	As at October 31, 2018
Deposit on Stanley Park Digital Ltd. purchase (i)	\$ 340,000	\$ 250,000
Deposit for development costs (ii)	106,104	-
	\$ 446,104	\$ 250,000

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

Pursuant to the terms of the LOI, the total purchase price is \$500,000, a portion of which is to be paid in cash while the remainder will be settled by way of the Company issuing common shares upon execution of a definitive share purchase agreement.

As at July 31, 2019, \$340,000 in cash has been advanced to SPD in relation to the LOI. The amount is non-refundable.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

7. Deposits (continued)

- (ii) On February 16, 2018, the Company's subsidiary, CannaCure, entered into an agreement with its municipality to conduct land development where its production facility is located. As part of this agreement, CannaCure deposited with the municipality a \$106,104 letter of credit to guarantee the completion of these land development costs. This letter of credit has been included in non-current deposits in the statement of financial position. In the event that the cost of the work is less than the letter of credit, the municipality shall return any excess funds. In the event that the cost of the work is more than the letter of credit, the municipality may collect the deficiency on demand or in like manner as municipal taxes.

8. Investment in Associate

On July 26, 2019, the Company acquired a 30% strategic interest in Endocanna Health, Inc. ("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. Through two of its wholly-owned U.S. subsidiaries, the Company invested \$2,000,000 USD (equivalent to \$2,636,400 CAD) in exchange for a 20% interest in Endocanna and issued 2,710,515 common shares in exchange for a further 10% interest. The share exchange transaction was valued at \$1,314,600, determined based on the fair value of the interest acquired. The Company incurred and capitalized transaction costs of \$20,928, resulting in a total carrying value of \$3,971,928.

The following table summarizes, in aggregate, the balance sheet information of Endocanna as at July 31, 2019. Endocanna reported no significant income statement amounts for the period from July 26, 2019 through July 31, 2019. The resulting effect on the carrying amount of the Company's investment was determined to be negligible.

	As at July 31, 2019
Current assets	\$ 2,115,263
Non-current assets	\$ 266,394
Current liabilities	\$ 70,021
Non-current liabilities	\$ -

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Six Months Ended April 30, 2019 and April 30, 2018
(Stated in \$Cdn) (Unaudited)

9. Intangible Assets

	Licenses (a)	Property purchase options (b)	Goodwill	Total
Cost				
At November 1, 2017	\$ 5,067,000	\$ -	\$ -	\$ 5,067,000
Acquired through business combination	-	-	-	-
At October 31, 2018	\$ 5,067,000	\$ -	\$ -	\$ 5,067,000
Accumulated Amortization				
At November 1, 2017	\$ -	\$ -	\$ -	\$ -
Additions	-	-	-	-
At October 31, 2018	\$ -	\$ -	\$ -	\$ -
Net book value at October 31, 2018	\$ 5,067,000	\$ -	\$ -	\$ 5,067,000
	Licenses (a)	Property purchase options (b)	Goodwill	Total
Cost				
At November 1, 2018	\$ 5,067,000	\$ -	\$ -	\$ 5,067,000
Acquired through business combinations (Note 3)	26,320,000	946,131	9,720,219	36,986,350
Exercise of property purchase option	-	(946,131)	-	(946,131)
At July 31, 2019	\$ 31,387,000	\$ -	\$ 9,720,219	\$ 41,107,219
Accumulated Amortization				
At November 1, 2018	\$ -	\$ -	\$ -	\$ -
Additions	674,429	-	-	674,429
At July 31, 2019	\$ 674,429	\$ -	\$ -	\$ 674,429
Net book value at July 31, 2019	\$ 30,712,571	\$ -	\$ 9,720,219	\$ 40,432,790

(a) Licences

During the year ended October 31, 2018, Health Canada issued Voyage Cannabis Corp. ("Voyage", formerly PhyeinMed Inc.) a cultivation license under the Cannabis Act (Canada) and its relevant regulations. The Company assessed that the license has an estimated useful life equal to the remaining useful life of the corresponding facility. At October 31, 2018, Voyage's facility, estimated to have a remaining useful life of twenty years, was not yet available for use. Accordingly, the Company had not recorded any amortization on the license. Amortization has since commenced on the license during the nine months ended July 31, 2019 as, in management's opinion, the asset has become available for use.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Six Months Ended April 30, 2019 and April 30, 2018
(Stated in \$Cdn) (Unaudited)

9. Intangible Assets (continued)

(a) Licences (continued)

CannaCure's cultivation, processing and medicinal sales licenses (Note 3(a)) were assessed to have an estimated useful life equal to the useful life of the corresponding facility. As such, the licenses are being amortized over a 20-year period, commencing from the date of CannaCure's acquisition by the Company.

(b) Property purchase options

(i) In October of 2016, the Company's subsidiary, CannaCure, entered into an option agreement with the owners of the land and premises (the "Optionor") where the Company conducts its business (the "Property"). The Optionor had granted CannaCure an irrevocable option to purchase the Property or all of the issued shares and rights to shares in the capital of the Optionor, exercisable at any time during a period of 3 years from the date of execution, for a purchase price of \$2.2 million plus applicable sales and land transfer taxes. In consideration for the option grant, CannaCure committed to pay an annual amount of \$200,000 plus HST in twelve equal monthly instalments commencing January 2018. The Company also committed to pay for all operating costs associated with the Property. These payments would cease on the earlier of the date of expiry, October 21, 2019, and the date of settling the purchase price of exercise. The payments associated with this agreement are included in the statement of operations and comprehensive loss under occupancy, office expense and other.

The fair value of the property purchase option was determined at the date that CannaCure was acquired (Note 3(a)) using the Black-Scholes pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	2.21%
Expected life of the options (years)	0.96
Expected annualized volatility	2.00%
Exercise price	\$2,200,000
Fair value of property at grant date	\$3,100,000
Black Scholes value at grant date	\$946,131

Expected annualized volatility was estimated using available data of comparable commercial properties in the same geographic area.

The option to purchase the Property was exercised on June 28, 2019, resulting in total additions of \$3,203,688 to property, plant and equipment (Note 10), comprised of a transfer of \$946,131 from intangible assets and cash additions of \$2,257,557.

(ii) In August of 2017, the Company's subsidiary, CannaCure, entered into an option agreement with an arm's length party (the "Greenhouse Optionor") to purchase a greenhouse property for a purchase price of \$66 million. The vendor agreed to grant the Company a vendor-take-back mortgage of up to \$5 million, maturing 4 years after the closing date, bearing interest at 4% per annum, payable in interest-only payments until maturity, with early principal repayment permitted. The option expires on August 30, 2019 and is non-transferrable. Due to the short remaining exercise period, financing required to exercise and other terms of the option agreement, management ascribed a nominal fair value to this intangible asset as part of the business combination detailed in Note 3(a).

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Six Months Ended April 30, 2019 and April 30, 2018
(Stated in \$Cdn) (Unaudited)

10. Property, Plant and Equipment

	Equipment	Buildings and leasehold improvements	Land	Total
Cost				
At November 1, 2017	\$ -	\$ 860,525	\$ 255,000	\$ 1,115,525
Additions	519,942	3,964,308	-	4,484,250
At October 31, 2018	\$ 519,942	\$ 4,824,833	\$ 255,000	\$ 5,599,775
Accumulated Amortization				
At November 1, 2017	\$ -	\$ 1,195	\$ -	\$ 1,195
Additions	-	9,561	-	9,561
At October 31, 2018	\$ -	\$ 10,756	\$ -	\$ 10,756
Net book value at October 31, 2018	\$ 519,942	\$ 4,814,077	\$ 255,000	\$ 5,589,019

	Equipment	Buildings and leasehold improvements	Land	Total
Cost				
At November 1, 2018	\$ 519,942	\$ 4,824,833	\$ 255,000	\$ 5,599,775
Acquired through business combinations (Note 3)	661,927	3,991,742	-	4,653,669
Exercise of property purchase option (Note 9(b)(i))	-	2,540,204	663,484	3,203,688
Additions	3,709,013	1,207,759	-	4,916,772
At July 31, 2019	\$ 4,890,882	\$ 12,564,538	\$ 918,484	\$ 18,373,904
Accumulated Amortization				
At November 1, 2018	\$ -	\$ 10,756	\$ -	\$ 10,756
Additions	197,950	308,817	-	506,767
At July 31, 2019	\$ 197,950	\$ 319,573	\$ -	\$ 517,523
Net book value at July 31, 2019	\$ 4,692,932	\$ 12,244,965	\$ 918,484	\$ 17,856,381

During the nine months ended July 31, 2019, the Company made additions of \$852,316 to leasehold improvements and \$64,084 to equipment that were unavailable for use at the end of the period. As at July 31, 2019, assets included in leasehold improvements and equipment that were unavailable for use and had no amortization taken amounted to \$1,725,335 and \$1,101,276 respectively.

During the nine months ended July 31, 2019, the Company acquired equipment with a cost of \$31,591 by way of assuming a term loan, as detailed in Note 12.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

11. Long-term Debt

	As at July 31, 2019	As at October 31, 2018
Term loan - non-interest bearing, principal-only payments of \$585 per month, 6-year term, maturing in January of 2025, with effective interest imputed as detailed below	\$ 29,619	\$ -
Less: current portion	(4,253)	-
Long-term portion	\$ 25,366	\$ -

(i) Effective interest at a rate of 10% per annum has been imputed on the term loan. The effective interest rate was determined based on the Company's incremental cost of borrowing. At July 31, 2019, the face value of the term loan was \$38,627 and the carrying value of the underlying equipment that serves as security for the loan was \$30,100.

12. Contingent Consideration Payable

As detailed in Note 3(b), the Company is required to make certain performance payments, payable in cash, to a company controlled by the former shareholders of Purefarma as additional purchase consideration. These payments are based on a fixed percentage of the gross margin generated by the extraction business, as follows:

- (a) 12% of extraction-generated gross margin for Purefarma's fiscal year 2019;
- (b) 9% of extraction-generated gross margin for Purefarma's fiscal year 2020;
- (c) 6% of extraction-generated gross margin for Purefarma's fiscal year 2021; and
- (d) 3% of extraction-generated gross margin for Purefarma's fiscal year 2022.

Prior to the acquisition, the fiscal year of Purefarma had been December 31st. Purefarma's fiscal year has since been changed to coincide with that of the Company. As a result, a pro-rated catch-up payment is required in December of 2022.

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

Contingent consideration payable is measured at fair value at initial recognition and subsequently measured at FVTPL, with remeasurement at the end of each reporting period using a level 3 valuation technique, as detailed in Note 20(b).

As at July 31, 2019, other current asset comprises a balance maintained with a corporation controlled by the former shareholders of Purefarma, including an active director of the Company. The director has the ability to exercise significant influence over the corporation in question. This balance is intended to be offset against the first payment made under the terms of the contingent consideration detailed above. The balance is unsecured, non-interest bearing and has no fixed terms of repayment.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

13. 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 nine months ended July 31, 2019, the following share issuances took place:

As detailed in Note 3(a), on November 5, 2018, the Company issued a total of 137,333,326 common shares with a fair value of \$31,866,667 for purchase consideration and acquisition-related costs stemming from the CannaCure acquisition.

As detailed in Note 3(b), on December 14, 2018, the Company issued a total of 34,533,333 common shares with a fair value of \$6,234,000 for purchase consideration and acquisition-related costs stemming from the Purefarma acquisition.

Total acquisition-related costs settled in common shares and expensed in the period with respect to these two business combinations amounted to \$1,844,493.

During the period, the Company issued 4,241,919 common shares for the exercise of 4,241,919 options (Note 14(c)) at prices ranging from \$0.10 to \$0.35 per share. Total proceeds of \$661,100 was credited to share capital in addition to a transfer from contributed surplus of \$1,016,698.

During the period, the Company issued 25,086,216 common shares for the exercise of 25,086,216 warrants (Note 14(a)) at prices ranging from \$0.01 to \$0.70 per share. Total proceeds of \$8,145,576 was credited to share capital in addition to a transfer from contributed surplus of \$712,154.

On February 6, 2019, the Company issued 33,000,000 common shares on the deemed exercise of 30,000,000 Special Warrants, as detailed in Note 14(b). This resulted in a net transfer of \$6,492,473 from contributed surplus to share capital, comprised of original proceeds of \$7,500,000, less cash and non-cash issuance costs totaling \$1,007,527.

On March 14, 2019, the Company issued 153,265 common shares to a technical consultant following the completion of CannaCure's first Health Canada approved harvest. The value of the issuance amounted to \$76,507, determined based on the fair value of the equity instruments granted.

On July 26, 2019, the Company issued 2,710,515 common shares as part of the purchase of a significant influence interest in Endocanna. The issuance was valued at \$1,314,600, determined based on the fair value of the interest acquired (Note 8).

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

13. Share Capital (continued)

(b) Issued share capital (continued)

On May 7, 2019, the Company issued 32,660,000 Units, at a price of \$0.53 per Unit, for gross proceeds of \$17,309,800 as part of a private placement. Each Unit comprises one common share and one-half of one common share purchase warrant. Each warrant entitles its holder to acquire one common share of the Company at an exercise price of \$0.70 and expires on November 8, 2021. All proceeds were allocated to the common shares in accordance with the residual method. The Company paid issuance costs of \$1,495,069 and issued 2,286,200 Broker Warrants. Each Broker Warrant is exercisable into one Unit of the Company at an exercise price of \$0.53, expiring on November 8, 2021. The value of the Broker Warrants amounted to \$1,238,892, based on the fair value of the equity instruments granted. This issuance cost was recorded as a reduction in share capital and an increase in contributed surplus.

14. Contributed Surplus

(a) Warrants

Movements in the number of warrants outstanding are as follows:

	Number of warrants	Weighted average exercise price
Balance at October 31, 2017	49,357,688	\$ 0.10
Exercised	(49,085,353)	0.10
Expired	(40,286)	0.10
Balance at October 31, 2018	232,049	\$ 0.08
Issued as purchase consideration (Note 3(a))	1,050,454	0.02
Issued for acquisition-related services (Note 3(a))	764,893	0.20
Issued upon deemed exercise of Special Warrants (Note 14(b))	33,000,000	0.35
Issued upon deemed exercise of Agent Special Warrants (Note 14(b))	1,551,300	0.25
Issued upon exercise of Agent Warrants (i)	1,241,040	0.35
Issued for cash as part of May 2019 private placement (Note 13(b))	16,330,000	0.70
Issued as issuance cost for May 2019 private placement (Note 13(b))	2,286,200	0.53
Exercised	(25,086,216)	0.32
Balance at July 31, 2019	31,369,720	\$ 0.54

(i) During the nine months ended July 31, 2019, 1,241,040 Agent Warrants were exercised, resulting in the issuance of 1,241,040 Units. As detailed in Note 14(b), each Unit is comprised of 1 common share and 1 common share purchase warrant. As such, through the exercise of 1,241,040 Agent Warrants, 1,241,040 common share purchase warrants were issued as components of Units.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

14. Contributed Surplus (continued)

(a) Warrants (continued)

The following table summarizes the warrants outstanding and exercisable at July 31, 2019:

Expiry date	Number of warrants	Weighted average exercise price
August 30, 2019	87,760	\$ 0.10
May 7, 2021	12,666,260	\$ 0.35
November 8, 2021	16,329,500	\$ 0.70
May 7, 2022	2,286,200	\$ 0.53
	31,369,720	\$ 0.54

The fair value of warrants issued during the period for purchase consideration, acquisition-related services and issuance costs was determined at the time of issuance using the Black-Scholes option pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	1.56% - 2.27%
Expected life of the warrants (years)	1.41 - 5.00
Expected annualized volatility	280% - 347%
Expected annual dividend yield	0%
Expected forfeiture	0%
Exercise price	\$0.01 - \$0.53
Weighted average share price at grant date	\$0.23 - \$0.55
Weighted average Black-Scholes value at grant date	\$0.22 - \$0.54

Expected annualized volatility was estimated using the average historical volatility of the Company. Of the 31,369,720 warrants outstanding, 2,286,200 are Broker Warrants as described in Note 13(b), 310,260 are Agent Warrants as described in Note 14(b)(ii), and 28,773,260 are standard common share purchase warrants exercisable into 1 common share of the Company.

As detailed in Note 3(a), warrants issued for acquisition-related services resulted in an expense of \$175,818, included in the statement of operations and comprehensive loss.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

14. Contributed Surplus (continued)

(b) Special Warrants

Movements in the number of Special Warrants outstanding are as follows:

	Number of warrants	Weighted average exercise price
Balance at October 31, 2017 and 2018	-	\$ -
Special Warrants issued for cash consideration (i)	30,000,000	0.25
Agent Special Warrants issued as share-based payments (ii)	1,551,300	0.25
Deemed exercise of Special Warrants	(30,000,000)	0.25
Deemed exercise of Agent Special Warrants	(1,551,300)	0.25
Balance at July 31, 2019	-	\$ -

(i) As part of a private placement that took place in January 2019, the Company issued 30,000,000 Special Warrants at a price of \$0.25 per Special Warrant, for gross proceeds of \$7,500,000, \$55,000 of which was transferred from a pre-existing share subscription balance. Upon exercise or deemed exercise, each Special Warrant entitles its holder to receive one Unit in the Company at no additional cost.

Each Unit consisted of 1.1 common shares of the Company and 1.1 common share purchase warrants. In turn, each purchase warrant entitles its holder to acquire, at an exercise price of \$0.35, one common share of the Company. The purchase warrants expire on May 7, 2021.

Deemed exercise of all 30,000,000 Special Warrants occurred on February 6, 2019, resulting in the issuance of 33,000,000 common shares (Note 13(b)) and 33,000,000 common share purchase warrants (Note 14(a)).

(ii) In consideration for the completion of the private placement, the Company paid issuance costs, including commissions and legal fees, of \$641,356 and issued 1,551,300 Agent Special Warrants. The Agent Special Warrants were transferable into Agent Warrants for no additional consideration upon exercise or deemed exercise, as discussed above. Each Agent Warrant is exercisable into one Unit of the Company at an exercise price of \$0.25, expiring on May 7, 2021. The value of the Agent Special Warrants amounted to \$366,171, based on the fair value of the equity instruments granted. This issuance cost was recorded as a reduction in share capital and an increase in contributed surplus on the date of deemed exercise of the Agent Special Warrants, as detailed below.

Deemed exercise of all 1,551,300 Agent Special Warrants occurred on February 6, 2019, resulting in the issuance of 1,551,300 Agent Warrants (Note 14(a)).

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

14. Contributed Surplus (continued)

(b) Special Warrants (continued)

The fair value of the Agent Special Warrants issued during the period was determined at the time of issuance using the Black-Scholes option pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	2.22%
Expected life of the Special Warrants (years)	2.50
Expected annualized volatility	303%
Expected annual dividend yield	0%
Expected forfeiture	0%
Exercise price	\$0.25
Weighted average share price at grant date	\$0.24
Weighted average Black-Scholes value at grant date	\$0.24

Expected annualized volatility was estimated using the average historical volatility of the Company.

(c) 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 30 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

14. Contributed Surplus (continued)

(c) Stock options (continued)

(i) Stock option plan details (continued)

Movements in the number of options outstanding are as follows:

	Number of options	Weighted average exercise price
Balance at October 31, 2017	3,200,000	\$ 0.09
Granted	11,050,000	0.27
Exercised	(8,559,000)	0.14
Balance at October 31, 2018	5,691,000	\$ 0.32
Granted as purchase consideration (Note 3(a))	7,139,003	0.13
Granted as share-based payments	5,500,000	0.34
Exercised	(4,241,919)	0.16
Cancelled	(400,000)	0.54
Balance at July 31, 2019	13,688,084	\$ 0.27

In February 2019, the Company granted 5,500,000 stock options to employees, directors, officers and consultants as consideration for their services. The stock options carry an exercise price of \$0.34 per share, have a variety of vesting terms, and expire on February 8, 2024.

The following table summarizes the options outstanding and exercisable at July 31, 2019:

Expiry date	Number of options outstanding	Number of options exercisable	Weighted average exercise price
August 16, 2022	2,000,000	2,000,000	\$ 0.10
November 15, 2022	280,000	280,000	\$ 0.14
January 22, 2023	700,000	700,000	\$ 0.59
March 19, 2023	861,000	861,000	\$ 0.54
April 30, 2023	850,000	850,000	\$ 0.35
November 14, 2020	2,549,644	2,549,644	\$ 0.10
August 20, 2023	254,964	63,741	\$ 0.20
April 10, 2025	892,476	892,476	\$ 0.20
February 8, 2024	5,300,000	225,000	\$ 0.34
	13,688,084	8,421,861	\$ 0.27

As at July 31, 2019, the weighted average remaining contractual life of all options outstanding was 3.59 years (October 31, 2018 – 4.15 years).

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

14. Contributed Surplus (continued)

(c) Stock options (continued)

(i) Stock option plan details (continued)

The fair value of stock options granted during the period was determined at the time of grant using the Black-Scholes option pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	1.80% - 2.28%
Expected life of the options (years)	2.03 - 6.43
Expected annualized volatility	223% - 321%
Expected annual dividend yield	0%
Expected forfeiture	0%
Exercise price	\$0.10 - \$0.34
Weighted average share price at grant date	\$0.23 - \$0.34
Weighted average Black-Scholes value at grant date	\$0.23 - \$0.34

Expected annualized volatility was estimated using the average historical volatility of the Company.

(ii) Amounts arising from share-based payment transactions

During the nine months ended July 31, 2019, the Company recognized an expense of \$1,380,871 relating to the vesting of options held by employees, directors, officers and consultants (July 31, 2018 - \$2,976,919).

(d) Restricted shares

During the nine months ended July 31, 2019, the Company granted 500,000 restricted common shares, subject to certain vesting requirements, to a director. These restricted shares vest over a period of 1 year from the grant date. The issuance was valued at \$112,500, determined based on the fair value of the equity instruments granted.

During the nine months ended July 31, 2019, the Company recorded share-based payments of \$55,478 (July 31, 2018 - \$nil) for the vesting of restricted shares.

15. Share Subscriptions

During the nine months ended July 31, 2019, a pre-existing balance of \$55,000 reflecting funds advanced for Special Warrant subscriptions was transferred to contributed surplus upon the completion of the private placement detailed in Note 14(b)(i).

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

16. Related Party Transactions and Balances

All amounts either due to or from related parties, unless disclosed otherwise, are non-interest bearing, unsecured and due on demand. Transactions undertaken with related parties during the three and nine months ended July 31, 2019 are as follows:

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

	Three months ended July 31,	
	2019	2018
Management fees	\$ 45,000	\$ 40,000
Consulting fees	239,359	22,500
Occupancy	20,000	-
Accrued interest income	1,296	-
	\$ 305,655	\$ 62,500

	Nine months ended July 31,	
	2019	2018
Management fees	\$ 135,000	\$ 130,000
Consulting fees	541,724	52,500
Occupancy	56,645	-
Accrued interest income	1,296	-
Loans advanced	254,408	-
Cash paid to non-controlling interest (Note 17(c))	150,000	-
	\$ 1,139,073	\$ 182,500

(b) Management compensation

	Three months ended July 31,	
	2019	2018
Salary and short-term benefits	\$ 75,759	\$ -
Share-based payments	462,545	891,547
	\$ 538,304	\$ 891,547

	Nine months ended July 31,	
	2019	2018
Salary and short-term benefits	\$ 192,310	\$ -
Share-based payments	871,943	1,736,909
	\$ 1,064,253	\$ 1,736,909

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

16. Related Party Transactions and Balances (continued)

(c) Related party balances

	As at July 31, 2019	As at October 31, 2018
Included in accounts payable and accrued liabilities	\$ 102,023	\$ 55,458
Included in sales tax recoverable and other receivables	\$ 20,075	\$ -
Included in loans receivable (Note 6)	\$ 255,704	\$ -
Included in other current asset (Note 12)	\$ 48,831	\$ -

17. Commitments

- (a) In July of 2018, the Company's subsidiary, CannaCure, entered into a separate agreement with the Greenhouse Optionor detailed in Note 9(b)(ii) wherein the Greenhouse Optionor will provide certain greenhouse management and consulting services if and when the Company exercises its option to purchase the property. Upon the Company exercising this option and purchasing the greenhouse property, the Greenhouse Optionor will be entitled to subscribe for 3,059,950 common shares of the Company for a nominal cash amount. The probability of the greenhouse option being exercised and the vesting period could not be estimated reliably by management. Accordingly, no amounts have been recognized in the records of the Company to reflect this agreement.
- (b) In October of 2018, the Company entered into a consulting agreement for certain investor relations services. As part of the agreement, the Company is required to pay a monthly sum of \$14,000 for a 12-month period. The monthly sum was increased to \$28,000 in May of 2019. In addition, the Company is committed to providing the consultant with an option to purchase up to 1,000,000 common shares. These options vest over twelve months with a maximum of one quarter of the options vesting in any three-month period. As at July 31, 2019, 500,000 of these options have been granted to the consultant and are included in Note 14(c). The remaining 500,000 options are currently due to be granted.
- (c) In October of 2014, the Company entered into an agreement with the non-controlling shareholder of Voyage Cannabis Corp. ("Voyage"), under the terms of which the non-controlling shareholder has the right to require that the Company purchase from it certain preferred shares in Voyage. The non-controlling shareholder has the ability to exercise this right upon Voyage meeting certain licence procurement and cumulative EBITDA milestones. 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 nine months ended July 31, 2019, the first milestone of the agreement was reached and the Company was required to purchase 150,000 preferred shares in Voyage from the non-controlling shareholder for total proceeds of \$150,000. This was treated as a transaction with a non-controlling interest and, accordingly, was recognized in equity as an increase in accumulated deficit in the amount of \$150,000.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

17. Commitments (continued)

- (d) The Company is committed under lease agreements with respect to various office premises, facilities and warehouses located in Canada expiring between August 2019 and September 2021, as follows:

Period	Amount
Three months ending October 31, 2019	\$ 34,380
Year ending October 31, 2020	57,810
Year ending October 31, 2021	26,730
	<u>\$ 118,920</u>

Certain operating leases contain renewal options or automatic extensions. The Company is also required to cover certain operating costs associated with the properties being leased.

- (e) As detailed in Note 3(b), the Company is required to make certain pro-rata earn-out payments, payable in shares, to the former shareholders of Purefarma as additional purchase consideration. These payments are based on Purefarma's ability to meet certain cumulative gross margin targets on a stand-alone basis, as follows:

Upon Purefarma achieving a cumulative gross margin of \$25,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 2,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of \$25,000,000 by December 31, 2019, an additional 1,250,000 common shares will be issued to the former shareholders of Purefarma;

Upon Purefarma achieving a cumulative gross margin of \$50,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 3,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of \$50,000,000 before December 31, 2020, an additional 1,400,000 common shares will be issued to the former shareholders of Purefarma;

Upon Purefarma achieving a cumulative gross margin of \$75,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 4,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of \$75,000,000 before December 31, 2021, an additional 1,350,000 common shares will be issued to the former shareholders of Purefarma; and

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

17. Commitments (continued)

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

As at the acquisition date of December 14, 2018, the amount recognized with respect to equity-settled contingent consideration was \$910,000. This amount is included in contributed surplus and captures the discounted value of subsequent share issuances expected to occur between the acquisition date and December 31, 2023, based on management's best estimate of the probability of Purefarma meeting each of the specified gross margin targets. Over the contractual term, the total cumulative earn-out could range from nil shares (undiscounted value of \$nil) to 21,100,000 shares (undiscounted value of \$3,798,000).

- (f) The Company has committed to various equipment purchases for total cash consideration of \$700,728. As at July 31, 2019, the Company had advanced an aggregate of \$458,496 in deposits, included in prepaid expenses and deposits in the statement of financial position, with respect to these commitments.

18. Loss per Share

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

	Three months ended July 31,	
	2019	2018
Issued shares, beginning of period	436,764,734	168,273,650
Weighted average issuances	31,531,361	1,850,693
Weighted average common shares, end of period	468,296,095	170,124,343

	Nine months ended July 31,	
	2019	2018
Issued shares, beginning of period	203,919,450	136,275,097
Weighted average issuances	208,912,604	21,449,224
Weighted average common shares, end of period	412,832,054	157,724,321

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

19. 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 in respect of these risks is presented throughout these interim condensed consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them since October 31, 2018, 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 minimal exposure to credit risk from its cash, short-term investments and loans 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 instruments with highly rated Canadian financial institutions. The risk for loans receivable is mitigated through the security detailed in Note 6.

(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 July 31, 2019, the Company had working capital of \$15,329,645 (October 31, 2018 – \$1,080,886). The Company does not yet have cash flow from operations and as such, the Company may be dependent upon the issuance of new equity to advance its production efforts and meet its financial obligations. If equity financing is required, failure to obtain such financing on a timely basis may cause the Company to postpone, reduce or terminate its production plans. In addition to the commitments outlined in Note 17, the Company has the following undiscounted contractual obligations subject to liquidity risk:

	< 1 year	1 - 3 years	> 3 years
Accounts payable and accrued liabilities	\$ 2,706,019	\$ -	\$ -
Long-term debt	5,267	14,046	19,313
Contingent consideration payable (probability adjusted)	257,708	2,389,110	716,184
	\$ 2,968,994	\$ 2,403,156	\$ 735,497

(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 does not have significant exposure to foreign exchange rate fluctuations.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

19. Financial Instruments (continued)

(c) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's short-term investments have a fixed rate of interest, while the Company's loans receivable earn interest at the lower of a fixed rate and a variable rate, as detailed in Note 6. The Company's long-term debt is non-interest bearing contractually, with some imputed effective interest, as detailed in Note 11. At July 31, 2019, 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 July 31, 2019, the Company does not have a significant exposure to price risk as the Company does not possess financial instruments that are susceptible to a high degree of variability in the movements of equity or market prices.

20. Fair Value of Financial Instruments

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.

	Fair Value Method
Financial instruments measured at fair value	
Contingent consideration payable	Discounted cash flow model (level 3)
Financial instruments measured at amortized cost	
Cash	Carrying amount (approximates fair value due to short-term nature)
Short-term investments	Carrying amount (approximates fair value due to short-term nature)
Loans receivable	Carrying amount (approximates fair value due to short-term nature)
Accounts payable and accrued liabilities	Carrying amount (approximates fair value due to short-term nature)
Due to related parties	Carrying amount (approximates fair value due to short-term nature)
Long-term debt	Carrying value at the effective interest rate which approximates fair value

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

20. Fair Value of Financial Instruments (continued)

The carrying values of the Company's financial instruments at July 31, 2019 are summarized in the following table:

	Amortized Cost	FVTPL	Total
Financial Assets			
Cash	\$ 1,366,963	\$ -	\$ 1,366,963
Short-term investments	\$ 12,050,000	\$ -	\$ 12,050,000
Loans receivable	\$ 258,102	\$ -	\$ 258,102
Financial Liabilities			
Accounts payable and accrued liabilities	\$ 2,706,019	\$ -	\$ 2,706,019
Due to related parties	\$ -	\$ -	\$ -
Long-term debt	\$ 29,619	\$ -	\$ 29,619
Contingent consideration payable	\$ -	\$ 2,140,000	\$ 2,140,000

(a) Fair value hierarchy

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).

In these interim condensed consolidated financial statements, financial instruments measured at fair value are as follows:

Level 1 - none;

Level 2 - none; and

Level 3 - contingent consideration payable.

During the three and nine months ended July 31, 2019 and July 31, 2018, there were no transfers of amounts between levels.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

20. Fair Value of Financial Instruments (continued)

(b) Contingent consideration payable

The following is a continuity of contingent consideration payable:

	CannaCure	Purefarma	Total
Balance at October 31, 2017 and 2018	\$ -	\$ -	\$ -
Additions from acquisitions (Note 3(b))	-	1,910,000	1,910,000
Unrealized loss (gain) from changes in fair value	-	230,000	230,000
Balance at July 31, 2019	\$ -	\$ 2,140,000	\$ 2,140,000

The Company's contingent consideration payable is measured at fair value based on unobservable inputs and is considered a level 3 financial instrument. The fair value of this liability is primarily driven by the Company's expectations of Purefarma achieving the gross margin targets specified in Note 12. The targets were assigned probabilities by management which were discounted to present value in order to derive the fair value of the contingent consideration. At July 31, 2019, the probability of achieving each target was estimated to range between 70% and 75%, and the discount rate was estimated to be 28%. If the probability of achieving the targets increased or decreased by 10%, the estimated fair value of the contingent consideration would increase or decrease by approximately \$300,000. If the discount rate increased by 5%, the estimated fair value of the contingent consideration would decrease by approximately \$130,000. If the discount rate decreased by 5%, the estimated fair value of the contingent consideration would increase by approximately \$160,000.

As there is no upper limit on the contingent performance payments, the total potential pay-out is unlimited over the contractual term.

21. Asset Impairment

During the nine months ended July 31, 2019, the Company committed to bulk trade purchases of industrial hemp grain and biomass. The Company has advanced deposits with respect to these commitments and included the balance in prepaid expenses and deposits in the interim condensed consolidated statement of financial position. Due to non-performance by the vendor and an inability to recover the deposits, an impairment has been recognized in the amount of \$150,000 to reflect the anticipated loss. The remaining fair value and recoverable amount of the combined deposits is approximately \$358,250, based on a negotiated sale and assignment subsequent to July 31, 2019 (level 1 of the fair value hierarchy).

22. 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 costs of capital at an acceptable risk level.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2019 and July 31, 2018
(Stated in \$Cdn) (Unaudited)

22. Capital Management (continued)

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

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

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

Management considers its approach to capital management to be appropriate given the relative size of the Company. There were no changes in the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

23. Subsequent Events

- (a) In August of 2019, the Company issued 80,000 common shares as a result of the exercise of 80,000 warrants at \$0.10 per warrant, for gross proceeds of \$8,000.
- (b) In August of 2019, the property purchase option detailed in Note 9(b)(ii) expired without exercise. As the underlying option has expired, the related agreement detailed in Note 17(a) is no longer in effect.
- (c) In September of 2019, the Company announced the grant of 2,000,000 incentive stock options to certain directors, officers, employees and consultants. The options are exercisable at \$0.36 per share and will expire on September 20, 2024.