

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE  
CANNABIS WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE  
CANNABIS EAST CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS  
REALTY INC., 5450 REALTY INC., HERITAGE CANNABIS EXCHANGE CORP., and  
PREMIUM 5 LTD.**

Applicants

---

**APPLICATION RECORD  
(returnable April 2, 2024)**

---

**CHAITONS LLP**

5000 Yonge Street, 10<sup>th</sup> Floor  
Toronto, Ontario M2N 7E9

**Harvey Chaiton** (LSO#: 21592F)

Tel: (416) 218-1129

Email: [harvey@chaitons.com](mailto:harvey@chaitons.com)

**George Benchetrit** (LSO#: 34163H)

Tel: (416) 218-1141

Email: [george@chaitons.com](mailto:george@chaitons.com)

**Danish Afroz** (LSO#: 65786B)

Tel: (416) 218-1137

Email: [dafroz@chaitons.com](mailto:dafroz@chaitons.com)

Lawyers for the Applicants

**SERVICE LIST**  
**(Updated April 2, 2024)**

<p><b>CHAITONS LLP</b> 5000 Yonge Street, 10<sup>th</sup> Floor Toronto, ON M2N 7E9</p> <p><b>Harvey Chaiton</b> (LSO#: 21592F) Tel: (416) 218-1129 Email: <a href="mailto:harvey@chaitons.com">harvey@chaitons.com</a></p> <p><b>George Benchetrit</b> Tel: (416) 218-1141 Email: <a href="mailto:george@chaitons.com">george@chaitons.com</a></p> <p><b>Danish Afroz</b> Tel: (416) 218-1137 Email: <a href="mailto:dafroz@chaitons.com">dafroz@chaitons.com</a></p> <p><i>Lawyers for Applicants</i></p>	<p><b>KPMG</b> Bay Adelaide Centre 333 Bay Street, Suite 4600 Toronto, ON</p> <p><b>Pritesh Patel</b> Tel: (416) 468-7923 Email: <a href="mailto:prtipatel@kpmg.ca">prtipatel@kpmg.ca</a></p> <p><b>Tim Montgomery</b> Tel: (416) 777-8615 Email: <a href="mailto:timmontgomery@kpmg.ca">timmontgomery@kpmg.ca</a></p> <p><i>Monitor</i></p>
<p><b>BLAKE, CASSELS &amp; GRAYDON LLP</b> 199 Bay Street, Suite 4000 Toronto, ON M5L 1A9</p> <p><b>Chris Burr</b> Tel: (416) 863-3261 Email: <a href="mailto:chris.burr@blakes.com">chris.burr@blakes.com</a></p> <p><i>Lawyers for the Monitor</i></p>	<p><b>GOWLING WLG (CANAD) LLP</b> 1 First Canadian Place, Suite 1600 100 King Street West Toronto, ON M5X 1G5</p> <p><b>Virginie Gauthier</b> Tel: (416) 844-5391 Email: <a href="mailto:Virginie.Gauthier@gowlingwlg.com">Virginie.Gauthier@gowlingwlg.com</a></p> <p><b>Kate Yurkovich</b> Tel: (416) 862-4342 Email: <a href="mailto:kate.yurkovich@gowlingwlg.com">kate.yurkovich@gowlingwlg.com</a></p> <p><i>Lawyers for BJK Holdings Ltd., the DIP Lender</i></p>
<p><b>OWENS WRIGHT LLP</b> 300-20 Holly Street Toronto, ON M4S 3B1</p> <p><b>Megan Mossip</b> Tel: (416) 848-4748 Email: <a href="mailto:mmossip@owenswright.com">mmossip@owenswright.com</a></p> <p><b>Erin Duncan</b> Tel: (416) 848-4725 Email: <a href="mailto:eduncan@owenswright.com">eduncan@owenswright.com</a></p> <p><i>Corporate counsel to the Applicants</i></p>	<p><b>AIRD &amp; BERLIS LLP</b> Brookfield Place, 181 Bay Street, Suite 1800 Toronto, ON M5J 279</p> <p><b>Kyle B. Plunkett</b> Tel: (416) 865-3406 Email: <a href="mailto:kplunkett@airdberlis.com">kplunkett@airdberlis.com</a></p> <p><b>Samantha Hans</b> Tel: (437) 880-6105 Email: <a href="mailto:shans@airdberlis.com">shans@airdberlis.com</a></p> <p><i>Lawyers for the Board of Directors</i></p>

**Government / Security Entities**

**OFFICE OF THE SUPERINTENDENT OF BANKRUPTCY**  
 Innovation, Science and Economic Development Canada  
 300 Georgia Street West, Suite 2000  
 Vancouver, BC V6B 6E1  
 Email: [osbservice-bsfservice@ised-isde.gc.ca](mailto:osbservice-bsfservice@ised-isde.gc.ca)

**CANADA REVENUE AGENCY**  
 1 Front Street West  
 Toronto, ON M5J 2X6  
**Pat Confalone**  
 Tel: (416) 954-6514  
 Email: [pat.confalone@cra-arc.gc.ca](mailto:pat.confalone@cra-arc.gc.ca)  
**Sandra Palma**  
 Email: [Sandra.palma@cra-arc.gc.ca](mailto:Sandra.palma@cra-arc.gc.ca)

**DEPARTMENT OF JUSTICE (CANADA)**  
 Ontario Regional Office, Tax Law Section  
 120 Adelaide Street West, Suite 400  
 Toronto, Ontario M5H 1T1  
**Pat Confalone**  
 Tel: (416) 954-6514  
 Email: [pat.confalone@justice.gc.ca](mailto:pat.confalone@justice.gc.ca)

**Edward Park**  
 Tel: (647) 292-9368  
 Email: [Edward.park@justice.gc.ca](mailto:Edward.park@justice.gc.ca)

**Kelly Smith Wayland**  
 Tel: (647) 533-7183  
 Email: [kelly.smithwayland@justice.gc.ca](mailto:kelly.smithwayland@justice.gc.ca)

**Kevin Dias**  
 Email: [kevin.dias@justice.gc.ca](mailto:kevin.dias@justice.gc.ca)

**Christopher VanBerkum**  
 Email: [Christopher.vanberkum@justice.gc.ca](mailto:Christopher.vanberkum@justice.gc.ca)

**Intake Centre – Ontario Regional**  
 Email: [AGC-PGC.Toronto-Tax-Fiscal@justice.gc.ca](mailto:AGC-PGC.Toronto-Tax-Fiscal@justice.gc.ca)

**MINISTRY OF FINANCE (INSOLVENCY UNIT)**  
 Ministry of the Attorney General  
 Collections Branch – Bankruptcy and Insolvency Unit  
 6-33 King St West  
 Oshawa, Ontario, L1H 8H5  
**Steven Groeneveld**  
 Email: [steven.groeneveld@ontario.ca](mailto:steven.groeneveld@ontario.ca)  
 Email: [insolvency.unit@ontario.ca](mailto:insolvency.unit@ontario.ca)

**HEALTH CANADA**  
 Controlled Substances and Cannabis Branch  
 150 Tunney's Pasture Driveway  
 Ottawa, ON K1A 0K9  
**Licensing and Security Division**  
 Email: [licensing-cannabis-licenses@hc-sc.gc.ca](mailto:licensing-cannabis-licenses@hc-sc.gc.ca)

**Cassandra Scullion**  
 Email: [cassandra.scullion@hc-sc.gc.ca](mailto:cassandra.scullion@hc-sc.gc.ca)

**HEALTH CANADA**  
 Account Receivable Unit, P/L 1918B  
 18th Floor, Room 1804B  
 161 Goldenrod Driveway  
 Ottawa, ON K1A 0K9  
 Email: [ac-cr@hc-sc.gc.ca](mailto:ac-cr@hc-sc.gc.ca)

<p><b>DEPARTMENT OF JUSTICE (BRITISH COLUMBIA)</b>  Legal Services Branch, Revenue &amp; Taxation  PO Box 9280 Stn Prov Govt  Victoria, BC V8W 9J7</p> <p>Email: <a href="mailto:servicebc@gov.bc.ca">servicebc@gov.bc.ca</a>  Email: <a href="mailto:aglsbrevtaxinsolvency@gov.bc.ca">aglsbrevtaxinsolvency@gov.bc.ca</a></p>	<p><b>MINISTER OF FINANCE (BRITISH COLUMBIA)</b>  PO Box 9048 Stn Prov Govt  Victoria BC V8W 9E2</p> <p>Email: <a href="mailto:fin.minister@gov.bc.ca">fin.minister@gov.bc.ca</a></p>
<p><b>ALBERTA MINISTRY OF JUSTICE</b>  Bowker Building  2nd Floor - 9833 109 Street NW  Edmonton, AB T5K 2E8</p> <p>Tel: (780) 427-2711  Email: <a href="mailto:jsg.servicehmk@gov.ab.ca">jsg.servicehmk@gov.ab.ca</a></p>	<p><b>ALBERTA MINISTRY OF TREASURY BOARD OF FINANCE</b>  9th Floor - 9820 107 Street  Edmonton, Alberta T5K 1E7</p> <p>Tel: (780) 310-0000  Email: <a href="mailto:jsg.servicehmk@gov.ab.ca">jsg.servicehmk@gov.ab.ca</a></p>
<p><b>HIS MAJESTY THE KING IN THE RIGHT OF THE PROVINCE OF BRITISH COLUMBIA</b>  BC Liquor Distribution Branch  3383 Gilmore Way,  Burnaby, BC V5G 4S1</p> <p><b>Constantin Starck</b>  Tel: (604) 252-7572  Email: <a href="mailto:constantin.starck@bcldb.com">constantin.starck@bcldb.com</a></p>	<p><b>ONTARIO SECURITIES COMMISSION</b>  20 Queen Street West, 20th Floor  Toronto, ON M5H 3S8</p> <p><b>General Inquiries</b>  Email: <a href="mailto:inquiries@osc.gov.on.ca">inquiries@osc.gov.on.ca</a></p> <p><b>Cullen Price</b>  Email: <a href="mailto:cprice@osc.gov.on.ca">cprice@osc.gov.on.ca</a></p> <p><b>Paloma Ellard</b>  Email: <a href="mailto:pellard@osc.gov.on.ca">pellard@osc.gov.on.ca</a></p> <p><b>Joyce Taylor</b>  Email: <a href="mailto:jtaylor@osc.gov.on.ca">jtaylor@osc.gov.on.ca</a></p>
<p><b>OTC MARKETS GROUP</b>  8300 Vesey Street, 12th Floor  New York NY 10282</p> <p><b>General Inquiries</b>  Tel: (416) 572-2000  Email: <a href="mailto:info@thecse.com">info@thecse.com</a></p> <p><b>Cecilia Schoenbaum</b>  Tel: (212) 220-1964  Email: <a href="mailto:cecilia@otcmarkets.com">cecilia@otcmarkets.com</a></p>	<p><b>ONTARIO CANNABIS RETAIL CORPORATION</b>  1 Yonge Street, 4th Floor  Toronto, ON M5E 1E5</p> <p><b>Deborah Morshead</b>  Email: <a href="mailto:deborah.morshead@ocs.ca">deborah.morshead@ocs.ca</a></p> <p><b>Kelechi Okorafor</b>  Email: <a href="mailto:kelechi.okorafor@ocs.ca">kelechi.okorafor@ocs.ca</a></p>
<p><b>HIS MAJESTY THE KING IN THE RIGHT OF THE PROVINCE OF BRITISH COLUMBIA</b>  BC Liquor Distribution Branch  3383 Gilmore Way,  Burnaby, BC V5G 4S1</p> <p><b>Jeff Ring</b>  Tel: (604) 420-8241  Email: <a href="mailto:jeffrey.ring@bcldb.com">jeffrey.ring@bcldb.com</a></p>	<p><b>ALBERTA GAMING, LIQUOR AND CANNABIS COMMISSION</b>  50 Corriveau Avenue  St. Albert, AB T8N 3T5</p> <p><b>Procurement Branch</b>  Email: <a href="mailto:procurement@aglc.ca">procurement@aglc.ca</a></p> <p><b>Craig Smitten</b>  Email: <a href="mailto:craig.smitten@aglc.ca">craig.smitten@aglc.ca</a></p>

<p>Tel: (604) 252-7400  Email: <a href="mailto:cannabis.vendor@bcldb.com">cannabis.vendor@bcldb.com</a></p>	<p><b>Larysa Palyniak</b>  Email: <a href="mailto:larysa.palyniak@aglc.ca">larysa.palyniak@aglc.ca</a></p>
<p><b>BRITISH COLUMBIA SECURITIES COMMISSION</b>  P.O. Box 10142, Pacific Centre  701 West Georgia Street  Vancouver, BC V7Y 1L2</p> <p><b>General Inquiries</b>  Email: <a href="mailto:inquiries@bcsc.bc.ca">inquiries@bcsc.bc.ca</a></p> <p><b>Kai Shi</b>  Email: <a href="mailto:kshi@bcsc.bc.ca">kshi@bcsc.bc.ca</a></p>	<p><b>ALBERTA SECURITIES COMMISSION</b>  Suite 600, 250-5<sup>th</sup> St. SW  Calgary, AB T2P 0R4</p> <p><b>General Inquiries</b>  Email: <a href="mailto:inquiries@asc.ca">inquiries@asc.ca</a></p> <p><b>Jay Palmer</b>  Email: <a href="mailto:jay.palmer@asc.ca">jay.palmer@asc.ca</a></p>
<p><b>FINANCIAL AND CONSUMER SERVICES COMMISSION</b>  Suite 300, 85 Charlotte Street  Saint John, NB E2L 2J2</p> <p>Email: <a href="mailto:registration-inscription@fcnb.ca">registration-inscription@fcnb.ca</a></p>	<p><b>NOVA SCOTIA SECURITIES COMMISSION</b>  2<sup>nd</sup> Floor, Joseph Howe Building  1690 Hollis Street  P.O. Box 458  Halifax, NS B3J 2P8</p> <p>Email: <a href="mailto:NSSCinquiries@novascotia.ca">NSSCinquiries@novascotia.ca</a></p>
<p><b>Other Secured Creditors</b></p>	
<p><b>METRO LEASING CORP.</b>  200 – 1583 Ellis Street  Kelowna, BC VIY 2A7</p> <p>540 Lawrence Avenue #203  Kelowna, BC V1Y 6L7</p> <p>Email: <a href="mailto:info@lease.com">info@lease.com</a></p> <p><i>Secured Creditor</i></p>	<p><b>BANK OF MONTREAL</b>  250 Yonge Street, 9<sup>th</sup> Floor,  Toronto, ON M5B 2L7</p> <p>Email: <a href="mailto:mo.kowatli@bmo.com">mo.kowatli@bmo.com</a>  <a href="mailto:allison.yu@bmo.com">allison.yu@bmo.com</a></p> <p><i>Secured Creditor</i></p>
<p><b>NFS LEASING CANADA LTD.</b>  40 King Street West, Suite 2100  Toronto, ON M5H 3C2</p> <p>Email: <a href="mailto:info@nfsleasing.com">info@nfsleasing.com</a></p> <p><i>Secured Creditor</i></p>	<p><b>PEOPLE’S UNITED BANK, N.A.</b>  One Post Office Square, 32<sup>nd</sup> Floor  Boston, MA 02109</p> <p><i>Secured Creditor</i></p>
<p><b>NFS LEASING CANADA LTD. C/O NFS LEASING INC.</b>  900 Cummings Center, Suite 226-U  Beverly, MA 01915</p> <p>Email: <a href="mailto:info@nfsleasing.com">info@nfsleasing.com</a></p> <p><i>Secured Creditor</i></p>	<p><b>M&amp;T BANK CORPORATION</b>  1 M&amp;T Plaza  Buffalo, NY 14203</p> <p><i>Secured Creditor</i></p>
<p><b>BROWN BROS MOTOR LEASE CANADA LTD.</b>  270 South East Marine Drive,</p>	

Vancouver, BC V5X 2S6

Email: [info@brownbros.com](mailto:info@brownbros.com)

*Secured Creditor*

## E-Service List

[harvey@chaitons.com](mailto:harvey@chaitons.com); [george@chaitons.com](mailto:george@chaitons.com); [dafroz@chaitons.com](mailto:dafroz@chaitons.com); [pritpatel@kpmg.ca](mailto:pritpatel@kpmg.ca); [timmontgomery@kpmg.ca](mailto:timmontgomery@kpmg.ca); [chris.burr@blakes.com](mailto:chris.burr@blakes.com); [Virginie.Gauthier@gowlingwlg.com](mailto:Virginie.Gauthier@gowlingwlg.com); [kate.yurkovich@gowlingwlg.com](mailto:kate.yurkovich@gowlingwlg.com); [mmissip@owenswright.com](mailto:mmissip@owenswright.com); [eduncan@owenswright.com](mailto:eduncan@owenswright.com); [kplunkett@airdberlis.com](mailto:kplunkett@airdberlis.com); [shans@airdberlis.com](mailto:shans@airdberlis.com); [osbservice-bsf@ised-isde.gc.ca](mailto:osbservice-bsf@ised-isde.gc.ca); [pat.confalone@cra-arc.gc.ca](mailto:pat.confalone@cra-arc.gc.ca); [Sandra.palma@cra-arc.gc.ca](mailto:Sandra.palma@cra-arc.gc.ca); [Edward.park@justice.gc.ca](mailto:Edward.park@justice.gc.ca); [kelly.smithwayland@justice.gc.ca](mailto:kelly.smithwayland@justice.gc.ca); [kevin.dias@justice.gc.ca](mailto:kevin.dias@justice.gc.ca); [Christopher.vanberkum@justice.gc.ca](mailto:Christopher.vanberkum@justice.gc.ca); [AGC-PGC.Toronto-Tax-Fiscal@justice.gc.ca](mailto:AGC-PGC.Toronto-Tax-Fiscal@justice.gc.ca); [steven.groenveld@ontario.ca](mailto:steven.groenveld@ontario.ca); [insolvency.unit@ontario.ca](mailto:insolvency.unit@ontario.ca); [licensing-cannabis-licenses@hc-sc.gc.ca](mailto:licensing-cannabis-licenses@hc-sc.gc.ca); [cassandra.scullion@hc-sc.gc.ca](mailto:cassandra.scullion@hc-sc.gc.ca); [ac-cr@hc-sc.gc.ca](mailto:ac-cr@hc-sc.gc.ca); [servicebc@gov.bc.ca](mailto:servicebc@gov.bc.ca); [aglsbrevtaxinsolvency@gov.bc.ca](mailto:aglsbrevtaxinsolvency@gov.bc.ca); [fin.minister@gov.bc.ca](mailto:fin.minister@gov.bc.ca); [jsg.servicehmk@gov.ab.ca](mailto:jsg.servicehmk@gov.ab.ca); [constantin.starck@bcldb.com](mailto:constantin.starck@bcldb.com); [inquiries@osc.gov.on.ca](mailto:inquiries@osc.gov.on.ca); [cprice@osc.gov.on.ca](mailto:cprice@osc.gov.on.ca); [pellard@osc.gov.on.ca](mailto:pellard@osc.gov.on.ca); [jtaylor@osc.gov.on.ca](mailto:jtaylor@osc.gov.on.ca); [info@thecse.com](mailto:info@thecse.com); [cecilia@otcmarkets.com](mailto:cecilia@otcmarkets.com); [deborah.morshead@ocs.ca](mailto:deborah.morshead@ocs.ca); [kelechi.okorafor@ocs.ca](mailto:kelechi.okorafor@ocs.ca); [Jeffrey.ring@bcldb.com](mailto:Jeffrey.ring@bcldb.com); [cannabis.vendor@bcldb.com](mailto:cannabis.vendor@bcldb.com); [procurement@aglc.ca](mailto:procurement@aglc.ca); [craig.smitten@aglc.ca](mailto:craig.smitten@aglc.ca); [larysa.palyniak@aglc.ca](mailto:larysa.palyniak@aglc.ca); [inquiries@bcsc.bc.ca](mailto:inquiries@bcsc.bc.ca); [kshi@bcsc.bc.ca](mailto:kshi@bcsc.bc.ca); [inquiries@asc.ca](mailto:inquiries@asc.ca); [jay.palmer@asc.ca](mailto:jay.palmer@asc.ca); [registration-inscription@fcnb.ca](mailto:registration-inscription@fcnb.ca); [NSSCinquiries@novascotia.ca](mailto:NSSCinquiries@novascotia.ca); [info@leaseline.com](mailto:info@leaseline.com); [mo.kowatli@bmo.com](mailto:mo.kowatli@bmo.com); [allison.yu@bmo.com](mailto:allison.yu@bmo.com); [info@nfsleasing.com](mailto:info@nfsleasing.com); [info@brownbros.com](mailto:info@brownbros.com)

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE  
CANNABIS WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE  
CANNABIS EAST CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS  
REALTY INC., 5450 REALTY INC., HERITAGE CANNABIS EXCHANGE CORP., and  
PREMIUM 5 LTD.**

Applicants

**TABLE OF CONTENTS**

<b><u>TAB</u></b>	<b><u>DOCUMENT</u></b>
1.	Notice of Application
2.	Affidavit of David Schwede sworn April 2, 2024
	<u>Exhibits</u>
A	Heritage Group Organizational Chart
B	Lease Agreement for the Fort Erie Property dated October 31, 2023
C	Lease Agreement for the Falkland Property dated October 31, 2023
D	Health Canada Licenses issued to Heritage East and Heritage West
E	Management and Discussion Analysis and Audited Consolidated Financial Statements from SEDAR+
F	PPR Search Results of Applicants
G	PPR Search Summaries
H	BJK Loan Agreement and Amendments



	I	Merida Note and Warrant Purchase Agreement
	J	Heritage East Payment Instalment Agreement
	K	Heritage West Payment Instalment Agreement
	L	CRA Letters to Heritage East and Heritage West regarding Excise Tax Arrears Payment Arrangements
	M	CRA Letter to Heritage East dated January 22, 2024
	N	BC Liquor Distribution Branch Letter to Heritage West dated March 12, 2024
	O	BC Liquor Distribution Branch Letter to Heritage East dated March 12, 2024
	P	KPMG Consent to Act as Monitor
3.		Draft Initial Order
4.		Blackline to Model Initial Order

# **TAB 1**



Court File No.: \_\_\_\_\_

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE  
CANNABIS WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE  
CANNABIS EAST CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS  
REALTY INC., 5450 REALTY INC., HERITAGE CANNABIS EXCHANGE CORP., and  
PREMIUM 5 LTD.**

Applicants

**NOTICE OF APPLICATION**

**TO THE RESPONDENT**

**A LEGAL PROCEEDING HAS BEEN COMMENCED** by the Applicants. The claim made by the Applicants appears on the following page.

**THIS APPLICATION** will come on for a hearing

- In person
- By telephone conference
- By video conference

At a Zoom link to be provided by the Ontario Superior Court of Justice (Commercial List), on **Tuesday, April 2, 2024, at 4:30 p.m. (Eastern)**, or as soon after such time as the application may be heard, before Justice Cavanagh presiding over the Commercial List.

**IF YOU WISH TO OPPOSE THIS APPLICATION**, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the Applicants' lawyer or, where the Applicants do not have a lawyer, serve it on the Applicants, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

**IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION**, you or your lawyer must, in addition to serving your notice of

appearance, serve a copy of the evidence on the Applicants' lawyer or, where the Applicants do not have a lawyer, serve it on the Applicants, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but not later than 2:00 p.m. Eastern Time on the day before the hearing.

**IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.**

Date April 2, 2024 Issued by Local Registrar

Address of court office: Superior Court of Justice  
330 University Avenue, 9th Floor  
Toronto, Ontario M5G 1R7

TO: SERVICE LIST

## APPLICATION

### THE APPLICANTS MAKE THIS APPLICATION FOR:

1. An Order, substantially in the form attached as Tab 3 of the Application Record (the “**Initial Order**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C36, as amended (the “**CCAA**”), *inter alia*:
  - (a) abridging the time for service and filing of this notice of application and dispensing with further service thereof;
  - (b) declaring that Heritage Cannabis Holdings Corp. (“**Heritage**”), 1005477 B.C. Ltd., Mainstrain Market Ltd., Purefarma Solutions Inc., 333 Jarvis Realty Inc., 5450 Realty Inc., Premium 5 Ltd., Heritage Cannabis Exchange Corp., Heritage Cannabis East Corporation (formerly CannaCure Corporation) (“**Heritage East**”), and Heritage Cannabis West Corporation (formerly Voyage Cannabis Corp.) (“**Heritage West**”) (each individually, an “**Applicant**”, and collectively, the “**Applicants**”) are companies to which the CCAA applies;
  - (c) appointing KPMG Inc. (“**KPMG**” or the “**Proposed Monitor**”) as an officer of the Court to monitor the assets, business, and financial affairs of the Applicants (once appointed in such capacity, the “**Monitor**”);
  - (d) staying, for an initial period of not more than ten (10) days (the “**Initial Stay Period**”), all proceedings and remedies taken or that might be taken in respect of the Applicants, the Monitor, or the directors and officers of the Applicants, or affecting the Applicants’ business or the Property (as defined below), except with

the written consent of the Applicants and the Monitor, or with leave of the Court (the “**Stay of Proceedings**”);

- (e) extending the benefit of the Stay of Proceedings to Heritage (US) Colorado Corp., Opticann, Inc., Heritage US Holdings Corp., Heritage (US) Cali Corp., and Heritage (US) Oregon Corp. (collectively, the “**Non-Applicant Stay Parties**” and together with the Applicants, the “**Heritage Entities**”) and their respective directors and officers;
- (f) authorizing the Applicants to pay certain suppliers who are critical to the business and operations of the Applicants for expenses owing for goods and services supplied to the Applicants prior to the date of the Initial Order, with consent of the Monitor and BJK (as defined below) and in accordance with the terms of the Cash Flow Forecast (defined below);
- (g) ordering that the status quo in respect of the Applicants’ Health Canada and cannabis excise licenses shall be preserved and maintained during the pendency of the Stay of Proceedings and to the extent any such licenses may expire during the Stay of Proceedings, the terms of such licenses shall be deemed to be extended by a period equal to the Stay of Proceedings;
- (h) seeking relief from certain securities reporting obligations under federal, provincial or other laws until further Order of this Court;
- (i) granting the following charges (collectively, the “**Charges**”) over the Property:
  - (i) an Administration Charge (as defined in the Initial Order); and

- (ii) a Directors' Charge (as defined in the Initial Order);
  - (j) authorizing the Heritage Group to continue utilizing its Cash Management System (as hereinafter defined); and
  - (k) granting such other relief as this Court may deem just and equitable.
2. If the Initial Order is granted, the Applicants intend to return to Court within ten (10) days (the "**Comeback Hearing**") to seek:
- (a) an Amended and Restated Initial Order (the "**ARIO**"), *inter alia*:
    - (i) extending the Stay of Proceedings;
    - (ii) increasing the quantum of and priming of each of the Charges;
    - (iii) approving the Applicants' ability to borrow under a debtor-in-possession term sheet (the "**DIP Loan**") to finance their working capital requirements and other general corporate purposes, post-filing expenses and costs; and
    - (iv) granting a Court-ordered charge ("**DIP Lender's Charge**") in favour of BJK Holdings Ltd. ("**BJK**") as lender under the DIP Loan (in such capacity, the "**DIP Lender**");
  - (b) an order approving a sale and investment solicitation process; and
  - (c) such other relief as may be required to advance the Applicants' restructuring.

## THE GROUNDS FOR THIS APPLICATION ARE:

### *Overview*

1. The Applicants are insolvent and are companies to which the CCAA applies.
2. Each of the Applicants is a Canadian company.
3. Heritage is a reporting issuer listed on the Canadian Securities Exchange and on the OTC Pink<sup>1</sup>, operated by OTC Markets Group.
4. Heritage directly or in-directly wholly owns the other Applicants (the “**Subsidiaries**”). Through its Subsidiaries, Heritage focuses on extraction and creation of extract and extract-derivative brands for adult use, and cannabis-based medical solutions.
5. In Canada, Heritage’s business is primarily carried out through Heritage East and Heritage West, each of which hold cannabis licenses issued by Health Canada under the *Cannabis Act*, and cannabis licenses issued by the Canada Revenue Agency (“**CRA**”) under the *Excise Act, 2001*.
6. Heritage West operates out of a leased facility in Falkland, British Columbia, and Heritage East operates out of a leased facility located in Fort Erie, Ontario.
7. The Applicants are in default under certain material operating agreements including their secured loans with BJK and the lease agreements in respect of the two leased facilities.

---

<sup>1</sup> OTCPK means the services provided by the OTD Market Group, including, over-the-counter trading services, to companies listed as “Pink”.



8. The Applicants' secured lender, BJK, is no longer willing to continue supporting the Heritage Entities in their current financial circumstances and has delivered demand letters demanding repayment of the indebtedness owed to BJK and Notices of Intention to Enforce Security under section 244(1) of the *Bankruptcy and Insolvency Act* ("BIA").
9. The Applicants' liabilities include \$11,770,310 owing to CRA on account of unremitted excise tax arrears. Heritage East and Heritage West entered into repayment plans with CRA pursuant to which they must make monthly payments to repay the entire excise tax arrears over a specified period of time.
10. The Applicants are seeking protection under the CCAA to, among other things, obtain additional financing in order to continue operations and to implement a sale and investment solicitation process ("SISP") that would see the Applicants restructured and/or all or a portion of the Applicants' business and assets sold as a going concern.

### ***Stay of Proceedings***

11. The Applicants require a Stay of Proceedings for an initial period of ten (10) days and intend to seek an extension of the Stay of Proceedings at the Comeback Hearing.
12. The Stay of Proceedings is necessary as it will allow the Applicants to have breathing space while they attempt to effect a restructuring while permitting their business to continue to operate.
13. The Stay of Proceedings is in the best interests of the Applicants and their stakeholders, meets the statutory requirements under the CCAA, and is appropriate in the circumstances.

***Extending the Stay of Proceedings to the Non-Applicant Stay Parties***

14. The Applicants seek to extend the Stay of Proceedings to the Non-Applicant Stay Parties due to the integration of the business and operations of the Heritage Entities.
15. Extension of the Stay of Proceedings to these entities will prevent uncoordinated realization and enforcement attempts from being made in different jurisdictions, thereby preventing immediate losses of value for the Heritage Entities and their stakeholders.
16. The Proposed Monitor believes that the Stay of Proceedings – including its extension to the Non-Applicant Stay Parties – is appropriate in the circumstances.

***Appointment of KPMG as Monitor***

17. KPMG has consented to act as Monitor, subject to Court approval.
18. KPMG is a trustee within the meaning of section 2 of the BIA, as amended, and is not subject to any of the restrictions on who may be appointed as Monitor as set out in section 11.7(2) of the CCAA.

***Priority Charges***

19. The Applicants are seeking the following Charges in the following priority with respect to the Property:
  - (a) First – Administration Charge (up to the maximum amount of \$250,000); and
  - (b) Second – Directors’ Charge (up to the maximum amount of \$900,000).

20. The Initial Order provides that each of the Charges shall rank behind encumbrances in favour of any persons that have not been served with notice of this application. The Applicants will seek priority of the Charges ahead of such encumbrances at the Comeback Hearing.
21. The relief sought in the Initial Order in respect of the Charges is limited to what is reasonably necessary during the Initial Stay Period.
22. The Proposed Monitor is supportive of the granting of the Charges and their quantum.

***Ability to Pay Certain Pre-Filing Amounts***

23. The Applicants are seeking authorization (but not the obligation) to make payments, with the consent of the Monitor and BJK, and in accordance with the terms of the Cash Flow Forecast, of amounts owing for goods and services actually supplied to the Applicants prior to the date of the Initial Order, up to a maximum aggregate amount of \$1,500,000, if such third party is critical to the business and ongoing operations of the Applicants.
24. This relief is necessary to maintain ordinary course operations, particularly given the highly regulated nature of the Applicants' business. The Applicants' ability to operate their business in the normal course is dependent on their ability to obtain an uninterrupted supply of certain goods and services, which may require the payment of certain amounts owing prior to the date of the Initial Order.

### ***Approval of Cash Management System***

25. The Heritage Entities use a centralized cash management system (the “**Cash Management System**”) to, among other things, collect funds and pay expenses associated with operations.
26. The Applicants intend to continue using the existing Cash management System during the CCAA proceedings, which is required and appropriate during these CCAA proceedings, and are seeking the approval of the Court to do so.

### ***Relief relating to Securities Filings***

27. The Applicants also seek authorization to dispense with certain securities filing requirements, and, in particular, seek authorization for the Applicants to incur no further expenses in relation to any filings (including financial statements), disclosures, core or non-core documents, restatements, amendments to existing filings, press releases or any other actions that may be required by law respecting securities or capital markets in Canada, or by the rules and regulations of a stock exchange.
28. Incurring time and costs associated with preparing securities filings will detract from the Applicants’ successful restructuring and there is no prejudice to stakeholders given that detailed financial information and other information regarding the Applicants will continue to be made publicly available through the materials filed in these CCAA proceedings.

### ***Other Grounds***

29. The provisions of the CCAA and the inherent and equitable jurisdiction of this Court.

30. Rules 1.04, 2.03, 3.02, 14.05(2), 16, 38 and 39 of the Ontario *Rules of Civil Procedure*, R.R.O 1990, Reg. 194, as amended, along with any other relevant provisions therein.
31. Sections 106 and 137(2) of the *Courts of Justice Act*, R.S.O. 1990, c. C.43 as amended, along with any other relevant provisions therein.
32. Such further and other grounds as counsel may advise and this Court may permit.

**THE FOLLOWING DOCUMENTARY EVIDENCE** will be used at the hearing of the application for the Initial Order:

1. Affidavit of David Schwede, sworn April 2, 2024, and the exhibits attached thereto;
2. consent of KPMG to act as Monitor;
3. Pre-Filing Report of the Proposed Monitor and the exhibits appended thereto; and
4. such further and other evidence as counsel may advise and this Court may permit.

April 2, 2024

**CHAITONS LLP**  
5000 Yonge Street, 10<sup>th</sup> Floor  
Toronto, Ontario M2N 7E9

**Harvey Chaiton (LSO No. 21592F)**  
Tel: (416) 218-1129  
Email: [harvey@chaitons.com](mailto:harvey@chaitons.com)

**George Benchetrit (LSO No. 34163H)**  
Tel: (416) 218-1141  
Email: [george@chaitons.com](mailto:george@chaitons.com)

**Danish Afroz (LSO No. 65786B)**  
Tel: (416) 218-1137  
Email: [dafroz@chaitons.com](mailto:dafroz@chaitons.com)

Lawyers for the Applicants

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS  
AMENDED**

Court File No.: \_\_\_\_\_

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF HERITAGE  
CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE CANNABIS WEST CORPORATION,  
MAINSTRAIN MARKET LTD., HERITAGE CANNABIS EAST CORPORATION, PUREFARMA  
SOLUTIONS INC., 333 JARVIS REALTY INC., 5450 REALTY INC., HERITAGE CANNABIS  
EXCHANGE CORP., AND PREMIUM 5 LTD.**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**NOTICE OF APPLICATION  
(returnable April 2, 2024)**

**CHAITONS LLP**

5000 Yonge Street, 10th Floor  
Toronto, ON M2N 7E9

**Harvey Chaiton** (LSO#: 21592F)

Tel: (416) 218-1129

Email: [harvey@chaitons.com](mailto:harvey@chaitons.com)

**George Benchetrit** (LSO#: 34163H)

Tel: (416) 218-1141

Email: [george@chaitons.com](mailto:george@chaitons.com)

**Danish Afroz** (LSO#: 65786B)

Tel: (416) 218-1137

Email: [dafroz@chaitons.com](mailto:dafroz@chaitons.com)

Lawyers for the Applicants

## **TAB 2**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE CANNABIS WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE CANNABIS EAST CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC., 5450 REALTY INC., HERITAGE CANNABIS EXCHANGE CORP., AND PREMIUM 5 LTD.**

Applicants

**AFFIDAVIT OF DAVID SCHWEDE  
(Sworn April 2, 2024)**



## TABLE OF CONTENTS

<b>I.</b>	<b>RELIEF REQUESTED.....</b>	<b>5</b>
<b>II.</b>	<b>OVERVIEW AND NEED FOR RELIEF.....</b>	<b>9</b>
<b>III.</b>	<b>CORPORATE STRUCTURE AND HISTORY .....</b>	<b>12</b>
A.	The Applicants – Heritage and the Subsidiaries .....	12
1.	Heritage Cannabis Holdings Corp. ....	12
2.	1005477 B.C. Ltd.....	13
3.	Heritage Cannabis West Corporation .....	13
4.	Mainstrain Market Ltd. ....	14
5.	Heritage Cannabis East Corporation.....	14
6.	Purefarma Solutions Inc.....	14
7.	333 Jarvis Realty Inc.....	14
8.	5450 Realty Inc. ....	15
9.	Heritage Cannabis Exchange Corp. ....	15
10.	Premium 5 Ltd. ....	15
B.	The Non-Applicant Stay Parties .....	16
1.	Opticann, Inc.....	17
2.	Heritage (US) Colorado Corp. ....	17
3.	Heritage US Holdings Corp. ....	17
4.	Heritage (US) Cali Corp. ....	18
5.	Heritage (US) Oregon Corp. ....	18
<b>IV.</b>	<b>BUSINESS OF THE APPLICANTS.....</b>	<b>18</b>
A.	Cannabis Industry in Canada .....	18
B.	Physical Operations of the Applicants .....	19
1.	The Licensed Facilities .....	20
2.	Leased Office Space .....	22
C.	Licenses.....	23
1.	Health Canada Licenses .....	23
2.	Excise Licenses .....	26
D.	Supply Agreements.....	27
E.	Employees.....	28
F.	Intellectual Property .....	30

G.	Cash Management System.....	31
<b>V.</b>	<b>FINANCIAL CIRCUMSTANCES AND CASH FLOW FORECAST.....</b>	<b>31</b>
A.	Assets .....	32
B.	Liabilities .....	33
1.	PPSA Registrations.....	33
2.	Secured Liabilities .....	35
3.	Unsecured Liabilities .....	39
C.	Employee Source Deductions, Excise Duty, GST/HST, and Health Canada liabilities.....	41
1.	Employee Source Deductions.....	41
2.	Health Canada Liabilities.....	41
3.	Excise Duty .....	42
4.	GST/HST .....	44
D.	Cash Flow Forecast.....	45
<b>VI.</b>	<b>CHALLENGES AND LIQUIDITY ISSUES FACED BY THE APPLICANTS</b>	<b>45</b>
A.	Challenges.....	45
B.	Prior Strategic Efforts .....	48
<b>VII.</b>	<b>CCAA PROCEEDINGS AND RELIEF SOUGHT.....</b>	<b>50</b>
A.	Appointment of Monitor .....	51
B.	Stay of Proceedings.....	52
C.	Ability to Pay Certain Pre-Filing Amounts .....	53
D.	Administration Charge.....	54
E.	Directors' Charge.....	56
F.	Approval of Cash Management System .....	57
G.	Relief Relating to Securities Filings .....	57
H.	Relief in respect of Licenses .....	58
<b>VIII.</b>	<b>RELIEF TO BE SOUGHT AT COMEBACK HEARING.....</b>	<b>58</b>
A.	Extension of Stay of Proceedings .....	59
B.	Increase to Charges .....	59
C.	Approval of DIP Loan and DIP Lender's Charge .....	59
D.	SISP.....	59
<b>IX.</b>	<b>CONCLUSION .....</b>	<b>60</b>

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT  
ACT, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF HERITAGE CANNABIS HOLDINGS CORP.,  
1005477 B.C. LTD., HERITAGE CANNABIS WEST CORPORATION,  
MAINSTRAIN MARKET LTD., HERITAGE CANNABIS EAST  
CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY  
INC., 5450 REALTY INC., HERITAGE CANNABIS EXCHANGE CORP.,  
AND PREMIUM 5 LTD.**

Applicants

**AFFIDAVIT OF DAVID SCHWEDE  
(Sworn April 2, 2024)**

I, **DAVID SCHWEDE**, of the city of Kelowna, in the Province of British Columbia,

**MAKE OATH AND SAY:**

1. I am the Chief Executive Officer of Heritage Cannabis Holdings Corp. ("**Heritage**" and together with certain of its direct and indirect Subsidiaries (as defined below), the "**Applicants**" or the "**Heritage Group**").

2. 1005477 B.C. Ltd. ("**1005**"), Mainstrain Market Ltd. ("**Mainstrain**"), Purefarma Solutions Inc. ("**Purefarma**"), 333 Jarvis Realty Inc. ("**333**"), 5450 Realty Inc. ("**5450**"), Premium 5 Ltd. ("**Premium**"), Heritage Cannabis Exchange Corp. ("**HCEC**"), Heritage Cannabis East Corporation (formerly CannaCure Corporation) ("**Heritage East**"), and Heritage Cannabis West Corporation (formerly Voyage Cannabis Corp.) ("**Heritage West**"), are certain direct or indirect wholly-owned subsidiaries of Heritage (individually, a "**Subsidiary**" and together, the

“**Subsidiaries**”). Heritage also has certain direct or indirect non-Applicant subsidiaries that are incorporated or registered in the United States of America (“**U.S.**”).<sup>1</sup>

3. I have been the Chief Executive Officer of Heritage since August 3, 2021. As such, I have personal knowledge of the matters to which I depose in this affidavit, except where I have obtained information from others. Where I have obtained information from others, I have stated the source of my information and, in all such cases, believe such information to be true.

4. All references to currency in this affidavit are in Canadian dollars unless noted otherwise. The Applicants do not waive or intend to waive any applicable privilege by any statement herein.

#### **I. RELIEF REQUESTED**

5. This affidavit is in support of an application by the Applicants for an order (the “**Initial Order**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), *inter alia*:

- (a) abridging the time for the service of the Application and the materials filed in support thereof, and dispensing with further service thereof;
- (b) declaring that the Applicants are parties to which the CCAA applies;
- (c) appointing KPMG Inc. (“**KPMG**” or the “**Proposed Monitor**”) CCAA monitor of the Applicants, and direct and authorize it to, *inter alia*, monitor the assets,

---

<sup>1</sup> As described further herein, these entities are as follows: (1) Heritage (US) Colorado Corp; (2) Opticann, Inc.; (3) Heritage (US) Cali Corp.; (4) Heritage US Holdings Corp.; (5) Heritage (US) Oregon Corp.;

business, and affairs of the Applicants (once appointed in such capacity, the “**Monitor**”);

- (d) staying, for an initial period of not more than ten (10) days, all proceedings and remedies taken or that might be taken in respect of the Applicants, the Monitor, the Applicants’ Directors and Officers (as defined below), or affecting the Applicants’ business or the Property (as defined below), except as otherwise set forth in the Initial Order or as otherwise permitted by law (the “**Stay of Proceedings**”);
- (e) extending the benefit of the Stay of Proceedings and other aspects of the Initial Order to the Non-Applicant Stay Parties (as defined below) and their respective Directors and Officers;
- (f) seeking relief from certain securities reporting obligations under federal, provincial or other laws until further Order of this Court;
- (g) granting the following limited priority charges (collectively, the “**Charges**”) over the Applicants’ current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate, including all proceeds thereof (collectively, the “**Property**”):
  - (i) the Administration Charge (as defined below) in favour of the Monitor, counsel to the Monitor, insolvency counsel to the Applicants (Chaitons LLP), and corporate counsel to the Applicants (Owens Wright LLP); and
  - (ii) the Directors’ Charge (as defined below) in favour of the Directors and Officers;

- (h) authorizing the Applicants to (i) make payment to certain suppliers who are critical to the business and operations of the Applicants for pre-filing expenses, or to (ii) honour cheques issued to providers of goods and services prior to the Initial Order, in each case with consent of the Monitor and in accordance with the terms of the Cash Flow Forecast (defined below) which are necessary to facilitate the Applicants' ongoing operations and to preserve value during the CCAA proceedings, up to a maximum aggregate amount of \$500,000;
- (i) ordering that the status quo in respect of the Applicants' Health Canada and cannabis excise licenses shall be preserved and maintained during the pendency of the Stay of Proceedings and to the extent any such licenses may expire during the Stay of Proceedings, the terms of such licenses shall be deemed to be extended by a period equal to the Stay of Proceedings;
- (j) authorizing the Heritage Group to continue to use the Cash Management System (as defined below).

6. If the Initial Order is granted, the Applicants intend to return to Court within ten (10) days (the "**Comeback Hearing**") to seek an amended and restated Initial Order (the "**ARIO**") in order to, *inter alia*:

- (a) extend the Stay of Proceedings;
- (b) increase the quantum of the Charges and increase the priming of the Charges (to rank ahead of encumbrances in favour of any person that was not served with the notice of this application);

- (c) approving the Applicants' ability to borrow under a debtor-in-possession ("**DIP**") facility term sheet (the "**DIP Loan**") to finance their working capital requirements and other general corporate purposes, post-filing expenses and costs;
- (d) granting a Court ordered charge (the "**DIP Lender's Charge**") in favour of BJK (as defined below) in its capacity as debtor-in-possession financing lender (the "**DIP Lender**") to secure all obligations outstanding under the DIP facility term sheet; and
- (e) seek such other relief as may be required to advance the Applicants' restructuring efforts.

7. In addition, the Applicants also intend to seek an Order at the Comeback Hearing (the "**SISP Approval Order**") which, among other things, would:

- (a) authorize and approve Heritage's execution of a stalking horse subscription agreement (the "**Stalking Horse Purchase Agreement**") among Heritage, BJK Holdings Ltd. ("**BJK**"), and Hab Cann Holdings Ltd. (the "**Stalking Horse Purchaser**"), *nunc pro tunc*;
- (b) grant a Court ordered charge (the "**Bid Protections Charge**") over the Property in favour of the Stalking Horse Purchaser as security for payment of the Bid Protections, with the priority set out therein;
- (c) approve a sale and investment solicitation process (the "**SISP**") in which the Stalking Horse Purchase Agreement will serve as the "**Stalking Horse Bid**", and

authorize the Applicants and the Monitor to implement the SISP pursuant to its terms; and

- (d) authorize and direct the Applicants and the Monitor to perform their respective obligations and do all things necessary to perform their obligations under the SISP.

## **II. OVERVIEW AND NEED FOR RELIEF**

8. Heritage is a reporting issuer listed on the Canadian Securities Exchange (“CSE”) under the symbol “CANN” and on the OTC Pink<sup>2</sup>, operated by OTC Markets Group, under the symbol “HERTF”. Heritage is the ultimate parent company to several companies operating in the cannabis industry in Canada and the U.S.

9. In Canada, Heritage’s business is primarily carried out through two of the Subsidiaries, Heritage East and Heritage West, which hold licenses under the *Cannabis Act*, S.C. 2018, c. 16 (the “*Cannabis Act*”) and are regulated by Health Canada. Heritage East operates out of a leased facility located in Fort Erie, Ontario, and Heritage West operates out of a leased facility located in Falkland, British Columbia. Heritage has its corporate offices in Ontario and British Columbia, and its registered office is located in Toronto, Ontario.

10. Heritage’s directly and indirectly owned subsidiaries in the U.S. are not Applicants in these CCAA Proceedings. However, the Applicants are seeking to extend the Stay of Proceedings to these non-Applicant subsidiaries due to the integration of the business of the Heritage Group and to prevent uncoordinated realization and enforcement attempts in various jurisdictions. At this time, it is not expected that a Chapter 15 or other proceedings under the U.S. Bankruptcy Code

---

<sup>2</sup> OTC PK means the services provided by the OTD Market Group, including, over-the-counter trading services, to companies listed as “Pink”.



will be commenced in respect of the Heritage Group's U.S. subsidiaries, including as a result of the prohibitive administrative costs of such a proceeding.

11. The Applicants are in default under certain material operating agreements including their secured loans with BJK and the lease agreements in respect of their two operating facilities located in Fort Erie, Ontario and Falkland, British Columbia.

12. BJK has delivered demand letters demanding repayment of amounts owing under the BJK Loan (as defined below) as well as Notices of Intention to Enforce Security pursuant to Section 244(1) of the *Bankruptcy and Insolvency Act* ("**BIA**"). BJK is no longer willing to continue supporting the Heritage Group in its current financial circumstances. In addition, the Canada Revenue Agency ("**CRA**") has delivered requirements to pay notices to a major customer of the Applicants requiring the customer to remit to CRA certain amounts that would otherwise be payable to the Applicants.

13. The Applicants are facing a liquidity crisis and, absent these CCAA proceedings, will not be able to continue to carry on their business in the ordinary course or meet their obligations as they become due. Accordingly, there is significant urgency to this CCAA application and the relief sought pursuant to the Initial Order.

14. As of March 28, 2024, the Applicants' liabilities include a balance of approximately \$11,770,310 owing to CRA on account of unremitted excise taxes. As described in greater detail below, in September 2024, Heritage East and Heritage West entered into repayment plans with CRA pursuant to which Heritage East and Heritage West must make monthly payments to repay the entire excise tax arrears over a specified time period. The scheduled payments commenced on October 1, 2023 at approximately \$268,000 in the aggregate and such payments escalate over the

repayment period. Heritage East and Heritage West have made all scheduled payments, including all overdue payment amounts, to CRA under the payment arrangements through to March 1, 2024. The Applicants' monthly payments in respect of excise tax arrears under the payment arrangements with CRA will increase to approximately \$618,000 by October 2024 (and will further increase thereafter).

15. As a result of the foregoing, the Applicants are seeking protection under the CCAA to, among other things, protect their assets for the benefit of their creditors, and obtain the necessary breathing room to implement a SISP that would see the Applicants restructured and/or all or a portion of the Applicants' business and assets sold as a going concern.

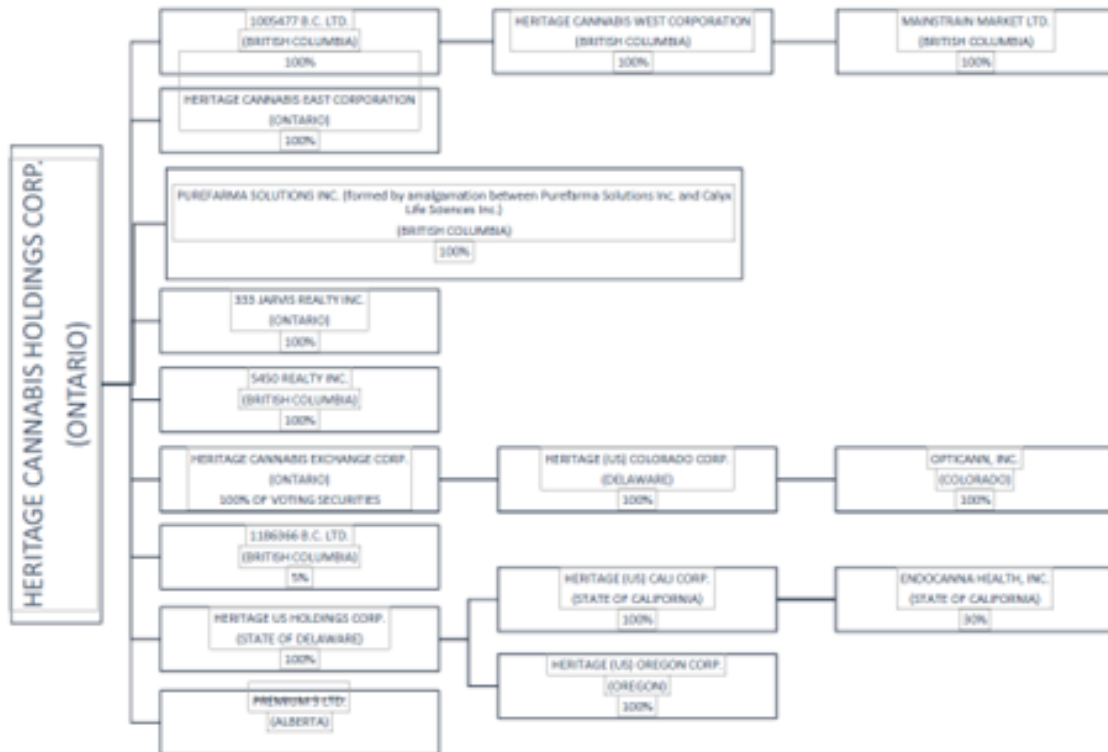
16. Subject to certain conditions, including court approval, the Applicants' secured lender, BJK (in such capacity, the "**DIP Lender**"), has agreed to provide additional financing through the DIP Loan to, among other things, provide the Applicants with access to funding needed to continue to operate and preserve the value of their operations while the SISP is conducted. As noted above, the relief in respect of the DIP Loan, the DIP Lender's Charge, and the SISP is intended to be sought at the Comeback Hearing; no relief related to the DIP Loan, the DIP Lender's Charge or the SISP is being sought at this time.

17. The CCAA filing, and the proposed SISP are intended to benefit all of the Applicants' stakeholders in Canada and abroad, including employees, customers, suppliers and contracting parties, Health Canada, CRA, and the federal and relevant provincial cannabis regulators, among others.

18. For these reasons and the reasons set out herein, I do verily believe that the Applicants are insolvent and are companies to which the CCAA applies.

### III. CORPORATE STRUCTURE AND HISTORY

19. A copy of Heritage Group’s current corporate chart is attached hereto as **Exhibit “A”** and is reproduced below for ease of reference:



#### A. The Applicants – Heritage and the Subsidiaries

##### 1. Heritage Cannabis Holdings Corp.

20. Heritage (i.e. Heritage Cannabis Holdings Corp.) is a public corporation that was incorporated pursuant to the British Columbia *Business Corporations Act*, S.B.C. 2002, c. 57, as amended (the “**BCBCA**”) on October 25, 2007 as “Trijet Mining Corp”. Effective March 8, 2013, Trijet Mining Corp. consolidated its share capital and changed its name to Umbral Energy Corp. On January 9, 2018, the company completed a fundamental “change of business” pursuant to CSE

Policy 8, and changed its name to its present name, “Heritage Cannabis Holdings Corp.” and currently operates as a licensed cannabis producer.

21. Effective on November 2, 2019, Heritage continued into Ontario under the *Business Corporations Act*, R.S.O. 1990, c. B. 16, as amended (the “**OBCA**”). Heritage’s head office is 1450 St. Paul Street, Kelowna, British Columbia, and its registered office is located at Suite 300-20 Holly Street, Unit 300, Toronto, Ontario. The directors of Heritage are Clinton Sharples, Celine Arsenault and David Schwede. The officers of Heritage are David Schwede, Eoin Hegarty, Cory Larsen and Jasmine Paige.

22. Heritage is the direct or indirect owner of all of the Subsidiaries. Below is a brief description of each Subsidiary, all of which are Applicants in this CCAA proceeding.

**2. 1005477 B.C. Ltd.**

23. 1005 (i.e. 1005477 B.C. Ltd.) was incorporated pursuant to the BCBCA on June 16, 2014. 1005’s registered office is located at 1665 Ellis Street, Unit 301, Kelowna, British Columbia, B1Y 2B3. The sole director of 1005 is David Schwede. The sole officer of 1005 is Jasmine Paige. Heritage is the sole shareholder of 1005.

**3. Heritage Cannabis West Corporation**

24. Heritage West (i.e. Heritage Cannabis West Corporation) was incorporated pursuant to the BCBCA on July 4, 2014. Heritage West’s registered office is located at 1665 Ellis Street, Unit 301, Kelowna, British Columbia, V1Y 2B3. The sole director of Heritage West is David Schwede. The officers of Heritage West are David Schwede and Jasmine Paige. 1005 is the sole shareholder of Heritage West.

**4. Mainstrain Market Ltd.**

25. Mainstrain (i.e. Mainstrain Market Ltd.) was incorporated pursuant to the BCBCA on March 8, 2018. Mainstrain's registered office is located at 1665 Ellis Street, Unit 301, Kelowna, BC, B1Y 2B3. The sole director and officer of Mainstrain is David Schwede. Heritage West is the sole shareholder of Mainstrain.

**5. Heritage Cannabis East Corporation**

26. Heritage East (i.e. Heritage Cannabis East Corporation) was formed by an amalgamation of Cannacure Corporation and 2659938 Ontario Limited pursuant to the OBCA on January 25, 2023. Heritage East's registered office is located at 20 Holly Street, Suite 300, Toronto, Ontario, M4S 3B1. The sole director of Heritage East is David Schwede. The officers of Heritage East are David Schwede and Jasmine Paige. Heritage is the sole shareholder of Heritage East.

**6. Purefarma Solutions Inc.**

27. Purefarma (i.e. Purefarma Solutions Inc.) was formed by an amalgamation of Calyx Life Sciences Corp. and Purefarma Solutions Inc. pursuant to the BCBCA on November 1, 2022. Purefarma's registered office is located at 1665 Ellis Street, Unit 301, Kelowna, British Columbia, V1Y 2B3. The sole director of Purefarma is David Schwede. The officers of Purefarma are David Schwede, and Jasmine Paige. Heritage is the sole shareholder of Purefarma.

**7. 333 Jarvis Realty Inc.**

28. 333 (i.e. 333 Jarvis Realty Inc.) was incorporated pursuant to the OBCA on June 18, 2019. 333's registered office is located at 20 Holly Street, Suite 300, Toronto, Ontario, M4S 3B1. The

sole director of 333 is David Schwede. The sole officer of 333 is Jasmine Paige. Heritage is the sole shareholder of 333.

**8. 5450 Realty Inc.**

29. 5450 (i.e. 5450 Realty Inc.) was incorporated pursuant to the BCBCA on November 1, 2019. 5450's registered office is located at 1665 Ellis Street, Unit 301, Kelowna, British Columbia, V1Y 2B3. The sole director of 5450 is David Schwede. The sole officer of 5450 is Jasmine Paige. Heritage is the sole shareholder of 5450.

**9. Heritage Cannabis Exchange Corp.**

30. HCEC (i.e. Heritage Cannabis Exchange Corp.) was incorporated pursuant to the OBCA on October 6, 2020. HCEC's registered office is located at 20 Holly Street, Suite 300, Toronto, Ontario, M4S 3B1. The sole director of HCEC is David Schwede. The officers of HCEC are David Schwede and Jasmine Paige. Heritage is the sole shareholder of HCEC.

**10. Premium 5 Ltd.**

31. Premium (Premium 5 Ltd.) was formed by an amalgamation of 2274629 Alberta Ltd. and Premium 5 Ltd. pursuant to the Alberta *Business Corporations Act*, R.S.A. 2000, c B-9 on January 25, 2021. Premium's registered office is located at #168, 11602 – 88 Avenue, Fort Saskatchewan, Alberta, T8L 0K1. In 2023, Premium was noted in default due to its failure to file an annual return. However, Premium was revived on March 22, 2024, and an annual return in respect of Premium for the year ending 2024 was filed as of March 22, 2024. The sole director of Premium is David Schwede. The officers of Premium are David Schwede and Jasmine Paige. Heritage is the sole shareholder of Premium.

**B. The Non-Applicant Stay Parties**

32. The five (5) companies set out in the table below are direct or indirect subsidiaries of Heritage which are not Applicants in these CCAA proceedings (collectively, the “**Non-Applicants Stay Parties**”). Notwithstanding that the Non-Applicant Stay Parties are not Applicants in these CCAA proceedings (the “**CCAA Proceedings**”), the Applicants believe it is critical to the best interests of the Applicants and their stakeholders to extend the benefits of the Stay of Proceedings to the Non-Applicant Stay Parties.

33. The extension of the Stay of Proceedings to the Non-Applicant Stay Parties is intended to, among other things, prevent uncoordinated realization and enforcement attempts being made in different jurisdictions, and thereby preventing immediate loss of value for the Heritage Group and its stakeholders. For example, Heritage US Holdings, a Non-Applicant Stay Party, is a Guarantor (as defined below) under the BJK Loan (as defined below). As discussed below, BJK has demanded repayment of the BJK Loan and has delivered Notices of Intention to Enforce Security pursuant to Section 244(1) of the *BIA*.

34. The Heritage Group operates as an integrated business. The Non-Applicant Stay Parties are integral to and integrated with the Heritage Group’s business insofar that they process and/or facilitate business done by the Applicants with U.S. customers. Given that the Non-Applicant Stay Parties are highly integrated with the Applicants, they will benefit from the Stay of Proceedings, the CCAA Proceedings and the SISP, which will maintain going concern operations and will maximize value for the entirety of the Heritage Group.

35. The name and jurisdiction of incorporation or formation, as applicable, of each Non-Applicant Stay Party is as follows:

Name of Non-Applicant Stay Party	Jurisdiction of Incorporation
Heritage (US) Colorado Corp.	Delaware
Opticann, Inc.	Colorado
Heritage US Holdings Corp.	Delaware
Heritage (US) Cali Corp.	California
Heritage (US) Oregon Corp.	Oregon

**1. Opticann, Inc.**

36. Opticann, Inc. (“**Opticann**”) was incorporated as Opticann, LLC by articles of organization in the State of Colorado on May 5, 2019. Opticann was converted to a for-profit company on August 2, 2019. The registered and records office for Opticann is 20 Holly Street, Suite 300, Toronto, Ontario M4S 3B1. Heritage indirectly owns 100% of the issued and outstanding shares of Opticann. In the U.S., Heritage’s business is primarily carried out through Opticann, which is a Colorado-based oral and topical cannabinoid company.

**2. Heritage (US) Colorado Corp.**

37. Heritage (US) Colorado Corp. was incorporated on September 24, 2020 as a Delaware company. The registered office of Heritage (US) Colorado Corp. is Suite 300-20 Holly Street, Unit 300, Toronto, Ontario. Heritage indirectly owns 100% of the issued and outstanding shares of Heritage (US) Colorado Corp.

**3. Heritage US Holdings Corp.**

38. Heritage US Holdings Corp. was incorporated on June 21, 2019 as a Delaware company. The principal office of Heritage US Holdings Corp. is Suite 300-20 Holly Street, Unit 300,



Toronto, Ontario. Heritage owns 100% of the issued and outstanding shares of Heritage (US) Holdings Corp.

**4. Heritage (US) Cali Corp.**

39. Heritage (US) Cali Corp. was incorporated on June 25, 2019 as a California company. The principal office of Heritage (US) Cali Corp. is Suite 300-20 Holly Street, Unit 300, Toronto, Ontario. Heritage indirectly owns 100% of the issued and outstanding shares of Heritage (US) Cali Corp.

**5. Heritage (US) Oregon Corp.**

40. Heritage (US) Oregon Corp. was incorporated on March 24, 2020 as an Oregon company. The registered and records office of Heritage (US) Oregon Corp. is Suite 300-20 Holly Street, Unit 300, Toronto, Ontario. Heritage indirectly owns 100% of the issued and outstanding shares of Heritage (US) Oregon Corp.

**IV. BUSINESS OF THE APPLICANTS**

**A. Cannabis Industry in Canada**

41. The cannabis industry continues to rapidly evolve in Canada. Licenses for cultivating, processing and/or selling cannabis, among other things, are regulated under the *Cannabis Act* and through the *Cannabis Regulations*, SOR/2018-144 (the “*Cannabis Regulations*”).

42. Recreational use of cannabis was legalized in Canada on October 17, 2018. The *Cannabis Act*, which regulates retail cannabis for recreational adult-use, medical cannabis and industrial hemp in Canada, came into effect on that day. Cannabis was removed as a controlled substance

from the *Controlled Drugs and Substances Act*, S.C. 1996, c. 19 and the *Access to Cannabis for Medical Purposes Regulations*, SOR/2016-230 was repealed.

43. The *Cannabis Act* was amended on October 17, 2019 to broaden the scope of legal cannabis products to include certain edible cannabis, cannabis extracts and cannabis topicals.

44. The cannabis industry continues to be a highly regulated industry, with the *Cannabis Act* regulating the possession, cultivation, production, distribution, sale, research, testing, import, export and promotion of cannabis.

## **B. Physical Operations of the Applicants**

45. Heritage is a vertically integrated licensed cannabis producer, operating two Health Canada licensed manufacturing facilities in Canada. Under the licenses, Heritage offers products to the medical and recreational legal cannabis markets in Canada and the U.S. Heritage also offers products to the medical cannabis markets internationally under a Health Canada license. It focuses on extraction and the creation of extract and extract-derivative products and brands for adult use and cannabis-based medical solutions.

46. While the *Cannabis Act* provides for the regulation of the commercial production of cannabis for recreational purposes and related matters by the federal government, the *Cannabis Act* also provides that the provinces and territories of Canada have authority to regulate other aspects of recreational cannabis (similar to what is currently the case for liquor and tobacco products), such as sale and distribution, minimum age requirements, places where cannabis can be consumed, and a range of other matters. At present, the Applicants have entered into third-party supply agreements with distributors in the provinces of Ontario, Manitoba, Alberta, British

Columbia, Saskatchewan, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador, Yukon, and Northwest Territories.

47. In Canada, Heritage primarily operates through its two wholly-owned subsidiaries - Heritage West and Heritage East.

48. As described further below, Heritage West holds a Health Canada issued cultivation, processing, and medical sales license, as well as an industrial hemp and research license. It operates out of a 15,500 square foot processing facility in Falkland, British Columbia (the “**Falkland Facility**”), which has been outfitted with extraction, downstream processing, formulation and packaging areas and an approved security-level vault.

49. As described further below, Heritage East holds a Health Canada issued cultivation, processing, and medical sales license, as well as an industrial hemp and research license. It operates out of a 122,000 square foot facility in Fort Erie, Ontario (the “**Fort Erie Facility**”, and together with the Falkland Facility, the “**Licensed Facilities**”), which formerly operated as a manufacturing plant for a pharmaceutical white labeler. Presently, approximately 87,525 square feet of the facility has been licensed for cannabis activities.

## **1. The Licensed Facilities**

### **(a) Fort Erie Lease**

50. 333 was previously the registered owner of the lands and premises municipally known as 333 Jarvis Street, Fort Erie, Ontario on which the 122,000 square foot Fort Erie Facility is situated. Pursuant to an agreement of purchase and sale dated October 30, 2023, between 333, as vendor, and BJK Developments Ltd. (“**BJK Developments**”), as purchaser, 333 sold the buildings and

improvements located at 333 Jarvis Street, Fort Erie, including the Fort Erie Facility (the “**Fort Erie Property**”), to BJK Developments.

51. Pursuant to a lease agreement dated October 31, 2023 between Heritage East, as tenant, and BJK Developments, as landlord for the Fort Erie Property (the “**Fort Erie Lease**”), BJK Developments leased the Fort Erie Property, together with the buildings and improvements thereon, including the Fort Erie Facility, to Heritage East. The terms of the Fort Erie Lease include a rent-free period until October 31, 2024, with escalating monthly lease payments of \$60,500 to \$79,599 until October 2026 and monthly lease payments as determined by the fair market rent until October 2033. There is an option by either party to terminate the lease after two (2) years. A copy of the Fort Erie Lease is attached hereto as **Exhibit “B”**.

52. The Fort Erie Lease is currently in default.

**(b) *Falkland Lease***

53. 5450 was previously the registered owner of the lands and premises municipally known as 5450 Highway 97, Falkland, British Columbia on which the 15,500 square foot Falkland Facility is situated. Pursuant to an agreement of purchase and sale dated October 30, 2023, between 5450, as vendor, and BJK Developments, as purchaser, 5450 sold the buildings and improvements located at 5450 Highway 97, Falkland, British Columbia, including the Falkland Facility (the “**Falkland Property**”), to BJK Developments.

54. Pursuant to a lease agreement dated October 31, 2023 between Heritage West, as tenant, and BJK Developments, as landlord, for the Falkland Property (the “**Falkland Lease**”), BJK Developments leased lands, together with the buildings and improvements thereon, including the

Falkland Facility, to Heritage West. The terms of the Falkland Lease include a rent-free period until October 31, 2024, with escalating monthly lease payments of \$39,500 to \$51,970 until October 2026 and monthly lease payments as determined by the fair market rent until October 2033. There is an option by either party to terminate the lease after two (2) years. A copy of the Falkland Lease is attached hereto as **Exhibit “C”**.

55. The Falkland Lease is currently in default.

56. The sale to BJK Developments by 333 of the Fort Erie Property and by 5450 of the Falkland Property, and the leaseback of those lands and premises by Heritage East and Heritage West, respectively, is referred to in this Affidavit as the **“Sale and Leaseback Transaction”**.

## **2. Leased Office Space**

### **(a) Kelowna Lease**

57. Pursuant to a lease dated March 1, 2021 between Heritage and St. Paul Street Holding Ltd. (the **“Kelowna Lease”**), Heritage is leasing office space located at 1450 St. Paul Street, Kelowna, British Columbia comprising of approximately 3,670 square feet. The Kelowna Lease provides for an escalating monthly lease payment of \$5,811 to \$6,432 until April 30, 2026 (the end of the initial term), with a subsequent renewal through April 30, 2031.

### **(b) Fort Saskatchewan Lease**

58. Pursuant to a lease dated November 30, 2019 between Premium and Heartland II Ltd. (as amended, the **“Fort Saskatchewan Lease”**), Premium leases the premises located at 11602 88 Avenue, Fort Saskatchewan, Alberta comprising of approximately 6050 square feet. The Fort

Saskatchewan Lease provides for an escalating monthly lease payment of \$7,123 to \$7,700 until April 22, 2031.

## C. Licenses

59. Heritage East and Heritage West hold certain cannabis licenses issued by Health Canada. They also hold cannabis licenses issued by CRA pursuant to the *Excise Act, 2001*, SC 2002, c 22 (“*Excise Act*”). Such licenses, discussed further below, are key assets, are non-transferrable, and are critical to the Applicants’ overall operations and going concern value.

### 1. Health Canada Licenses

60. Pursuant to the *Cannabis Act* and *Cannabis Regulations*, Heritage East and Heritage West hold certain cannabis licenses from Health Canada (collectively, the “**Health Canada Licenses**”). The Health Canada Licenses include licenses issued in respect of Industrial Hemp Sale Activities (defined below) which are regulated under the Industrial Hemp Regulations, SOR/2018-145 (“**IHR**”) pursuant to subsection 139(1) of the *Cannabis Act*. The IHR set out the regulatory framework for controlling and authorizing activities involving Industrial Hemp.<sup>3</sup> A license issued by Health Canada under the IHR is required to conduct various activities involving Industrial Hemp.

61. The Health Canada Licenses held by Heritage East and Heritage West permit them to undertake the following activities at the Fort Erie Facility and Falkland Facility, respectively:

---

<sup>3</sup> The IHR defined Industrial Hemp as “a cannabis plant – or any part of the plant—in which the concentration of THC is 0.3% or less in the flowering heads and leaves”.

- (a) standard cultivation activities, including: (i) to possess cannabis; (ii) to obtain dried cannabis, fresh cannabis, cannabis plants or cannabis plant seeds by cultivating, propagating and harvesting; (iii) to alter its chemical or physical properties by any means; and (iv) to sell cannabis (collectively, “**Standard Cultivation Activities**”);
- (b) standard processing activities, including: (i) to possess cannabis; (ii) to produce cannabis at the licensed site, other than to obtain it by cultivating, propagating or harvesting; and (iii) to sell cannabis (collectively, “**Standard Processing Activities**”);
- (c) Industrial Hemp sale activities, including: (i) selling flowering heads, leaves, and branches of Industrial Hemp to a holder of a license issued under the *Cannabis Act* in relation to Industrial Hemp or non-hemp cannabis; and (ii) importing and exporting grain (collectively, “**Industrial Hemp Sale Activities**”);
- (d) activities related to the sale of cannabis for medical purposes, including: (i) to possess cannabis; and (ii) to sell cannabis (“**Medical Purpose Activities**”); and
- (e) research activities, including possession and production of cannabis for use in accordance with any research protocols submitted to Health Canada (“**Research Purpose Activities**”).

(a) **Heritage East’s Health Canada Licenses**

62. Health Canada has issued the following licenses to Heritage East:

- (a) Health Canada issued an Industrial Hemp Sale Activities license to Heritage East, effective January 20, 2023, under license number LIC-IOFZ019P4Z-2023 (in respect of the Fort Erie Facility. This license has a current term ending on January 20, 2028.
- (b) Health Canada issued a Standard Cultivation Activities, Standard Processing Activities (defined below), and Medical Purpose Activities (defined below) license to Heritage East, effective March 15, 2023, under license number LIC-1WWUVE76T8-2021-12 in respect of the Fort Erie Facility. This has a current term ending on October 6, 2026.
- (c) Health Canada issued a Research Purpose Activities license to Heritage East, effective March 23, 2023, under license number LIC-LYJVQCPT3O-2022-2 in respect of the Fort Erie Facility. This license has a current term ending on July 14, 2027.

**(b) Heritage West's Health Canada Licenses**

63. Health Canada has issued the following licenses to Heritage West:

- (a) Health Canada issued an Industrial Hemp Sale Activities license to Heritage West, effective March 3, 2023, under license number LIC-TUFEZWBC14-2023-1 in respect of the Falkland Facility. This license has a current term ending on January 20, 2028.
- (b) Health Canada issued a Standard Cultivation Activities, Standard Processing Activities (defined below), and Medical Purpose Activities (defined below) license



to Heritage West, effective March 16, 2023, under license number LIC-81WQTM2WBL-2021-9 in respect of the Falkland Facility. This license has a current term ending on July 19, 2024.

- (c) Health Canada issued a Research Purposes license to Heritage West effective, March 23, 2023, under license number LIC-SQ9HMLUT2P-2021-2 in respect of the Falkland Facility. This license has a current term ending on June 3, 2026.

64. Copies of the Health Canada Licenses issued to Heritage East and Heritage West are attached hereto as **Exhibit “D”**.

## **2. Excise Licenses**

65. Heritage East and Heritage West each hold cannabis licenses issued pursuant to the *Excise Act* which require them to apply cannabis excise stamps to their cannabis products in accordance with the *Excise Act*.

### **(a) East Excise Cannabis License**

66. Heritage East holds a cannabis license (license no. 82674 1035 RD0001) under the *Excise Act* (the “**East Excise Cannabis License**”). The expiry date for the East Excise Cannabis License is April 12, 2024.

### **(b) East Excise Alcohol License**

67. Heritage East holds an alcohol license (license no. 82674 1035 RD0002) under the *Excise Act* (the “**East Excise Alcohol License**”) which authorizes Heritage East to use bulk alcohol, non-

duty-paid packaging alcohol or a restricted formulation at the Fort Erie Facility. The expiry date for the East Excise Alcohol License is April 12, 2024.

**(c) West Excise Cannabis License**

68. Heritage West holds a cannabis license (license no. 80553 2975 RD0001) under the *Excise Act* (the “**West Excise Cannabis License**”). The expiry date for the West Excise Cannabis License is April 15, 2024.

**(d) West Excise Alcohol License**

69. Heritage West holds an alcohol license (license no. 52-UK-1343) under the *Excise Act* (the “**West Excise Alcohol License**”). This license authorizes Heritage West to use bulk alcohol, non-duty-paid packaging alcohol or a restricted formulation at the Falkland Facility. The expiry date for the West Excise Alcohol License is October 31, 2025.

**D. Supply Agreements**

**(i) Brand License Agreements**

70. Certain of the Applicants have brand license agreements, in their capacity as holders of standard processing licenses pursuant to the *Cannabis Act*, pursuant to which the licensors have licensed certain intellectual property relating to cannabis products for the Applicants’ use in certain commercialization, manufacturing and ancillary activities in Canada.

**(ii) Raw Material Supply Agreements**

71. Certain of the Applicants have active raw material supply agreements, in their capacities as holders of standard processing licenses pursuant to the *Cannabis Act*, pursuant to which such

Applicants have agreed to provide the counterparties with cannabis raw materials for such counterparties to process into finished cannabis products.

**(iii) Contract and Manufacturing Agreements**

72. Certain of the Applicants have active manufacturing services agreements, in their capacities as holders of standard processing licenses pursuant to the *Cannabis Act*, pursuant to which such Applicants have agreed to provide the counterparties with certain manufacturing and ancillary services in connection with the supply chain management, manufacturing, and shipment of certain products.

**(iv) Service Provider and Distribution Agreements**

73. Certain of the Applicants have active service and distribution agreements pursuant to which such Applicants produce and supply certain products to the counterparty which provides supply management, sale, distribution and marketing support services for those products.

**E. Employees**

74. As of March 11, 2024, the Applicants had approximately 162 employees, of which 155 were full-time employees, 2 were part-time employees, and 5 were casual employees or co-op students. The Applicants' employees are distributed geographically as follows:

<b>Province</b>	<b>Employees</b>
British Columbia	50
Ontario	97
Alberta	14
Nova Scotia	1

75. As previously noted, in Canada, Heritage operates through its wholly owned subsidiaries Heritage West and Heritage East and out of the Falkland Facility and Fort Erie Facility, respectively. As of March 11, 2024, thirty-one (31) employees were employed at the Falkland Facility and eighty-three (83) employees were employed at the Fort Erie Facility.

76. Certain of the Applicants' employees are designated responsible persons or possess the security clearances required under the *Cannabis Act*. Such persons are essential to the Applicants' business. As of March 11, 2024, there were thirty (30) such employees that were designated responsible persons or possessed the security clearance required under the *Cannabis Act* and the regulations thereunder that were employed either at the Falkland Facility or the Fort Erie Facility.

77. All of the Applicants' salaried and hourly employees are paid bi-weekly. The Applicants' aggregate bi-weekly payroll obligations includes wages of approximately \$363,293, plus the employer portion of employee source deductions in the amount of approximately \$29,287, for an aggregate total of \$392,580. As of the date of this affidavit, the Applicants are current on their payroll obligations, including all source deductions.

78. The Applicants' employees are non-unionized and there are no pension, retirement or deferred compensation plans for their benefit. Through their benefits provider, Canada Life, the Applicants sponsor a group benefit plan offering health care, dental care, life insurance, accidental death and dismemberment insurance and long-term disability insurance for their employees.

79. In addition to the Applicants' employees, the Applicants use the services of six (6) consultants. Such consultants bill the Applicants for services rendered on a monthly basis. As of April 2, 2024, there were no amounts outstanding to any of the consultants.

80. The compensation of named executive officers (collectively, the “**NEOs**”) consists of a consulting fee component and a performance-based variable incentive compensation, which may be comprised of cash bonuses or stock option grants under the Stock Option Plan (defined below) or restricted share unit awards under the RSU Plan (defined below).

81. Heritage has in place a 10% rolling stock option plan (the “**Stock Option Plan**”), pursuant to which the board of directors can grant stock options (“**Options**”) to directors, officers, employees, management and others who provide services to Heritage. The Stock Option Plan provides compensation to participants and an additional incentive to work toward long-term performance. Heritage also has in place a fixed restricted share unit (“**RSU**”) plan designed to provide certain directors, employees, officers, other key employees and consultants of the Applicants with the opportunity to acquire RSUs of Heritage in order to enable them to participate in the long-term success of the company (the “**RSU Plan**”).

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

## **F. Intellectual Property**

83. Members of Heritage Group own certain intellectual property used in connection with their business operations. Heritage Group has a portfolio of cannabis products under the brands *Purefarma*, *Pura Vida*, *Really Awesome Dope (RAD)*, *Premium 5*, *Adults Only*, *feelgood.*, *ArthroCBD*, *CBA*, *Opticann*, *Dank Drops*, *Thrifty*, *Chillbilly*, and *Juicy Hoots*. The Applicants also produce products under license for various third-party brands and suppliers as described above.

**G. Cash Management System**

84. In the ordinary course of business, the Applicants use a cash management system (the “**Cash Management System**”) to, among other things, collect funds and pay expenses associated with operations. This Cash Management System provides Heritage Group with the ability to efficiently and accurately track and control corporate funds and to ensure cash availability.

85. As part of this Cash Management System, Heritage Group maintains approximately four (4) bank accounts, which are summarily described below:

- (a) Community Savings Credit Union: one (1) account, which is the operating account for Heritage West;
- (b) ATB Financial: two (2) accounts, including the operating account for Premium; and
- (c) Alterna Savings: one (1) account, which is the operating account for Heritage East.

86. Certain Applicants maintain unsecured intercompany loans with other Subsidiaries. The intercompany loans and cash transfers are recorded and tracked through the Applicants’ “due to/from” intercompany accounts, with corresponding offset entries in the respective Subsidiaries’ General Ledger, ensuring that all intercompany balances are eliminated upon consolidation. The intercompany accounts are reconciled and balanced on a monthly or quarterly basis.

**V. FINANCIAL CIRCUMSTANCES AND CASH FLOW FORECAST**

87. Heritage’s fiscal year end is October 31. A copy of Heritage’s Management Discussion and Analysis for the fiscal year ended October 31, 2023 and audited consolidated financial

statements from SEDAR+ for the fiscal year ended October 31, 2023 and 2022 (the “**Financial Statements**”) are attached hereto as **Exhibit “E”**.

88. All material public disclosure made by Heritage to the CSE and OTC Markets Group can be found either at OTC Markets Group: <https://www.otcmarkets.com/stock/HERTF/disclosure> or by searching “Heritage Cannabis Holdings Corp.” at SEDAR+: <https://www.sedarplus.ca/>.

89. Below tables referring to Heritage Group’s “Assets” and “Liabilities” are compiled from reference to the Financial Statements and were audited by an external third party.

**A. Assets**

90. Assets are as follows:

<b>Current Assets</b>		
	<i>As at October 31, 2023 (\$)</i>	<i>As at October 31, 2022 (\$)</i>
Cash	3,924,713	5,107,617
Short-term investments	950,000	950,000
Sales tax recoverable	266,891	210,457
Accounts receivable	6,760,532	7,488,117
Inventories	17,259,565	16,788,609
Prepaid expenses	2,263,015	2,013,977
Current portion of notes receivable	754,449	302,171
<b>Total Current Assets</b>	<b>32,179,165</b>	<b>32,860,948</b>
<b>Non-Current Assets</b>		
Notes receivable	2,506,972	1,712,303
Other investments and deposits	1,095,000	799,812
Investment in associate	3,196,000	3,214,393
Intangible assets and goodwill	6,643,700	19,784,401
Property, plant and equipment	10,231,774	20,040,335
<b>Total Non-Current Assets</b>	<b>23,673,446</b>	<b>45,551,244</b>
<b>Total Assets</b>	<b>55,852,611</b>	<b>78,412,192</b>

**B. Liabilities**

91. Liabilities are as follows:

Current Liabilities		
	<i>As at October 31, 2023 (\$)</i>	<i>As at October 31, 2022 (\$)</i>
Accounts payable and accrued liabilities	20,338,063	15,197,496
Sales tax payable	1,233,408	519,275
Deferred revenue	502,044	681,548
Current portion of lease liabilities	182,214	89,591
Current portion of long-term debt	6,493	5,878
Current portion of derivative liabilities	2,817,368	1,636,766
<b>Total Current Liabilities</b>	<b>25,079,590</b>	<b>18,130,554</b>
Non-Current Liabilities		
Lease liabilities	1,862,825	639,406
Long-term debt	7,305,367	16,815,481
Derivative liabilities	48,117	945,530
Deferred tax liability	704,000	1,931,000
<b>Total Non-Current Liabilities</b>	<b>9,920,309</b>	<b>20,331,417</b>
<b>Total Liabilities</b>	<b>34,999,899</b>	<b>38,461,971</b>

**1. PPSA Registrations**

92. Copies of the Personal Property Registry search results for each of the Applicants (collectively, the “**PPR Searches**”) in British Columbia, Alberta and Ontario, as applicable, are attached hereto as **Exhibit “F”**. A summary of the PPR Searches for each of the Applicants, including all prior names of each Applicant where applicable, is attached hereto as **Exhibit “G”**.

93. Heritage Group’s secured debt relates primarily to, *inter alia*, liability to BJK pursuant to the BJK Loan Agreement (defined below). The following parties hold PPSA registrations against the Applicants, in no particular order:



Debtor	Secured Parties	Jurisdiction
Heritage	<ul style="list-style-type: none"> <li>▪ BJK</li> <li>▪ Metro Leasing Corp.</li> </ul>	British Columbia
	<ul style="list-style-type: none"> <li>▪ Bank of Montreal</li> <li>▪ BJK</li> <li>▪ NFS Leasing Canada Ltd. and Peoples United Bank, N.A.</li> <li>▪ NFS Leasing Canada Ltd.</li> <li>▪ NFS Leasing Canada Ltd. c/o NFS Leasing, Inc. and M&amp;T Bank Corporation</li> <li>▪ NFS Leasing Canada Ltd. c/o NFS Leasing Inc.</li> </ul>	Ontario
1005	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	Ontario
	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	British Columbia
Heritage West	<ul style="list-style-type: none"> <li>▪ BJK</li> <li>▪ Brown Bros Motor Lease Canada Ltd.</li> <li>▪ Metro Leasing Corp.</li> </ul>	British Columbia
Heritage East	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	Ontario
	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	British Columbia
Purefarma Solutions Inc.	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	Ontario
	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	British Columbia
333	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	Ontario
	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	British Columbia
5450	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	British Columbia
HCEC	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	Ontario
	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	British Columbia
Premium	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	Ontario
	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	British Columbia
	<ul style="list-style-type: none"> <li>▪ BJK</li> </ul>	Alberta

94. BJK also holds PPSA registrations against the prior names or predecessor entities of Heritage East (i.e. Cannacure Corporation), Heritage West (i.e. Voyage Cannabis Corp.) and Purefarma (i.e. Calyx Life Sciences Corp.), respectively.

95. Although there is a PPSA registration in favour of Bank of Montreal against Heritage, there are currently no amounts owed by Heritage to Bank of Montreal. That PPSA registration relates to a Bank of Montreal credit card held by Heritage which was secured by guaranteed investment certificates. All amounts owed in respect of the Bank of Montreal credit card were paid and all accounts at Bank of Montreal were closed.

96. Details regarding the BJK Loan Agreement (defined below) with BJK, the principal secured lender to the Applicants, is summarized for the convenience of the reader below.

## **2. Secured Liabilities**

### **(a) The BJK Loan Agreement**

97. On March 29, 2021, Heritage, Cannacure Corporation (former name of Heritage East), 333, Voyage Cannabis Corp. (former name of Heritage West), and 5450, (together, the “**Borrowers**”) entered into a loan agreement with BJK, as lender (the “**Original BJK Loan Agreement**”) pursuant to which BJK provided a non-revolving loan in the sum of \$7,000,000 (the “**BJK Loan**”). The Borrowers were required to pay monthly interest at the Royal Bank of Canada prime lending rate plus 1.25% until the entire indebtedness was repaid. The principal amount of the BJK Loan, together with interest thereon, was to be repaid within 18 months of the effective date of the BJK Loan Agreement.

98. 1005, Purefarma, (by its predecessor entities, Calyx Life Sciences Corp. and Purefarma Solutions Inc.), HCEC, Premium, and Heritage US Holdings Corp. (together, the “**Guarantors**”) provided a joint and several guarantee, inclusive of assignments and postponements of creditors’ claims, to BJK in connection with the BJK Loan.

99. As security for the Borrowers' obligations pursuant to the Original BJK Loan Agreement, the Borrowers provided the following security, among other things (the "**BJK Security**"): (a) mortgages and assignments of rents over the Falkland Property owned by 5450 and the Fort Erie Property owned by 333 (as further described below, the mortgages and assignments of rents in favour of BJK were subsequently assigned to BJK Developments, as chargor, in connection with the Sale and Leaseback Transaction); (b) an encumbrance and charge of all of the Borrowers' and Guarantors' (with the exception of Heritage US Holdings Corp.) right, title and interest in the Borrowers' and applicable Guarantors' present and future personal property by way of a general security agreement; (c) an assignment of proceeds from the Borrowers' sales; (d) assignments and postponements of creditors' claims from creditors of the Borrowers; (e) general security agreements from Heritage, Cannacure Corporation (former name of Heritage East) and 333 inclusive of site-specific and serial specific registration on certain assets; and (g) a pledge of securities by Heritage of the shares of each of its subsidiaries and all the investees (with the exception of the Borrowers and Guarantors) in which Heritage held interests at the time of entry into the Original Loan Agreement; and (h) a pledge of securities by HCEC of its shares in Heritage (US) Colorado Corp.

100. The Original BJK Loan Agreement was amended pursuant to the first amending agreement dated October 6, 2021 (the "**First Amendment**") by establishing three credit facilities for a maximum amount of \$14,775,000 as follows:

- (a) Facility 1: the amount of the initial BJK Loan was increased from \$7,000,000 to \$7,175,000, and the due date for repayment extended to February 1, 2023;

- (b) Facility 2: an additional loan of \$2,600,000 was advanced at the Royal Bank of Canada's prime rate plus 1.25% adjusted automatically with each quoted or published change in rate; and
- (c) Facility 3: a revolving line of credit up to a maximum of \$5,000,000 was established at an interest rate of 18% per annum, payable monthly.

101. The Original BJK Loan Agreement, as amended by the First Amendment, was further amended pursuant to the second amending agreement dated September 29, 2022, the (the “**Second Amendment**”) by establishing four credit facilities for a maximum amount of \$19,760,000 as follows:

- (a) Facility 1: \$7,175,000. The interest rate was (i) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to July 31, 2023; (ii) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum;
- (b) Facility 2: \$2,600,000. The interest rate was (i) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to July 31, 2023; (ii) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum;
- (c) Facility 3: A revolving line of credit up to a maximum of \$5,000,000. The interest rate was (i) 15% per annum from October 1, 2022 to July 31, 2023; (ii) the greater of the Royal Bank of Canada rate plus 10% and 15% per annum from August 1, 2023 to November 30, 2024; and

- (d) Facility 4: an additional loan of \$4,985,000. The interest rate is (i) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to July 31, 2023; (ii) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum.

102. Pursuant to the Second Amendment, the term of the BJK Loan was extended to November 30, 2024, with an option to extend to November 30, 2025. As of October 31, 2022, the Company had received a total of \$16,807,261 in principal, with the remaining line of credit available for advance.

103. On October 31, 2023, Heritage repaid BJK \$9,503,536 using the proceeds of the Sale and Leaseback Transaction for the Fort Erie Property, and the Falkland Property.<sup>4</sup> Furthermore, BJK forgave \$431,860 of interest expense incurred.

104. The Original BJK Loan Agreement, as amended by the First Amendment and Second Amendment, was further amended pursuant to a third amending agreement dated October 31, 2023 (the “**Third Amendment**” and collectively with the Original BJK Loan Agreement, First Amendment and Second Amendment, as further amended, modified or restated, the “**BJK Loan Agreement**”) by consolidating Facility 1, Facility 2, and Facility 4 and establishing two credit facilities for a maximum of \$10,256,379 as follows:

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

---

<sup>4</sup> The Sale and Leaseback Transaction is described in this Affidavit under the subheading “The Licensed Facilities”.

- (b) Facility 5: A term facility up to a maximum of \$5,256,379. The interest rate is the Royal Bank of Canada rate minus 1.75% per annum to January 31, 2025.

105. Pursuant to the Third Amendment, the term of the BJK Loan was extended to January 31, 2025, with an option to extend to January 31, 2026. If the Borrowers exercise the extension option, all facilities will bear an interest rate at the maximum of either the Royal Bank of Canada prime rate of plus 10% or 15% per annum during the one-year extension period. A copy of the BJK Loan Agreement is attached hereto as **Exhibit “H”**.

106. On April 1, 2024, Heritage made a \$1,500,000 repayment in respect of Facility 3 under the BJK Loan (the **“Facility 3 Repayment”**). The Facility 3 Repayment was negotiated with BJK in conjunction with the DIP Loan and the Stalking Horse Agreement.

107. As of April 1, 2024, the indebtedness of the Borrowers under Facility 3 of the BJK Loan Agreement, following the Facility 3 Repayment, was approximately \$1,547,261. As of April 1, 2024, the total indebtedness under the BJK Loan Agreement (inclusive of both facilities) was approximately \$6,921,088.

### **3. Unsecured Liabilities**

108. As per the Applicants’ books and records, the Applicants’ unsecured trade debt as of March 28, 2024 totalled approximately \$2,779,512. This amount excludes any amounts owing in respect of the Merida Funding (as defined below).

**(a) Trade Creditors**

109. The Applicants incur obligations in the ordinary course of business to various trade creditors. Given the nature of their business, the Applicants rely on a number of vendors and third-party service providers and, as such, are party to a number of agreements for the provision of certain essential services in connection with operating a business in the cannabis industry.

**(b) The Merida Funding**

110. On October 18, 2021, Heritage entered into a note and warrant purchase agreement (the “**Merida Warrant Agreement**”) with Merida Capital Partners III LP, and Merida Capital Partners IV LP (each a “**Merida Purchaser**” collectively, the “**Merida Purchasers**”) pursuant to which each Merida Purchaser agreed to fund to Heritage \$750,000 USD for an aggregate funding of \$1,500,000 USD (the “**Merida Funding**”). The aggregate amount of the Merida Funding (i.e. \$1,500,000 USD) was to be disbursed in four tranches from October 18, 2021 through December 31, 2021. Pursuant to the Merida Warrant Agreement, at closing of each disbursement, Heritage would issue to the lender a convertible promissory note (each, a “**Note**” and together, the “**Notes**”) and a warrant (each, a “**Warrant**” and together, the “**Warrants**”).

111. As at October 31, 2022, Heritage received all tranches of \$1,500,000 USD (equivalent to \$1,855,270 CDN) in total principal, and issued a Note and Warrant upon the cash receipt per tranche. A copy of the Merida Warrant Agreement, together with the Notes issued to the Merida Purchasers, is attached hereto as **Exhibit “I”**.

112. Heritage issued Notes to the Merida Purchasers on October 18, 2021 (in the principal amount of USD \$660,000), October 29, 2021 (in the principal amount of USD \$375,000),

November 30, 2021 (in the principal amount of USD \$375,000) and December 31, 2021 (in the principal amount of USD \$90,000). Each Note had a maturity date that was twenty-four (24) months following the date of issuance (each a “**Note Maturity Date**”). In general, the Notes provide for payment of the interest owing in common shares of Heritage, and on the Maturity Date, if the Notes have not been paid in full, the Merida Purchaser may elect to either require payment in cash of the entire outstanding balance under the Note or convert the entire outstanding balance into common shares of Heritage.

113. As at March 26, 2024, CAD \$2,608,475 is outstanding under the Merida Funding.

**C. Employee Source Deductions, Excise Duty, GST/HST, and Health Canada liabilities**

**1. Employee Source Deductions**

114. The Applicants utilize the payroll management services of Automatic Data Processing, Inc. (“**ADP**”). ADP pays the employee source deductions on the Applicants’ behalf. The payment of employee source deductions is current.

**2. Health Canada Liabilities**

115. Each of Heritage East and Heritage West have certain debts owing to Health Canada in respect of which they have entered into the payment instalment agreements described below.

**(a) East-HC Instalment Agreement**

116. On October 16, 2023, Health Canada and Heritage East entered into a Payment Instalment Agreement (the “**East-HC Instalment Agreement**”) in connection with an overdue invoice for a sum of \$94,557.71. Pursuant to the East-HC Instalment Agreement, Heritage East must make



minimum monthly payments of \$8,529.31 for a twelve (12) month period and is required to pay all outstanding accumulated interest in the final monthly payment. As of the date of this Affidavit, Heritage East is indebted to Health Canada in the approximate amount of \$60,000. A copy of the East-HC Instalment Agreement is attached hereto as **Exhibit “J”**.

**(b) West-HC Instalment Agreement**

117. On October 23, 2023, Health Canada and Heritage West entered into a Payment Instalment Agreement (the “**West-HC Instalment Agreement**”) in connection with an overdue invoice for a sum of \$417,679.26. Pursuant to the West-HC Instalment Agreement, Heritage West must make minimum monthly payments of \$37,538.41 for a twelve (12) month period and is required to pay all outstanding accumulated interest in the final monthly payment. As of the date of this Affidavit, Heritage West is indebted to Health Canada in the approximate amount of \$225,000. A copy of the West-HC Instalment Agreement is attached hereto as **Exhibit “K”**.

**3. Excise Duty**

118. A federal excise duty is payable by a licensed cannabis producer when cannabis products are packaged, based on the quantity of flowers and non-flowering materials, viable seeds or vegetative cannabis plants included in the dried/fresh cannabis, cannabis plant and cannabis europlant seed product. The federal excise duty is to be paid monthly.

119. I understand that, as at March 28, 2024, the aggregate amount owed to CRA in respect of excise tax arrears was approximately \$11,770,310 (“**Excise Tax Arrears**”), comprising of approximately \$6,541,557 owed by Heritage East and \$5,228,753 owed by Heritage West. The excise tax arrears owed by Heritage East and Heritage West to CRA are for the periods October

2023 through to August 2023. Certain material correspondence with CRA regarding the Excise Tax Arrears is described below.

**(b) Excise Tax Arrears Payment Arrangements**

120. The substantial excise tax arrears owed by Heritage East and Heritage West have been the subject of correspondence with CRA. Those discussions with the CRA ultimately culminated in Heritage East and Heritage West entering into payment arrangements with CRA's Collections Branch with respect to the payment of the Excise Tax Arrears (the "**Excise Tax Arrears Payment Arrangements**"). The Excise Tax Arrears Payment Arrangements are described below.

121. Following discussions and negotiations with the CRA's Collection Branch, the parties entered into the Excise Tax Arrears Payment Arrangements which required Heritage East and Heritage West to: (a) make monthly payments towards full payment of Excise Tax Arrears within a specified time frame; and (b) ensure that monthly excise duty payable is paid by the due date (i.e. the last day of the calendar month following the relevant reporting period). Copies of letters sent by CRA, dated February 28, 2024 and February 26, 2024 sent to Heritage East and Heritage West, respectively, which make reference to the Excise Tax Arrears Payment Arrangements are attached hereto as **Exhibit "L"**.

122. In order to further renew the East Excise Cannabis License, CRA maintains that Heritage East must continue to satisfy its statutory obligations under the *Excise Act* and the conditions under the East Excise Cannabis License. For example, in a letter dated January 22, 2024 sent by CRA to Heritage East concerning the East Excise Cannabis License (the "**CRA January 22 Letter**"), CRA noted that Heritage East must comply fully with all terms and conditions of the payment arrangement agreed to with CRA's Collections branch, including: (a) making the monthly payment

towards the Excise Tax Arrears for the term of the payment arrangement; and (b) ensuring that monthly excise duty payable is paid by the due date (i.e. the last day of the calendar month following the relevant reporting period). A copy of the CRA January 22 Letter is attached hereto as **Exhibit “M”**.

123. Under the Excise Tax Arrears Payment Arrangements, as of April 1, 2024, the Applicants are expected to make amortized monthly payments totalling approximately \$322,481 in respect of Excise Tax Arrears, comprising of approximately \$189,524 per month on account of Heritage East’s excise tax arrears, and \$132,956 per month on account of Heritage West’s excise tax arrears. As discussed further below, these monthly payments increase substantially over the term of the payment arrangement.

#### **4. GST/HST**

124. As of March 28, 2024, the outstanding GST/HST obligations to CRA owed by Heritage East was approximately \$98,325, and by Heritage West was approximately \$1,529,622.

125. On or about March 12, 2024, the BC Liquor Distribution Branch sent a letter to Heritage West (“**LDB-HW Letter**”) advising that the BC Liquor Distribution Branch had received a Requirement to Pay notice from CRA for Heritage West requiring BC Liquor Distribution Branch to send any money that would otherwise be payable to Heritage West at a rate of 40% of all payments directly to CRA. A copy of the LDB-HW Letter is attached hereto as **Exhibit “N”**.

126. On or about March 12, 2024, the BC Liquor Distribution Branch also sent a letter to Heritage East (“**LDB-HE Letter**”) advising that the BC Liquor Distribution Branch had received a Requirement to Pay notice from CRA for Heritage East requiring BC Liquor Distribution Branch

to send any money that would otherwise be payable to Heritage East at a rate of 40% of all payments directly to CRA. A copy of the LDB-HE Letter is attached hereto as **Exhibit “O”**.

127. As of March 28, 2024, approximately \$298,141 was owing from BC Liquor Distribution Branch to Heritage West. As of March 28, 2024, approximately \$16,091 was owing from BC Liquor Distribution Branch to Heritage East.

#### **D. Cash Flow Forecast**

128. With the assistance of the Proposed Monitor, the Applicants have undertaken a cash flow analysis to determine the quantum of funding required to finance their operations, assuming the Initial Order is granted, over a 13-week period (the “**Cash Flow Forecast**”). I understand that the Cash Flow Forecast will be attached to the pre-filing report of the Proposed Monitor.

129. The Cash Flow Forecast indicates that the Applicants will require DIP financing during the pendency of the CCAA Proceedings to ensure that they have the liquidity required to, among other things, continue their business operations, meet their obligations as they come due, and implement the SISP during the CCAA Proceedings.

### **VI. CHALLENGES AND LIQUIDITY ISSUES FACED BY THE APPLICANTS**

#### **A. Challenges**

130. Notwithstanding the consistent growth of the Applicants’ business due to the Applicants’ focus on, among other things, product innovation, additional product launches within existing brands, increasing sales and service revenues, and operational improvements, and notwithstanding the Applicants’ increase in net revenue for the year ended October 31, 2023, and over the previous

quarter, the Applicants remain unable to resolve certain issues which have contributed to large comprehensive losses for the Applicants for several years.

131. Generally speaking, there are a number of sector-specific challenging factors which impact the cannabis industry including, among other things:

- (a) The cannabis industry is highly regulated, and is experiencing rapid change amid a heavily saturated market.
- (b) A complex and administrative-heavy regulatory and licensing regime, alongside competition from the illicit market, has caused significant uncertainty in the industry space.
- (c) An increased taxation burden from excise taxes, as well as the need for remitting same in advance of collected of related receivables, has detrimentally impacted growth potential within the sector.
- (d) The challenging conditions in the cannabis industry have negatively affected the ability of cannabis companies to obtain investment or financing for operations and capital expenditures.

132. More specifically, the Applicants' gross margins remain adversely impacted by the effects of high excise duty rates imposed by the federal and provincial governments in Canada. The Applicants currently maintain an overall excise duty rate of approximately 30% of gross revenues. After deducting payment of excise duties from the Applicants' gross revenue, and after taking into account the cost of sales, the Applicants' gross margin is insufficient to satisfy the general and administrative expenses of the Applicants.

133. The Applicants' revenues are also negatively impacted by provincial pricing movements. While the high rates of excise duties and fees are maintained, the Applicants' net income remains under continuous pressure and these effects cannot be offset by any cost initiatives undertaken by the Applicants.

134. The Applicants are currently making aggregate monthly payments of approximately \$1,422,000, comprised of approximately \$152,000 on account of GST, \$270,000 on account of the Excise Tax Arrears, and in excess of \$1 million in respect of the Applicants' current monthly excise tax payments. These payments are expected to increase substantially in the future because, among other things, the amortized monthly payments being made under the Excise Tax Arrears Payment Arrangements will increase from \$270,000 per month to approximately \$618,000 by October 2024 (and will further increase thereafter). Although the Applicants have to date been able to meet their obligations as they come due, they do not have sufficient liquidity to satisfy their expected future payments to the federal and provincial governments and to also continue to meet all of their obligations as they come due.

135. Payments under the Excise Tax Arrears Payment Arrangements are contributing to the substantial pressure on the Applicants' cash flows. At this time, the Applicants do not generate sufficient revenue to repay the Excise Tax Arrears in full.

136. The Applicants rely on numerous vendors and third-party service providers to operate their business. If the Applicants' cash flow is further adversely impacted by the factors discussed above and/or as a result of enforcement by creditors, the Applicants will be unable to satisfy their liabilities. Any interruption in service from such third parties because of their refusal to do so on

account of unpaid amounts owed to them may prevent the Applicants from operating in the ordinary course.

137. The BJK Loan had a maturity date of January 31, 2025. The BJK Loan provided favourable interest rates as compared to other options available to the Applicants, which was advantageous to the Applicants as it freed up cash flow for the Applicants.

138. BJK has delivered demand letters to the Borrowers demanding repayment of the BJK Loan and has delivered Notices of Intention to Enforce Security pursuant to section 244(1) of the BIA (collectively, the “**Demands**”).

## **B. Prior Strategic Efforts**

139. The Applicants, in consultation with its advisors, have pursued several strategic initiatives to improve their operations and financial position including, among other things:

- (a) entering into the Sale and Leaseback Transaction which involved selling, on October 31, 2023, the real estate properties in Ontario (previously owned by 333) and in British Columbia (previously owned by 5450) to BJK Developments for net purchase price of \$9,714,475, which was used to reduce the Applicants’ long-term debt to BJK and interest charges associated with that debt, and leasing those properties back from BJK Developments under lease terms which included 12-month rent free periods, representing approximately \$1,389,000 of savings;
- (b) negotiating an extension of the term financing under the BJK Loan Agreement pursuant to various amending agreements and most recently through the Third Amendment dated October 31, 2023 which extended the due date of the BJK Loan

through to January 31, 2025, while retaining its revolving line of credit of up to \$5,000,000 with BJK which was also extended until January 31, 2025;

- (c) entering into an equity line of credit agreement with Obsidian Global Partners, LLC in November 2022 pursuant to which Heritage sold, on a private placement basis, common shares of Heritage for aggregate gross proceeds of up to US\$20,000,000; however, given the prevailing market conditions, as of October 31, 2023, the aggregate cash consideration received for the release from escrow of 9,706,849 commons shares of Heritage was approximately \$176,266. The equity line of credit with Obsidian Global Partners, LLC was subsequently cancelled;
- (d) entering into payment instalment agreements with Health Canada in respect of amounts owed by Heritage East and Heritage West to Health Canada;
- (e) entering into payment arrangements with CRA's Collections branch in connection with payment of excise tax arrears;
- (f) adding multiple new revenue channels and expanding the Applicants' business into new markets with an asset light model;
- (g) optimizing manufacturing processes, making production refinements to enable more efficient production, and improving inventory management and control systems resulting in a decrease in inventory adjustments;
- (h) reducing costs by: (i) decreasing reliance on third party service providers; (ii) rightsizing the organizational spend; and (iii) reducing headcount of employees;



- (i) attempting to engage in portfolio optimization by focusing on best-selling products for strongest gross profit margins; and
- (j) with the assistance of Beacon Securities Limited, an investment banking and mergers and acquisitions (“M&A”) advisory firm, conducting an out-of-Court sale process to solicit interest from potential qualified bidders in the Applicants and/or their assets.

140. Despite the Applicants’ best efforts, their financial circumstances and liquidity situation did not improve. The Applicants do not have access to traditional lending, leaving them with only short-term lending options that come with high interest rates. The combination of the current inflationary period and the rising interest rate environment has created additional risks and pressures on the Applicants’ financial position.

141. It is critical for the Applicants to maintain their licenses with Health Canada and CRA to ensure the business operates as a going concern in the cannabis industry. With the benefit of the protections afforded by the CCAA, the Applicants will be able to maintain their going concern value, preserve jobs for their employees, and generally stabilize their business operations for the benefit of all of their stakeholders.

## **VII. CCAA PROCEEDINGS AND RELIEF SOUGHT**

142. There is significant, urgent, and pressing need for the relief sought through CCAA protection for the Applicants. Without the benefit of a stay of proceedings, the Heritage Group will not be able to respond to and address all of the above noted stakeholder issues.

143. In consultation with their advisors, including KPMG, the Applicants have determined that the CCAA process provides the most beneficial plan of action to maximize value for Heritage Group's stakeholders.

144. As discussed previously, at the Comeback Hearing, the Applicants will seek approval of the SISP and the DIP Loan. The Applicants are of the view that a court supervised SISP under the CCAA will be the best value maximizing strategy in the circumstances and is in the best interests of Heritage Group and its stakeholders.

145. The proposed Initial Order under the CCAA is substantially in the form of the Ontario model initial order found on the Commercial List website. Key elements of the Initial Order are described below.

**A. Appointment of Monitor**

146. The Applicants seek the appointment of KPMG as Monitor of the Applicants in these CCAA proceedings.

147. I have been advised by Pritesh Patel of KPMG that KPMG is a trustee within the meaning of section 2 of the BIA and is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA.

148. KPMG is familiar with the operations of the Applicants, as KPMG was previously engaged as a financial advisor to assess the Applicants' strategic alternatives and restructuring initiatives. The original engagement of KPMG as financial advisor was made appropriately through a process run by the Board to ensure the independence of the eventual potential Monitor of these contemplated CCAA proceedings.

149. KPMG has reviewed and assisted in the preparation of the Cash Flow Forecast and has provided guidance and assistance in the commencement of these CCAA proceedings.

150. As a result, KPMG has developed critical knowledge about the Applicants, their business operations, financial challenges, strategic initiatives and restructuring efforts to date.

151. KPMG has not acted as the Applicants' auditor and is a licensed insolvency trustee.

152. KPMG has consented to act as the Monitor, subject to Court approval. A copy of the Consent to Act as Monitor provided by KPMG is attached hereto and marked as **Exhibit "P"**.

153. I am also advised by Mr. Patel of KPMG that the Proposed Monitor is supportive of the relief sought herein, and that the Proposed Monitor will be filing a pre-filing report in respect of such relief.

## **B. Stay of Proceedings**

154. Given the challenges faced by the Applicants described herein, the Applicants require a stay of proceedings to maintain the *status quo* and to give the Applicants the breathing space they require to develop and execute a SISP in consultation with their advisors and the Monitor.

155. It would be detrimental to the Applicants' business if proceedings were commenced or continued, or rights and remedies were executed, against the Applicants. Absent the Stay of Proceedings, the Applicants will not be able to continue to operate their business and will be forced to initiate an abrupt disorderly shutdown.

156. The Applicants are seeking to extend the Stay of Proceedings to the Non-Applicant Stay Parties due to the integration of the business and operations of Heritage Group. Substantially all

of the strategic business affairs of the Heritage Group, including key decision-making, are conducted through personnel and supported by professional advisors who are located in Canada. The extension of the Stay of Proceedings to these entities is intended to prevent uncoordinated realization and enforcement attempts from being made in different jurisdictions, and thereby preventing immediate losses of value for Heritage Group and its stakeholders.

157. The Applicants believe that there is material value in certain of the Non-Applicant Stay Parties and that without the benefit of the Stay of Proceedings, the value of such entities could quickly erode to the detriment of the Heritage Group's stakeholders.

158. In addition to the Stay of Proceedings against the Applicants and their Property, the Applicants are seeking a stay of proceedings against the directors and officers of the Applicants and the Non-Applicant Stay Parties to ensure that they are able to focus their efforts on the Applicants' restructuring efforts and to prevent creditors and others from seeking to do indirectly what they cannot do directly by asserting claims or other relief relating to the debts and obligations of the Applicants and the Non-Applicant Stay Parties against their respective directors and officers.

159. In light of the foregoing, the Stay of Proceedings is in the best interests of the Applicants and their stakeholders. I understand that the Proposed Monitor believes that the Stay of Proceedings – including its extension to the Non-Applicant Stay Parties – is appropriate in the circumstances.

### **C. Ability to Pay Certain Pre-Filing Amounts**

160. Pursuant to the proposed Initial Order, the Applicants are seeking authorization (but not the obligation) to pay, among other things:

- (a) all outstanding and future wages, salaries, contract amounts, employee and pension benefits, vacation pay and employee expenses (including, without limitation, in respect of expenses charged by employees to corporate credit cards) payable prior to, on, or after the date of the Initial Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements, and all other payroll and benefits processing expenses; and
- (b) with the consent of the Monitor and in accordance with the terms of the Cash Flow Forecast, amounts owing for goods and services actually supplied to the Applicants prior to the date of the Initial Order by third party suppliers, up to a maximum aggregate amount of \$500,000, if such third party is critical to the business and ongoing operations of the Applicants.

161. I believe this relief is necessary to maintain ordinary course operations, particularly the highly regulated nature of the Applicants' business. The Applicants' ability to operate their business in the normal course is dependent on their ability to obtain an uninterrupted supply of certain goods and services.

162. I understand that the Monitor is supportive of that relief.

**D. Administration Charge**

163. It is contemplated that a Court-ordered charge over the Property would be granted in favour of the Monitor, counsel to the Monitor, insolvency counsel to the Applicants (Chaitons LLP), and corporate counsel to the Applicants (Owens Wright LLP) (the "**Administration Professionals**"),

to secure payment of their professional fees and disbursements, whether incurred before or after the date of the Initial Order (the “**Administration Charge**”).

164. The proposed Administration Charge being sought pursuant to the Initial Order is for a maximum amount of \$250,000. The Administration Charge is proposed to rank ahead of and have priority over all of the other Charges.

165. In preparation of the Cash Flow Forecast, the Applicants, in consultation with the Proposed Monitor, considered the professional fees forecasted to be incurred on a weekly basis during the cash flow period. Until the week of the Comeback Hearing (Week 2), the Applicants forecast to incur significant professional fees (including retainers) in connection with the CCAA proceedings, such as preparing for the Comeback Hearing, communicating with employees and stakeholders following the initial filing, developing a SISF and complying with statutory notices, mailings and communications.

166. Accordingly, I believe the quantum of the Administration Charge sought is reasonably necessary at this time to secure the professional fees of the Administration Professionals for the applicable period.

167. All of Administration Professionals have contributed, and will continue to contribute, to the Applicants’ restructuring efforts. Each of the beneficiaries of the Administration Charge will have distinct roles in the Applicants’ restructuring.

168. The Applicants, in consultation with the Monitor, and their respective advisors, will seek an increase to the Administration Charge at the Comeback Hearing.

169. The Monitor is supportive of the Administration Charge.

**E. Directors' Charge**

170. It is contemplated pursuant to the proposed Initial Order that the Applicants' directors and officers ("**Directors and Officers**") would be granted a Court-ordered Directors' Charge on the Property, up to a maximum amount of \$900,000.

171. The Directors' Charge is intended to address potential claims that may be brought against directors and officers following the commencement of the proceedings. The Applicants' ordinary course operations give rise to potential director liability, including on account of payroll obligations and sales taxes.

172. It is my understanding that the Applicants' present and former directors and officers are among the potential beneficiaries under various liability insurance policies. However, I understand from legal counsel to the Applicants that these policies may have various exceptions, exclusions and carve-outs, and may not provide sufficient coverage against potential liability that may be incurred during potential CCAA proceedings.

173. The Directors' Charge is therefore crucial to the continued involvement of the Directors and Officers during the CCAA proceeding to provide them with certainty regarding their personal liability. The Directors and Officers have skills, knowledge and expertise, as well as established relationships with various stakeholders, that are critical to a successful restructuring.

174. The quantum of the Directors' Charge was developed with the assistance and support of the Proposed Monitor taking into account the anticipated payroll, sales tax and other exposures that give rise to director liability for the applicable period.

175. The Applicants are of the view that the quantum of the Directors' Charge is reasonably necessary at this time to address circumstances that could lead to potential directors' liability prior to the Comeback Hearing.

176. The Applicants, in consultation with the Monitor, and their respective advisors, will seek an increase to the Directors' Charge at the Comeback Hearing.

177. The Applicants believe that the Directors' Charge is reasonable in the circumstances. I understand that the Proposed Monitor is supportive of the Directors' Charge and its quantum.

#### **F. Approval of Cash Management System**

178. Given the nature and scale of Heritage Group's operations through the Cash Management System, the continued use of the existing Cash Management System is required and appropriate during these CCAA proceedings. I understand that the Monitor is also supportive of this relief.

#### **G. Relief Relating to Securities Filings**

179. The Applicants seek authorization to dispense with certain securities filing requirements. In particular, the Applicants seek authorization for the Applicants to incur no further expenses in relation to any filings (including financial statements), disclosures, core or non-core documents, restatements, amendments to existing filings, press releases or any other actions (collectively, the "**Securities Filings**") that may be required by any federal, provincial, or other law respecting securities or capital markets in Canada, or by the rules and regulations of a stock exchange, including without limitation, the *Securities Act* (Ontario), and comparable statutes enacted by other provinces of Canada, and other rules, regulations and policies of the CSE.



180. In my view, incurring the time and costs associated with preparing the Securities Filings will detract from the Applicants' successful restructuring. Further, there is no prejudice to stakeholders given that detailed financial information and other information regarding the Applicants will continue to be made publicly available through the materials filed in these CCAA proceedings.

#### **H. Relief in respect of Licenses**

181. Certain Subsidiaries hold licenses with Health Canada and cannabis licenses with CRA which are essential to the continued operation of the Applicants' business. The Applicants seek to have such licenses and the Subsidiaries' ability to receive cannabis excise stamps preserved and maintained during the CCAA Proceedings, including their ability to sell cannabis inventory in the ordinary course under those licenses. Licenses issued to the Heritage East and Heritage West by CRA are currently subject to renewal on a monthly basis. Furthermore, certain licenses issued by Health Canada and CRA could expire, if not further renewed, during the pendency of the CCAA Proceedings (including as early as April 12, 2024). The terms of such licenses must continue for the duration of the CCAA Proceedings to ensure that the relevant Subsidiaries operate as a going concern. Without the stability of customer contracts that the Applicants have developed, they would lose vital revenue streams, threatening their viability and frustrating the fundamental purpose of these CCAA Proceedings. The Applicants have included Health Canada and CRA on the service list and sent a copy of the application record to them (albeit on short notice).

#### **VIII. RELIEF TO BE SOUGHT AT COMEBACK HEARING**

182. If the Initial Order is granted, the Applicants propose to return to this Court for a Comeback Hearing.

183. At the Comeback Hearing, the Applicants intend to seek the Court's approval of an Amended and Restated Initial Order. For the benefit of this Court and the Applicants' stakeholders, this section highlights critical relief that the Applicants intend to seek at the Comeback Hearing. The Applicants may seek additional relief if determined to be necessary or advisable.

**A. Extension of Stay of Proceedings**

184. The Applicants intend to seek an extension of the Stay of Proceedings for a sufficient length of time to allow the Applicants to complete the SISP without having to incur additional costs during that process to return to Court to seek a further extension of the stay of proceedings.

**B. Increase to Charges**

185. The Applicants intend to seek to increase the quantum of the Court-ordered Charges over all other encumbrances. In accordance with the CCAA, parties affected by this relief will be served with the Notice of Application in advance of the Comeback Hearing.

186. In addition, the Applicants will also seek appropriate priming of the Charges at the Comeback Hearing, with notice given to all secured parties at that time.

**C. Approval of DIP Loan and DIP Lender's Charge**

187. As previously indicated, the Applicants intend to seek approval of DIP Loan and the DIP Lender's Charge in favour of the DIP Lender at the Comeback Hearing.

**D. SISP**

188. At the Comeback Hearing, the Applicants will likely seek the approval of the SISP and the Stalking Horse Purchase Agreement, which will give certainty to employees, customers,

regulators, suppliers and stakeholders that the Heritage Group will continue as a going concern when the SISP concludes. The terms of the SISP will be detailed in a separate report of the Proposed Monitor, or alternately within a supplemental affidavit, to be sworn.

**IX. CONCLUSION**

189. In the circumstances, I believe that the CCAA proceedings are the best means of restructuring the Applicants' business and operations for the benefit of their stakeholders and the relief sought in the Initial Order is limited to what is reasonably necessary to stabilize the Applicants' business in the initial ten (10) day period.

190. For the reasons set out herein, the Applicants respectfully request this Court grant the Initial Order.

**SWORN REMOTELY** by David Schwede stated as being located in the City of Kelowna, in the Province of British Columbia, before me at the City of Toronto, in the Province of Ontario, on April 2, 2024 in accordance with O. Reg. 431/20, Administering Oath or Declaration Remotely.



---

**DANISH AFROZ**  
Commissioner for Taking Affidavits  
(or as may be)



---

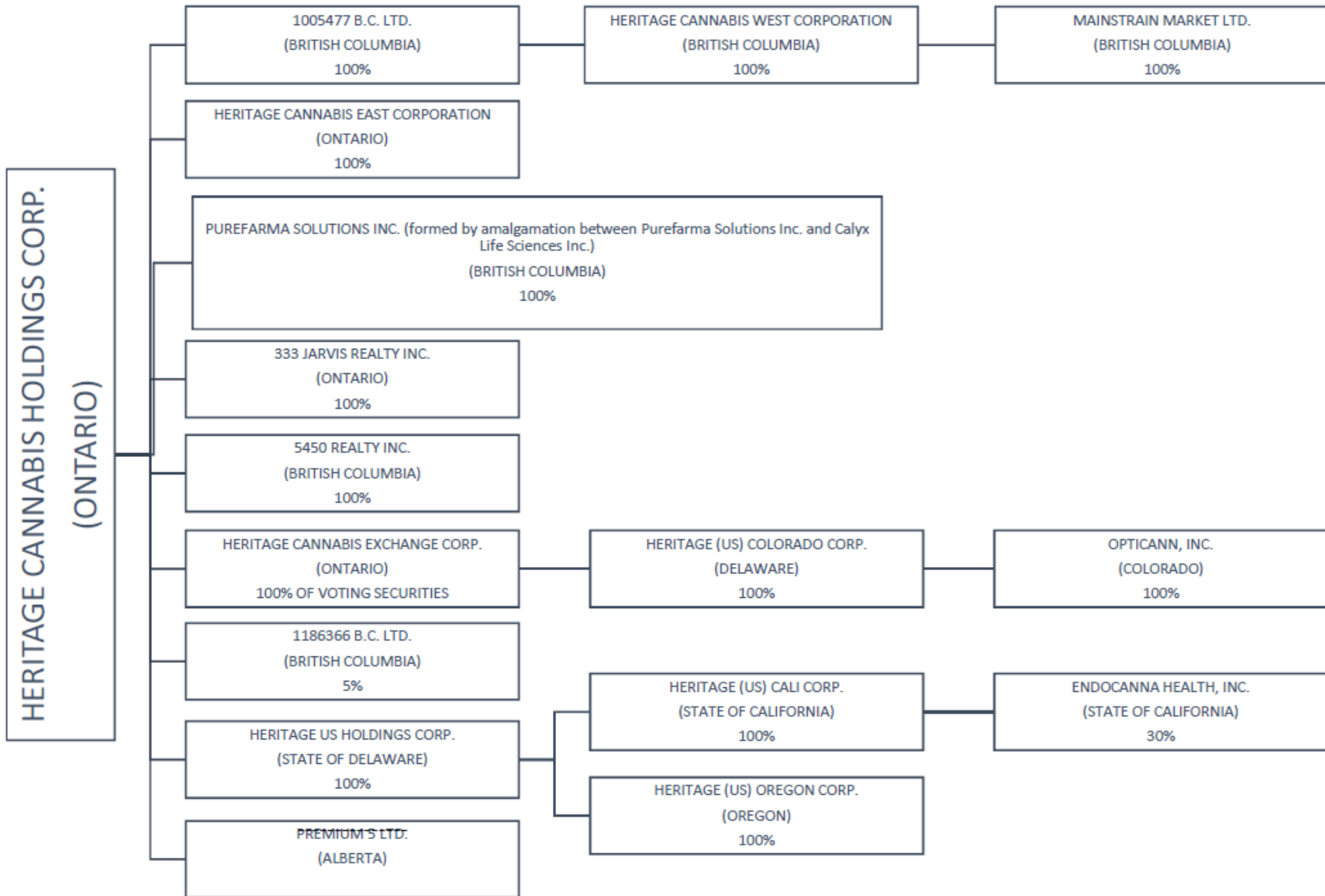
**DAVID SCHWEDE**

***THIS IS EXHIBIT "A" TO THE  
AFFIDAVIT OF DAVID  
SCHWEDE SWORN BEFORE ME  
THIS 2nd DAY OF APRIL, 2024***

A handwritten signature in blue ink, consisting of a stylized, cursive script that is difficult to decipher but appears to be a name.

---

***A Commissioner Etc.***



***THIS IS EXHIBIT "B" TO THE  
AFFIDAVIT OF DAVID  
SCHWEDE SWORN BEFORE ME  
THIS 2<sup>ND</sup> DAY OF APRIL, 2024***

A handwritten signature in blue ink, consisting of a stylized, cursive script that is difficult to decipher but appears to be a name.

---

***A Commissioner Etc.***

**LEASE AGREEMENT**

**BJK DEVELOPMENTS LTD.**

Landlord

- and -

**HERITAGE CANNABIS EAST CORPORATION**

Tenant

**333 JARVIS STREET, FORT ERIE, ONTARIO**

**Dated: October 31, 2023**

## TABLE OF CONTENTS

ARTICLE I LEASE SUMMARY.....	7
<b>Section 1.01 Lease Summary</b> .....	7
<b>Section 1.02 Schedules</b> .....	8
ARTICLE II DEFINITIONS.....	8
<b>Section 2.01 Definitions</b> .....	8
ARTICLE III LEASE OF PREMISES AND TERM.....	13
<b>Section 3.01 Premises</b> .....	13
<b>Section 3.02 Term</b> .....	13
<b>Section 3.03 Acceptance of Premises</b> .....	13
<b>Section 3.04 Quiet Enjoyment</b> .....	13
<b>Section 3.05 Net Lease</b> .....	13
ARTICLE IV RENT.....	14
<b>Section 4.01 Rent</b> .....	14
<b>Section 4.02 Base Rent</b> .....	14
<b>Section 4.03 Calculation of Base Rent</b> .....	14
<b>Section 4.04 Additional Rent</b> .....	14
<b>Section 4.05 Payments of Base Rent and Additional Rent</b> .....	14
<b>Section 4.06 Late Payment</b> .....	15
<b>Section 4.07 Payment of Sales Tax/HST</b> .....	15
<b>Section 4.08 Rent Free Period</b> .....	15
<b>Section 4.09 Determination of Fair Market Value</b> .....	15
ARTICLE V OPERATION OF PREMISES AND OPERATING EXPENSES.....	16
<b>Section 5.01 Operation of Premises</b> .....	16
ARTICLE VI TAXES.....	16
<b>Section 6.01 Taxes Payable by Tenant</b> .....	16
<b>Section 6.02 Payment of Tenant's Tax Obligations</b> .....	17
<b>Section 6.03 Contest of Taxes</b> .....	17
ARTICLE VII USE.....	18
<b>Section 7.01 Permitted Use</b> .....	18



<b>Section 7.02 Uses Prohibited</b> .....	18
<b>Section 7.03 Waste and Nuisance</b> .....	18
<b>Section 7.04 Waste Removal</b> .....	19
<b>Section 7.05 Compliance with Laws</b> .....	19
<b>Section 7.06 Signs</b> .....	20
<b>Section 7.07 Security</b> .....	20
<b>ARTICLE VIII ENVIRONMENTAL MATTERS</b> .....	20
<b>Section 8.01 Hazardous Substances</b> .....	20
<b>Section 8.02 Tenant Operations</b> .....	21
<b>Section 8.03 Permits and Documents</b> .....	21
<b>Section 8.04 Communication of Orders, Directives or Notices</b> .....	21
<b>Section 8.05 Landlord Access</b> .....	21
<b>Section 8.06 Indemnification re: Environmental Matters by the Tenant</b> .....	22
<b>Section 8.07 Remedial Action</b> .....	22
<b>Section 8.08 Removal</b> .....	23
<b>ARTICLE IX SERVICES AND UTILITIES</b> .....	23
<b>Section 9.01 Utility and Service Charges</b> .....	23
<b>Section 9.02 Heating</b> .....	23
<b>Section 9.03 No Landlord Liability</b> .....	23
<b>ARTICLE X MAINTENANCE, REPAIRS, AND ALTERATIONS</b> .....	24
<b>Section 10.01 Maintenance and Repairs of Premises</b> .....	24
<b>Section 10.02 Landlord Access and Repair</b> .....	24
<b>Section 10.03 Landlord and Capital Repairs</b> .....	25
<b>Section 10.04 Alterations</b> .....	25
<b>Section 10.05 Construction Lien</b> .....	26
<b>Section 10.06 Ownership and Removal of Alterations</b> .....	26
<b>Section 10.07 Tenant Not To Overload Floors or Facilities</b> .....	26
<b>ARTICLE XI ASSIGNMENT AND SUBLEASING</b> .....	26
<b>Section 11.01 Landlord's Consent Required</b> .....	26
<b>Section 11.02 Change of Control</b> .....	28

Section 11.03 No Release of Tenant .....	28
Section 11.04 Permitted Transfers .....	28
ARTICLE XII INSURANCE AND INDEMNIFICATION .....	29
Section 12.01 Landlord's Insurance.....	29
Section 12.02 Specific Features of the Landlord's Insurance Policies .....	29
Section 12.03 Payment of the Landlord's Insurance Premiums and Deductibles .....	29
Section 12.04 Jeopardizing the Landlord's Insurance .....	29
Section 12.05 Tenant's Insurance.....	30
Section 12.06 Specific Features of the Tenant's Insurance Policies .....	31
Section 12.07 Failure of the Tenant to Insure.....	32
Section 12.08 Application of Insurance Proceeds .....	32
Section 12.09 Limitation on the Landlord's Liability .....	32
Section 12.10 Indemnity.....	33
Section 12.11 Landlord to Look First to Insurance.....	33
ARTICLE XIII DAMAGE AND DESTRUCTION .....	33
Section 13.01 Partial Damage to Premises .....	33
Section 13.02 Total or Substantial Destruction.....	34
Section 13.03 Rent Abatement.....	34
ARTICLE XIV DEFAULTS AND REMEDIES .....	35
Section 14.01 Events of Default .....	35
Section 14.02 Accelerated Rent .....	36
Section 14.03 Remedies .....	36
Section 14.04 Distress .....	38
Section 14.05 Non-Waiver of Defaults.....	38
Section 14.06 Landlord's Rights Cumulative.....	39
ARTICLE XV SUBORDINATION AND ACKNOWLEDGEMENTS .....	39
Section 15.01 Subordination .....	39
Section 15.02 Estoppel Certificates .....	39
ARTICLE XVI NOTICES .....	40
Section 16.01 Notices .....	40

ARTICLE XVII END OF TERM .....40

**Section 17.01 Surrender of the Premises** .....40

**Section 17.02 Removal of Trade Fixtures**.....40

**Section 17.03 Removal of Leasehold Improvements** .....41

**Section 17.04 Holdover**.....41

**Section 17.05 Early Termination at Tenant’s Option** .....41

ARTICLE XVIII GENERAL .....41

**Section 18.01 Force Majeure** .....41

**Section 18.02 Health Emergency** .....42

**Section 18.03 Compliance with Laws**.....42

**Section 18.04 Dispute Mechanism** .....43

**Section 18.05 Governing Law** .....43

**Section 18.06 Entire Agreement; Amendments and Modifications** .....44

**Section 18.07 Waivers** .....44

**Section 18.08 Successors and Assigns** .....44

**Section 18.09 Severability** .....44

**Section 18.10 Headings**.....44

**Section 18.11 Planning Act (Ontario)** .....44

**Section 18.12 Registration of Lease.** .....44

**Section 18.13 Expropriation.** .....44

**Section 18.14 Counterparts**.....44

**Section 18.15 Authority**.....45

**Section 18.16 Guaranty** .....45

ARTICLE XIX EXTENDED TERM.....45

SCHEDULE A LEGAL DESCRIPTION OF THE LAND .....48

SCHEDULE B FLOOR PLAN .....49

THIS LEASE dated October 31, 2023

BETWEEN:

**BJK DEVELOPMENTS LTD.,**  
(hereinafter called the "**Landlord**")

OF THE FIRST PART

-and-

**HERITAGE CANNABIS EAST CORPORATION**

(hereinafter called the "**Tenant**")

OF THE SECOND PART

**ARTICLE I**  
**LEASE SUMMARY**

**Section 1.01 Lease Summary.** The following is a summary of some of the Basic Terms of this Lease, which are elaborated upon in the balance of this Lease. For details of the terms referred to below, recourse should be had to the balance of this Lease. This Section 1.01 is for convenience and if a conflict occurs between the provisions of this Section and any other provisions of this Lease, the other provisions of this Lease shall govern.

- (a) **Premises:** The Lands and the Building municipally known as 333 Jarvis Street, Fort Erie, Ontario.
- (b) **Rentable Area of the Building:** Approximately 122,300 square feet.
- (c) **Initial Term:** Ten Years (10) years.
- (d) **Commencement Date:** November 1, 2023
- (e) **Expiry Date:** October 31, 2033
- (f) **Base Rent:**

Years of Term	Per Square Foot	Per Annum	Per Month
Year 1:	\$0.00 psf	\$0.00	\$0.00
Year 2:	\$5.94 psf	\$726,000.00	\$60,500.00
Year 3:	\$7.81 psf	\$955,192.00	\$79,599.00

Year 4-10: As determined by the Fair Market Base Rent.

- (g) **Use of Premises/Permitted Use:** The use in connection with the operation of cannabis cultivation, sales, processing, extraction, and general office use for management and ancillary uses, all of the foregoing in compliance with the Cannabis Law, applicable Law, and the guidance and instruction of the Regulator, but for no other purpose. In the event that a change in the Law renders the use described in the previous sentence a violation of the Law, upon Landlord's receipt of written notice of the same from Tenant, the "Permitted Use" will mean any use in compliance with the Laws.

**Section 1.02 Schedules.** All Schedules to this Lease are incorporated into and form an integral part of this Lease.

## ARTICLE II DEFINITIONS

Section 2.01 **Definitions.** The terms defined in this **ARTICLE II** shall have the following meanings whenever used in this Lease:

"**Additional Rent**" shall mean all monetary obligations, other than Base Rent, of the Tenant whether to the Landlord or otherwise under the terms of this Lease, whether or not specified as Additional Rent herein.

"**Affiliate**" has the meaning given to such term in the *Business Corporations Act*, R.S.O. 1990, c. B.16 (OBCA) in force as of the date of this Lease.

"**Alterations**" shall mean any change, alteration, addition, or improvement to the Premises following completion of the initial Leasehold Improvements.

"**Appurtenant Improvements**" shall mean all appurtenant improvements and facilities located on or hereafter constructed on the Land for the use or enjoyment of the Building, including, if applicable, all beneficial easements, driveways, sidewalks, parking, loading and landscaped areas, truck wells and any detention and/or retention ponds benefitting the Building, including, without limitation, the On-Site Improvements and Leasehold Improvements.

"**Arbitration**" shall have the meaning set forth in Section 18.04.

"**Authorities**" shall mean any government, governmental agency, board, branch, department or other governmental authority, whether federal, provincial or municipal, having jurisdiction over all or part of the Premises or the parties.

"**Base Rent**" shall have the meaning set forth in **Section 1.01(f)** and payable by the Tenant in accordance with **Section 4.02** hereof.

"**Basic Terms**" means those terms of this Lease set out in **Section 1.01** hereof.

**"Building"** shall mean the building or buildings including all fixtures, improvements and amenities located on the Lands.

**"Building Standard"** means the reasonable standards and practices adhered to and observed from time to time by prudent owners and operators of similar good class industrial buildings in the vicinity of the Premises comparable with the Premises and in applying such standards and practices to the Premises at any particular time during the Term (and any extension thereof) the age of the Premises shall be taken into consideration.

**"Business Day(s)"** shall mean any day of the week excluding Saturday, Sunday and statutory holidays in the province in which the Premises are situate and "day" shall mean a calendar day.

**"Cannabis Law(s)"** shall mean the *Cannabis Act*, *Cannabis License Act*, and any applicable rules or regulations now or hereinafter in effect related to or resulting from the use or production of cannabis.

**"Capital Taxes"** means the taxes or excises imposed by any and all taxing Authorities having jurisdiction upon the Landlord based upon or computed by reference to the capital employed or invested by the Landlord in the Lands, the Building and improvements thereon.

**"Commencement Date"** shall have the meaning set forth in **Section 1.01(d)**.

**"Early Termination Date"** shall have the meaning set forth in Section 3.02(b).

**"Encumbrances"** means any and all charges, liens, registrations, clouds, or defects in title, access deficiencies, zoning deficiencies, other impediments to development, or any other thing or matter affecting the Premises that would be considered at common law or by statute as an "encumbrance".

**"EPA"** shall mean the *Environmental Protection Act*, R.S.O. 1990, c. E.19, as amended from time to time, or any statute which replaces or supersedes the EPA.

**"Environmental Laws"** means any and all applicable Laws as now or may at any time hereafter be in effect, and any binding judicial or administrative interpretation thereof, including any binding judicial or administrative order, consent decree, or judgment, regulating, relating to, or imposing liability or standards of conduct concerning protection of the environment or, to the extent relating to exposure to substances that are harmful or detrimental to the environment, or human health or safety, including the EPA, and all other legislation, regulations and applicable orders, decisions or the like rendered by any Authorities relating to any Hazardous Substances.

**"Event(s) of Default"** shall have the meaning set forth in **Section 14.01** hereof.

**"Expiry Date"** shall have the meaning set forth in **Section 1.01(e)**, as same may be extended by any Extended Terms, or such earlier date on which the Term shall sooner end pursuant to any of the terms, covenants, or conditions of this Lease or pursuant to Law.

**"Fair Market Base Rent"** shall mean the arm's length fair market annual rental rate under renewal leases entered into on or about the day on which the Fair Market Base Rent is being determined hereunder for space comparable to the Premises taking into consideration size, age and location, and to be determined in consideration with Section Section 4.09 hereof.

**"Force Majeure Event"** means any act of God, flood, fire, earthquake, tsunami, explosion, lightning, storm, washout, power shortages, nuclear and radiation activity or fallout, war, invasion, hostilities (whether war is declared or not), terrorist threats or acts, sabotage, riot or other civil unrest, government order or law, strike, lockout, or other industrial disturbance, Health Emergency, epidemic, pandemic, quarantine, or any similar events whatsoever not within the reasonable control of the party affected, but only if and to the extent that: (i) such circumstance cannot be prevented, avoided, remedied, or removed despite the exercise of good faith and reasonable diligence by such party; and (ii) such circumstance materially and adversely affects the ability of the party to perform its obligations under this Lease but lack of funds on the part of such party shall be deemed not to constitute a Force Majeure Event, and such party has taken all reasonable precautions, due care and reasonable alternative measures in order to avoid the effect of such event on the party's ability to perform its obligations under this Lease and to mitigate the consequences thereof.

**"GAAP"** shall mean Canadian generally accepted accounting principles in effect from time to time.

**"Hazardous Substances"** shall mean those substances that are generally considered hazardous to human health and includes any pollutants, liquid wastes, industrial wastes, hauled liquid wastes, toxic wastes, dangerous or hazardous wastes, materials or substances or contaminants. Notwithstanding the foregoing, cannabis and related substances or products containing or relating to the same are explicitly excluded from this definition of Hazardous Substances, unless deemed otherwise by such applicable Law or the Regulator.

**"Health Emergency"** means a situation in which the Landlord determines, based on advice from a medical professional, or a directive, bulletin, notice or other form of communication from a public health authority, that occupants, Tenants, invitees or contractors working in or on the Premises are or may be exposed to imminent danger from a disease, virus or other biological or physical agents that may be detrimental to human health including, by way of example and not limited to, severe acute respiratory syndrome (SARS) virus, the 2009 H1N1 flu and the 2019 novel coronavirus disease (COVID-19).

**"Heritage West Lease"** means the lease dated for reference October 31, 2023, between Heritage Cannabis West Corporation, as tenant, and BJK Developments Ltd., as landlord, for the property municipally known as 5450 Highway 97, Falkland, British Columbia.

**"HST"** shall mean all goods and services taxes and/or harmonized sales tax exigible under the *Excise Tax Act*, R.S.C. 1985, c. E-15, sales taxes, use, consumption, value-added taxes, multistage taxes, business transfer taxes or other similar taxes, rates, duties, levies or fees assessed, levied, rated, charged or imposed on the Landlord or the Tenant in respect of this Lease, Rent, the rental of space under this Lease or the goods and services provided by the Landlord hereunder, calculated in accordance with applicable legislation.

**"HVAC"** shall mean the heating, ventilation and air conditioning systems.

**"Initial Term"** shall have the meaning set forth in **Section 1.01(c)**.

**"Interest Rate"** shall mean the Prime Rate plus ten percent (10%) per annum but, in no event, in excess of the maximum permissible interest rate then in effect in Canada.

**"Land"** shall mean the lands and premises identified in **Schedule A** hereof.

**"Law(s)"** shall mean all laws, bylaws, statutes, and ordinances (including building codes and zoning ordinances and regulations), rules, orders, ordinances, rulings, decrees, guidelines, policies, directives, and requirements of all Authorities, whether now or hereafter in force, respecting the use, condition and occupation of the Premises and all Leasehold Improvements, trade fixtures, furniture, fixtures, equipment and contents thereof, and which may be applicable to the Premises, or any part thereof, including, without limitation, any reciprocal easement, covenant, restriction, or other agreement, restriction of easement of record affecting the Premises as of the date of this Lease or subsequent thereto. Notwithstanding the foregoing, the term **"Laws"** explicitly excludes all Cannabis Law.

**"Lease"** shall mean this lease agreement between the Landlord, as landlord, and the Tenant, as tenant, as amended, amended and restated, renewed, extended, supplemented, replaced, or otherwise modified from time to time.

**"Leasehold Improvements"** means all fixtures, improvements including drainage improvements, installations, Alterations and additions now or from time to time hereafter made, erected or installed, whether by the Tenant, the Landlord or anyone else, in the Premises with the exception of trade fixtures, racking, and furniture and equipment not of the nature of fixtures, but includes all of the following, whether or not any of the same are in fact Tenant's or trade fixtures and whether or not they are easily disconnected and moveable: doors, immovable partitions and hardware; mechanical, electrical and utility installations; carpeting, other affixed floor and window coverings and drapery hardware; decorations; HVAC equipment; lighting fixtures; built-in furniture and built-in furnishings; counters in any way connected to the Premises or to any utility services located therein. Drainage improvements means all drainage retention and storm water runoff systems, and any other drainage requirements for cannabis production, and its related uses as anticipated by the Permitted Use.

**"On-site Improvements"** means all sidewalks, service drives, parking areas, driveways, streets, access-ways to public streets and highways, curbs, utilities, directional signs and related improvements and landscaping, delivery and servicing areas adjoining the Building, traffic and parking lot striping and control signs, lighting and any fencing or screening located on or benefitting the Land.

**"Operating Expenses"** shall have the meaning set forth in [Section 5.01](#) hereof.

**"Permitted Encumbrances"** means all those Encumbrances listed in the schedule annexed to this Agreement as Schedule A.

**"Permitted Transfer"** shall mean a transaction described in [Section 11.04](#).

**"Permitted Use"** shall have the meaning set forth in [Section 1.01\(g\)](#).

**"Premises"** shall mean the Lands, together with the Building and all other structures, improvements, equipment and facilities of any kind erected or located on the Lands, including any Appurtenant Improvements, from time to time, with approximately 122,300 square feet located in the Building, and as approximately set out in the floor plan attached hereto as Schedule B.

**"Prime Rate"** shall mean the rate of interest per annum established and published as its prime lending rate from time to time by the Royal Bank of Canada, or any successor thereto.



**"Regulator"** means any of the following as applicable – a corporation, body, governmental body, or organization as appointed or under the authority of the Alcohol Gaming Commission of Ontario, *Cannabis Act*, *Cannabis License Act*, and any other applicable rules or regulations.

**"Rent"** shall mean Base Rent and Additional Rent.

**"Structure"** means the structural elements of the Building, including the foundation, exterior wall assemblies including weather walls, load bearing walls, floor slab, roof, roof deck, and structural columns.

**"Taxes"** means all taxes, rates, duties, levies, fees and assessment whatsoever (imposed by any and all taxing Authorities having jurisdiction) levied, charged or assessed upon the Rents or the Premises or upon any part or parts thereof and all improvements now or hereafter erected or placed on the Lands or charged on account thereof, including but not limited to local improvement charges (but excluding profit and excess profit taxes and taxes assessed upon the inform of the Landlord). In addition to the foregoing, Taxes shall include any and all taxes, charges, levies or assessments which may in the future be levied, charged or assessed in lieu thereof or in addition thereto. Taxes shall exclude the Landlord's income taxes, place of business taxes, corporation taxes or taxes personal to the Landlord. Capital Tax is also excluded from this definition as it may be included in "Operating Expenses" to the extent it is applicable. It is understood and agreed that the Tenant shall not be responsible for any penalties or interest incurred by the Landlord as a result of its delinquent payment of Taxes.

**"Tenant"** shall mean the entity defined as such in the first paragraph of this document, and its permitted successors and permitted assigns.

**"Term"** shall mean the Initial Term

**"Transfer"** shall have the meaning set forth in **Section 11.01** hereof.

**"Transferee"** shall have the meaning set forth in **Section 11.01** hereof.

### **ARTICLE III LEASE OF PREMISES AND TERM**

**Section 3.01 Premises.** In consideration of the rents, covenants and agreements herein contained on the part of the Tenant to be paid, observed, and performed, the Landlord hereby leases to Tenant, and the Tenant hereby leases from the Landlord, the Premises. The Tenant has the right, but not the obligation, to operate Tenant's business in the Premises twenty-four hours per day for each day of the week, subject to the laws of the province in which the Premises is located or relevant local government or municipality regarding the operation of business on holidays, Sundays or otherwise. The Landlord represents to and covenants with the Tenant that the Landlord is both the legal and beneficial owner of the Premises. At Tenant's cost, the Landlord will use commercially reasonable efforts to cause any prior or subsequent mortgagee or other party holding any financial encumbrances of the Lands to execute and deliver to the Tenant a non-disturbance agreement based on commercially reasonable terms.

**Section 3.02 Term.**

- (a) The Term of the Lease shall begin on the Commencement Date and end on the Expiry Date, subject to earlier termination pursuant to any of the terms, covenants, or conditions of this Lease or pursuant to Laws.
- (b) Commencing not less than Two (2) years after the Commencement Date, either party shall have the right to terminate this Lease, without penalty or bonus on delivery to the other party of a written notice, terminating the Lease on not less than Six (6) months' following the date of delivery of the notice (the "**Early Termination Date**").

**Section 3.03 Acceptance of Premises.** The Tenant acknowledges that, as of the date of this Lease agreement, it is in possession of the Premises that the Tenant is already and is in possession of the Premises, and accepts the Premises on an "as is" basis and that neither the Landlord, nor any of the Landlord's agents, has made any oral or written representations or warranties expressed or implied of any kind whatsoever in respect of the Premises, including in connection with the condition, suitability for development, legality, fitness for a particular purpose, merchantability, title, physical characteristics, profitability, use or zoning, environmental condition, existence of latent defects, quality, or any other aspect or characteristic of the Premises. The Tenant hereby acknowledges that the Premises is acceptable for Tenant's intended Permitted Use. The Tenant expressly waives any warranty of condition or of habitability of suitability for occupancy, use, habitation, fitness for a particular purpose, or merchantability, express or implied, relating to the Premises.

**Section 3.04 Quiet Enjoyment.** The Landlord covenants and agrees that, if and so long as the Tenant pays the Rent and all other amounts payable under this Lease and observes and performs all provisions of this Lease that are to be complied with by the Tenant, the Tenant may peaceably and quietly enjoy the Premises for the Term without interruption or disturbance by the Landlord or any person acting by, through or under the Landlord, subject always to the Landlord's rights under the provisions of this Lease and the Permitted Encumbrances.

**Section 3.05 Net Lease.** This Lease is an absolute net lease to the Landlord, except as otherwise set out herein. The Tenant shall pay, as Additional Rent, all expenses of every kind whatsoever relating to or arising from the Premises and the operations on the Premises, unless expressly set forth herein.

**ARTICLE IV  
RENT**

**Section 4.01 Rent.** The Tenant shall pay to the Landlord, at such address as shall be designated from time to time by the Landlord during the Term, in lawful money of Canada without any demand, set off, abatement, compensation or deduction whatsoever, on the days and at the times specified herein, Rent.

**Section 4.02 Base Rent.**

- (a) Commencing on the Commencement Date, the Tenant shall pay to the Landlord a fixed minimum annual rent ("**Base Rent**") for each year of the Initial Term in the annual

amount(s) described as Base Rent in Section 1.01(f) hereof, to be paid in equal monthly instalments as described as Base Rent in Section 1.01(f) hereof, in advance on the first day of each month during the Term, without notice or demand.

- (b) Base Rent due for any period of less than twelve (12) months (or any monthly installment of Base Rent due for any period of less than a full month) shall be appropriately apportioned based upon a 360-day year (or based upon the number of days in such month).

**Section 4.03 Calculation of Base Rent.**

- (a) The Base Rent set out in Section 4.02 and Section 1.01(f) hereof, shall not be adjusted based on the Rentable Area of the Building or the area of the Lands.

**Section 4.04 Additional Rent.**

- (a) The Tenant shall pay to the Landlord all Additional Rent that is payable to the Landlord pursuant to the terms and conditions of this Lease within Five (5) Business Days after written demand therefore from the Landlord, unless a different time period is specified in this Lease.
- (b) The Tenant shall pay all Additional Rent owing to any supplier of utilities, supplies or other directly and promptly provide the Landlord, upon reasonable request, proof of payment thereof.

**Section 4.05 Payments of Base Rent and Additional Rent.** All Base Rent and Additional Rent (such Additional Rent that is due and owing to the Landlord pursuant to the terms and conditions of this Lease) shall be paid, without notice or demand, except as otherwise specifically provided in this Lease:

- (a) by cheque, made payable to the Landlord at such address as shall be designated from time to time by the Landlord in writing during the Term (and any extension thereof) or to such other parties and at such other addresses as the Landlord shall direct by notice to the Tenant from time to time;
- (b) at Landlord's or Tenant's option (at any time upon not less than Three (3) days' prior written notice), by wire transfer of immediately available funds to an account at a bank designated by the Landlord in writing; or
  - (i) by any other method reasonably requested by the Landlord. At the Landlord's option, Landlord may require the Tenant to participate in a pre-authorized payment plan or to deliver, at the beginning of a lease year, a series of monthly post-dated cheques for Base Rent and/or Additional Rent for a lease year.

**Section 4.06 Late Payment.** If any payment of Rent, or any other charge or expense payable under this Lease is not received by the Landlord on the applicable due date, the Tenant shall pay to the Landlord, as Additional Rent, in addition to the late charge described above, interest on the overdue amount to the Landlord at the Interest Rate. Such overdue payment shall bear interest from the

applicable due date, without regard to any grace period, until the date such payment is received by the Landlord. Such payment shall be in addition to, and not in lieu of, any other remedy the Landlord may have.

**Section 4.07 Payment of Sales Tax/HST.** During the Term (and any extension thereof), the Tenant shall pay the full amount of all HST, sales, use, excise, and rental taxes levied, assessed, or payable for or on account of this Lease, or the rent payments contemplated by this Lease, or the rents and other sums of money payable under or by virtue of the Lease. Such payments shall be made directly to the Landlord together with and at the same time as Rent, or otherwise as provided by Law. For greater certainty, HST shall be payable at the same time as the Tenant pays Rent to the Landlord.

**Section 4.08 Rent Free Period.** During the first year of the Term, the Tenant shall not be required to pay Base Rent, as in Section 4.02 of this Lease (the “**Rent Free Period**”). During the Rent Free Period, the Tenant shall be responsible for and pay, in accordance with this Lease, all other amounts payable by the Tenant under this Lease, including, without limitation, all charges for utilities consumed in the Premises and services or facilities.

**Section 4.09 Determination of Fair Market Value.** The determination of the Fair Market Base Rent shall also take into consideration any reasonably anticipated changes in the Fair Market Base Rent from the time such Fair Market Base Rent is being determined and the time such Fair Market Base Rent will become effective under this Lease. The Landlord and Tenant hereby also agree, as follows:

- (a) The Fair Market Base Rent shall be agreed upon by the Landlord and the Tenant not later than three (3) months prior to the date on which such Fair Market Base Rent is to be in effect, and, if applicable, during any extension term or renewal term, not less than three (3) months prior to such extension or renewal term. If the Landlord and the Tenant are unable to agree upon the Fair Market Base Rent within such times as set forth in the preceding sentence, it shall be determined by arbitration as set forth herein; and
- (b) The Fair Market Base Rent shall be not less than the Base Rent payable by the Tenant to the Landlord during the immediately preceding lease year.

## **ARTICLE V OPERATION OF PREMISES AND OPERATING EXPENSES**

**Section 5.01 Operation of Premises.** The Tenant shall be responsible and shall actively and diligently throughout the Term (and any extension thereof) pay and perform all managerial, administrative and operation functions relating to the Premises and this Lease, to be managed and maintained to Building Standard and performed in the same manner as would a prudent owner. Without limiting the generality of the foregoing, the Tenant shall perform and pay for, except as set out below, without duplication or profit, subject to any other provision in this Lease, which shall form the “Operating Costs” under this Lease, as set out below:

- (a) All costs and expenses for the operation, maintenance, repair, replacement (including costs of a capital nature but excluding structural repairs and replacements that are the

responsibility of the Landlord) and management of and related to the Premises and all improvements thereon, and the Tenant shall attend to same on a timely basis and in such a manner as would a prudent owner of a property such as the Premises, and in order that the Premises shall be operated and kept to Building Standard;

- (b) All maintenance, repairs and replacements to the parking areas, driveways, roadways, service areas and facilities, including those outside of the Building such as sidewalks, boulevards, off-site utility and service connections and in respect of areas and services shared by users of the Premises and users of other properties, if any, to the extent the Landlord is required to perform or contribute to same as a result of its ownership of the Premises;
- (c) All obligations of the Landlord in consequence of its interest in the Premises, such as landscaping, fences, gates, sprinkler systems and maintaining all outside areas and maintaining, cleaning and clearing of ice and snow from municipal sidewalks, adjacent property and the like, policing, supervision and traffic control; and

Notwithstanding the above, the Tenant is not required to pay all or any part of the following costs and expenses:

- (a) Landlord's income tax, capital and corporation tax or similar type tax or any other tax personal to the Landlord;
- (b) structural repairs or replacements;
- (c) depreciation, amortization or interest;
- (d) ground rentals, mortgage payments or mortgage interest payments; and
- (e) rent collection fees, any expenses or costs related to curing the defaults of other tenants in the Building.

In determining the final total for Operating Costs there will be deducted from Operating Costs, revenue received by the Landlord from charges, if any, for the use of the parking areas or other revenue derived by the Landlord from the common areas.

Tenant further agrees that it shall be responsible for the legal fees incurred by the Landlord for the preparation, negotiation, and execution of this Lease, and such legal fees shall be paid by Tenant to Landlord on the Commencement Date by wire transfer to the Landlord or the Landlord's solicitors as the Landlord may direct.

The Landlord will deliver to the Tenant a certified statement as to the actual Additional Rent including Operating Costs paid to the Landlord and other charges within ninety (90) days of the end of each Fiscal Year and all appropriate adjustments will be made by the Landlord and the Tenant within thirty (30) days of the date of delivery of such statement. The Landlord will keep proper and sufficient records and accounts of all Additional Rent and other charges. The Tenant and its duly authorized agents or representatives, will have the right, at any reasonable time and upon ten (10) days prior notice to the Landlord, to audit and to inspect such records and accounts at the office of the Landlord where they are maintained, for the purpose of verifying any statement of Additional Rent furnished by the Landlord. Any such inspection will be completed or any claims or disputes will be raised no later than one (1) year

after delivery to the Tenant of a statement pursuant to the above. Subject to the preceding sentence, the Landlord's statement on Additional Rent shall be final and binding on the Tenant.

## **ARTICLE VI TAXES**

**Section 6.01 Taxes Payable by Tenant.** During the Term (and any extension thereof), the Tenant shall pay:

- (a) The Taxes charged on the Premises;
- (b) All Taxes charged or assessed against or in respect of all improvements, equipment and facilities of the Tenant on or in the Premises or any part thereof;
- (c) Every Tax which is levied, rated, charged or assessed against or in respect of every business carried on in the Premises or in respect of the use or occupancy thereof by the Tenant and every subtenant or licensee of the Tenant or against the Landlord on account of its interest in the Premises, and whether in any case, any such Taxes are rated, charged or assessed by any federal, provincial, municipal, school or other body during the Term; and
- (d) Capital Tax; and
- (e) The full amount of all HST as provided for in **Section 4.07** of this Lease.

In any calendar year of the Term in which the Tenant does not lease the Premises for the entire twelve-month period, the Tenant shall only be responsible for its pro rata share of the applicable Taxes.

### **Section 6.02 Payment of Tenant's Tax Obligations.**

- (a) During the Term, the Tenant shall be responsible to:
  - (i) Pay promptly directly to the relevant taxing authority as and when due all Taxes that are levied rated, charged or assessed from time to time, in respect of the Premises on the basis of any real property tax bill or assessment notice rendered by any lawful taxing authority;
  - (ii) Within Five (5) days after receipt of any such real property tax bill or assessment notice, provide a copy thereof to the Landlord; and
  - (iii) Promptly deliver to the Landlord receipts evidencing the payment of all such Taxes and such other information in connection therewith as the Landlord reasonably requires.

- (b) The Tenant shall pay all Taxes when they become due and payable, before any interest, penalty, fine or cost may be imposed for late or non-payment, to the department, office or bureau charged with their collection. If the Tenant should fail to pay any Taxes as required under this **Section 6.02**, the Landlord shall have the right to pay such Taxes at the Tenant's expense, and the Tenant shall pay to the Landlord as Additional Rent, upon demand, all costs and expenses incurred therefor.
- (c) Notwithstanding any other section of this Lease, the amount payable by the Tenant under this **Section 6.02** shall be deemed not to be Rent, but the Landlord shall have the same remedies for and rights of recovery of such amount as it has for recovery of Rent under this Lease.

**Section 6.03 Contest of Taxes.** The Landlord, acting reasonably, may contest any Taxes and appeal any assessments related thereto and may withdraw any such contest or appeal or may agree with the relevant Authorities on any settlement in respect thereof. The Tenant will co-operate with the Landlord in respect of any such reasonable contest and appeal and shall provide to the Landlord such information and execute such documents as the Landlord reasonably request to give full effect to the foregoing. If The Tenant desires to contest any Taxes or appeal any assessments related thereto, it shall not do so without obtaining the prior written consent of the Landlord, which consent shall not be unreasonably withheld or delayed. The Tenant shall promptly upon request pay all reasonable costs and expenses, including without limitation legal expenses incurred by the Landlord arising out of such contest or appeal by the Landlord or the Tenant, and indemnify the Landlord against all costs, liabilities or damages incurred by the Landlord arising out of such contest or appeal by the Landlord or the Tenant. While any such contest or appeal by either the Landlord or the Tenant is in progress, the Tenant shall continue to pay the Taxes as if such contest or appeal had not been commenced.

## **ARTICLE VII USE**

**Section 7.01 Permitted Use.** The Tenant shall use the Premises only for the Permitted Use and shall not use the Premises for any other purposes. The Tenant acknowledges that the Landlord is making no representation or warranty as to the Tenant's ability to use the Premises for its intended use, including that the Landlord has not and shall not be responsible for the legality of the production or manufacturing of cannabis products (as may be applicable), and the Tenant shall, prior to executing this Lease, perform such searches and satisfy itself that its use is permitted under applicable Laws, including the legality of such use for the production or manufacturing of cannabis products as may be applicable. Tenant will not use the Premises or permit the Premises to be used in violation of any Law, or which constitutes a nuisance or waste. Tenant will obtain and pay for all permits required for Tenant's use of the Premises for the Permitted Use and will promptly take and pay for all actions necessary to comply with all Laws regulating the use by Tenant of the Premises for the Permitted Use, including, without limitation, compliance the Cannabis Law, and any guidance or instruction of the Regulator. Without limiting the foregoing, it will be a breach of Tenant's obligations under this Section if any judgment (whether final or not) is entered that has the effect (whether by restraining

order, injunction, declaration, or otherwise) of establishing that the Tenant's use of the Premises constitutes a violation of Law.

**Section 7.02 Uses Prohibited.** Tenant will not do or permit anything to be done in or about the Premises nor bring to or keep anything in or on the Premises that is not within the Permitted Use of the Premises or which would reasonably be expected to cause a cancellation of any insurance policy or policies covering the Premises or any part thereof or any of its contents. The Tenant shall ensure that humidity levels and any of the growing conditions required for its Permitted Use shall not impact the Building, Structure, roof, and any related items thereto and shall not affect any of the fixtures or Leasehold Improvements or in impact or cause damage or waste to the Land.

**Section 7.03 Waste and Nuisance.**

- (a) The Tenant shall not cause, or knowingly suffer or permit any waste or damage to the Premises or Leasehold Improvements nor permit any overloading of the floors thereof and shall not use or knowingly permit to be used any part of the Premises for any dangerous, noxious or offensive activity or goods except in the ordinary course of the Permitted Use. The Tenant shall take every reasonable precaution to protect the Premises from risk of damage by fire, water or the elements or any other cause.
- (b) The Tenant shall conduct its business on the Premises in keeping with the Building Standard, except in the ordinary course of the Permitted Use. The Tenant shall not use or permit to be used any part of the Premises for any dangerous, noxious or offensive trade or business nor use the Premises in any manner which, in the opinion of the Landlord acting reasonably, is detrimental to the Premises, nor keep, sell, use, handle or dispose of any goods or things which may be objectionable nor cause or maintain any nuisance in, at or on the Premises nor cause any annoyance, nuisance or disturbance to the occupiers or owners of any adjoining lands. To that end, the Tenant covenants and agrees that it shall not cause, suffer or permit any fumes, odours, noise or other element, any of which is determined by the Landlord, acting reasonably, to be a nuisance or disturbance, to emanate from the Premises; if the Landlord, acting reasonably, determines that any such fumes, odours, noise or other element is emanating from the Premises in such manner as to cause any nuisance or disturbance, the Tenant shall forthwith, upon notice from the Landlord, cause same to be rectified.

**Section 7.04 Waste Removal.** The Tenant shall not allow any refuse, garbage, or any loose, objectionable material to accumulate in or about the Premises and will at all times keep the Premises in a clean and neat condition in accordance with Building Standard. The Tenant, at its expense, shall at all times comply with the Landlord's reasonable rules and regulations regarding the separation, removal, storage and disposal of waste for the Premises. The Tenant shall be responsible for all costs of removal of waste from the Premises, and all waste from the Premises shall be kept in appropriate containers within the Premises in compliance with Laws.

**Section 7.05 Compliance with Laws.**

- (a) The Tenant shall be solely responsible for obtaining from all relevant Authorities all necessary permits, licences and approvals as may be necessary to permit the Tenant to



hold this Lease and to occupy the Premises and conduct its business thereon, as required by all Laws, including without limiting the generality of the foregoing, any necessary extra-provincial license, any necessary licence under applicable legislation and any necessary approvals under the *Investment Canada Act*, R.S.C., 1985, c. 28 (1st Supp.), or any similar legislation.

- (b) The Tenant shall be responsible for and shall comply at its own expense with all Laws, and the Tenant shall promptly perform all necessary repairs, Alterations, changes and improvements to the Premises and the Tenant's business, use, or occupancy thereon in order to comply with such Laws.
- (c) This Lease is subject to strict requirements for ongoing regulatory compliance by the parties hereto, including, without limitation, requirements that the parties take no action in violation of either the Cannabis Law or the guidance or instruction of the Regulator. The parties acknowledge and understand that the Cannabis Law and/or the requirements of the Regulator are subject to change and are evolving as the marketplace for the cannabis businesses continues to evolve. If necessary or desirable to comply with the requirements of the Cannabis Law and/or the Regulator, the parties hereby agree to (and to cause their respective affiliates and related parties and representatives to) use their respective commercially reasonable efforts to take all actions reasonably requested to ensure compliance with the Cannabis Law and/or the Regulator, including, without limitation, negotiating in good faith to amend, restate, amend and restate, supplement, or otherwise modify this Agreement to reflect terms that most closely approximate the parties' original intentions but are responsive to and compliant with the requirements of the Cannabis Law and/or the Regulator. In furtherance, not limitation of the foregoing, the parties further agree to cooperate with the Regulator to promptly respond to any informational requests, supplemental disclosure requirements, or other correspondence from the Regulator and, to the extent permitted by the Regulator, keep all other parties hereto fully and promptly informed as to any such requests, requirements, or correspondence, including, but not limited to, delivering a copy of any correspondence received from the Regulator to the other party immediately, but not more than three (3) Business Days of receipt. Notwithstanding anything in this Lease to the contrary, Tenant will not, without Landlord's prior written consent, take any action (i) which would be commercially reasonably expected to materially affect the validity or applicability of the license to the Tenant or the Premises or (ii) affecting or attempting to affect the transfer or applicability of the license to any person other than the Tenant or real property other than the Premises.

**Section 7.06 Signs.** The Tenant covenants and agrees not to erect, install, display or affix any sign or signs on the Lands or any part of the exterior of the Building without the prior written approval of the Landlord, not to be unreasonably withheld or delayed, and subject to applicable municipal and other governmental regulations. The Tenant shall, unless the Landlord requires otherwise, remove all such signage at the expiration of the Term, or other sooner termination thereof, and forthwith repair all damage which may be caused or occasioned by such affixing and/or removal, reasonable wear and tear excepted and this covenant shall survive the expiry or other termination of the Term.

Section 7.07 **Security.** Notwithstanding the foregoing, Landlord is not responsible for the security of persons or property on or about the Premises and Landlord is not and will not be liable in any way whatsoever for any criminal activity or any breach of security on or about the Building or the Premises, or Land. Tenant will be responsible for obtaining and maintaining all security with respect to the Premises, Building, and Land, whether by the use of devices, security guard personnel, or otherwise. Tenant acknowledges and agrees that Landlord will have no liability to Tenant or its employees, agents, contractors, or invitees for the implementation or exercise of, or for the failure to implement or exercise, any security measures with respect to the Premises, Building, and Land.

## ARTICLE VIII ENVIRONMENTAL MATTERS

Section 8.01 **Hazardous Substances.** The Tenant covenants with the Landlord that it shall not use or permit or suffer the use of the Premises or any part thereof to generate, manufacture, refine, treat, transport, store, handle, dispose of, transfer, produce, process or contain any Hazardous Substance except in strict compliance with all Environmental Laws, including, without limitation, the EPA and all other Environmental Laws in respect of environmental, land use, occupation or health and safety matter. In the event the Tenant fails to comply with any such Environmental Laws, the Landlord may, but shall not be obligated to, do such things as necessary to effect such compliance, and all costs and expenses incurred by the Landlord in so doing, together with an administration charge equal to Fifteen percent (15%) of such costs and expenses, shall be payable forthwith by the Tenant to the Landlord as Additional Rent.

Section 8.02 **Tenant Operations.** Tenant will not cause in, on, or under the Premises, or suffer or permit to occur in, on, or under, the Premises any generation, use, manufacturing, refining, transportation, emission, release, treatment, storage, disposal, presence, or handling of Hazardous Substances, except that limited quantities of Hazardous Substances may be used, handled, or stored on the Premises, provided such limited quantities of Hazardous Substances are incident to and reasonably necessary for the maintenance of the Premises or Tenant's operations for its Permitted Use and is in compliance with all Environmental Laws. Should a release of any Hazardous Substances occur at the Premises as a result of the acts or omissions of Tenant, or those for whom it is legally responsible for at law, Tenant will immediately contain, remove from the Premises and/or properly dispose of such Hazardous Substances and any material contaminated by such release, and remedy and mitigate all threats to human health or the environment relating to such release, all in accordance with Environmental Laws.

Section 8.03 **Permits and Documents.** Tenant, in a timely manner, will, to the extent required due to Tenant's use of the Premises or arising out of Tenant's actions at the Premises, obtain and maintain in full force and effect all permits, licenses, and approvals, and will make and file all notifications and registrations as required by Environmental Laws. Tenant will at all times comply with the terms and conditions of any such permits, licenses, approvals, notifications, and registrations. Tenant will provide copies of the following pertaining to the Premises or Tenant's use thereof, promptly after each will have been submitted, prepared, or received by Tenant in writing: (a) all notifications and associated materials submitted to any governmental agency relating to any Environmental Law; (b) all notifications, registrations, reports, and other documents and supporting information prepared, submitted, or maintained in connection with any Environmental Law or otherwise relating to

environmental conditions; (c) all permits, licenses, and approvals, including any modifications thereof, obtained pursuant to any Environmental Law; and (d) any correspondence, notice of violation, summons, order, complaint, or other documents received by Tenant pertaining to compliance with or liability under any Environmental Law.

**Section 8.04 Communication of Orders, Directives or Notices.** The Tenant covenants with the Landlord that it shall forthwith notify the Landlord upon receipt of any order, directive, notice or other communication whatsoever received from any governmental or other authority relating to any Environmental Laws, which notice shall be accompanied by a copy of such order, directive, notice or other communication and the Tenant shall keep the Landlord advised on a weekly basis of the Tenant's progress in complying with same.

**Section 8.05 Landlord Access.** The Landlord, acting reasonably, shall be entitled at any time upon 24 hours' prior written notice to inspect the Premises and to conduct such other investigations as in its sole discretion it deems necessary for the purpose of satisfying itself as to compliance by the Tenant with all Environmental Laws and with all provisions of this Lease, including, but not limited to, any cannabis-related Laws. Without limiting the generality of the foregoing, the Landlord, acting reasonably, shall have the right upon prior written notice and during business hours to conduct such physical inspections of the Premises and examination of documentation relating to the Premises and the conduct of business thereon by the Tenant, as it may deem necessary and for such purpose the Tenant shall produce, at the offices of the Tenant, all of its relevant files, books, records, statements, plans and other written information in the Tenant's possession relating to the operations of the Tenant thereon, provide that all of such information shall be used by the Landlord solely for the purpose of ensuring compliance by the Tenant with the provisions of this Lease and shall otherwise be kept strictly confidential. In exercising its rights hereunder, the Landlord covenants to use reasonable best efforts to minimize interference with the Tenant's use and enjoyment of the Premises.

**Section 8.06 Indemnification re: Environmental Matters by the Tenant.**

The Tenant covenants with the Landlord that it shall indemnify and save harmless the Landlord and all of its servants, agents, employees, officers, and directors, contractors and persons for whom the Landlord is at law responsible, against any and all liabilities, claims, damages, interests, penalties, fines, monetary sanctions, losses, costs and expenses whatsoever, including without limitation costs of professional advisors and consultants and experts in respect of investigation, remedial action and clean-up costs and expenses, arising in any manner whatsoever out of:

- (a) Any breach by the Tenant of any provisions of this Lease or any non-compliance during the Term with any Environmental Laws;
- (b) Any act or omission of any persons on the Premises (other than the Landlord or those for whom the Landlord is at law responsible) during the Term or any use or occupancy of or any thing in, on, under or about the Premises during the Term, including, without limitation, the generating, manufacturing, refinement, treatment, transportation, storage, handling, disposal, transfer, production or processing of any Hazardous Substance by the Tenant or any other person for whom the Tenant is at law responsible (other than the

Landlord or those for whom the Landlord is at law responsible) in, on, under or about the Premises during the Term, and any nuisance arising therefrom; or

- (c) Any act or omission of the Tenant or persons for whom the Tenant is at law responsible on or about the Premises or elsewhere during the Term; or
- (d) Any illness, injury or death of persons, or any loss or damage to property, on or about the Premises, except to the extent caused by any act or omission of the Landlord or those persons for whom the Landlord is at law responsible.

The obligations set out in this **Section 8.06** shall survive the expiration or earlier termination of this Lease.

**Section 8.07 Remedial Action.** The Tenant covenants, if at any time required by the Landlord, acting reasonably, or by any governmental or other authority pursuant to any Environmental Laws, to take all remedial action required by Environmental Laws in respect of any Hazardous Substances generated, manufactured, refined, treated, transported, stored, handled, disposed, transferred, produced or processed during the Term in, on, under or about the Premises or emanating therefrom, including without limitation, any repairs or replacements to the Premises or Leasehold Improvements in or on the Premises. The obligations set out in this **Section 8.07** shall survive the expiration or earlier termination of this Lease.

**Section 8.08 Removal.** At the expiry or earlier termination of the Term, the Tenant shall remove, to the extent required by Environmental Laws, any and all Hazardous Substances from the Premises which have been brought on to the Premises by or on behalf of the Tenant during the Term or which are present at the Premises as a result of the use or occupation of the Premises by the Tenant during the Term.

## **ARTICLE IX SERVICES AND UTILITIES**

**Section 9.01 Utility and Service Charges.** The Tenant shall pay, directly to the appropriate supplier on the due date, all charges for services and utilities including electricity, gas, air conditioning, heating, fuel, water, sewer, telephone and security delivered or provided to or made available upon the Premises, and other costs which are metered, charged, levied or rated directly to the Tenant in respect of the Premises, and if, at any time, for any reason, during the Term or any renewal or extension thereof, the Landlord is required to pay any or all of the foregoing, then a sum equal to the amount so paid shall forthwith become due and be collectible upon demand, failing which such sums shall become Additional Rent and the Landlord shall have the same rights and remedies with respect to the said sums as if same were Rent hereunder. The Tenant shall pay on the due date all costs for all fittings, connections and meters and all work or services performed in connection with any services or utilities provided to or in respect of the Premises. The Tenant shall deliver to the Landlord upon request, receipted invoices or other reasonable proof of the timely payment of such utilities.

**Section 9.02 Heating.** The Tenant covenants and agrees to heat the Premises at its own expense to a reasonable temperature to prevent the occurrence of any damage to the Premises by cold or frost, and shall ensure at all times, that the heating and cooling systems of the Premises do not damage or cause any humidity damage, including causing any mould or damage to the Building as a result of the Tenant's Use. The Tenant shall keep in good repair and replacement, if necessary, at its expense, the heating and air conditioning equipment. If the HVAC equipment in or serving the Premises shall require maintenance, repair or replacement, the Tenant shall, at its expense promptly attend to same in accordance with the manufacturer's or supplier's specifications and instructions. The Tenant shall at its expense, maintain a service contract for such equipment in or serving the Premises on terms and with a contractor satisfactory to the Landlord, acting reasonably, and in any event to the standard of a prudent owner of such property.

**Section 9.03 No Landlord Liability.** The Landlord shall not be liable for any damages, direct or indirect, resulting from or contributed to by any interruption or cessation of or failure in the supply of any utilities, services or HVAC. Without limiting the generality of the foregoing, the Landlord shall not be liable for indirect or consequential damages or damages for personal discomfort or illness of the Tenant or any persons permitted by it to be on the Premises, by reason of the suspension or non-operation or failure for any period of time of any utilities or HVAC. Tenant shall not seek, and expressly waives any recovery for damages or costs associated with the foregoing from Landlord or Landlord's insurance.

## **ARTICLE X MAINTENANCE, REPAIRS, AND ALTERATIONS**

### **Section 10.01 Maintenance and Repairs of Premises.**

- (a) At all times throughout the Term, the Tenant shall, at its sole cost, perform such repairs, replacement, maintenance (excluding all structural maintenance, repairs and replacements) and including all repairs and replacements for utility lines, HVAC systems and equipment, as required to keep the Premises, including the Building, fixtures and furnishings and all contents thereof (whether or not installed or furnished by the Tenant), all Leasehold Improvements and all services and equipment located in or serving the Building, in good condition as they were on the Commencement Date, and in accordance with Laws, Building Standards and the Landlord's reasonable requirements, subject to normal wear and tear, and subject only to those obligations of the Landlord, if any, expressly provided in **Section 10.02** hereof.
- (b) Without limiting the generality of **Section 10.01(a)**, the Tenant shall, at all times during the Term, at its sole cost keep or cause to be kept, the Premises well maintained, clean and tidy, including without limiting the generality of the foregoing, keeping the Building presentable and of good appearance, the driveways and parking areas free and clear of snow and ice, and the lawn, trees and shrubs in good order and condition, all to the same condition as they were on the Commencement Date. The Tenant will be responsible for any maintenance of properties including and not limited to landscaping, grass cutting,

tree maintenance, lawn maintenance, snow removal, salting, and any road or parking lot maintenance, drainage, security, and such repairs as necessary.

- (c) The Tenant shall maintain, at the Tenant's sole cost, a service contract for the maintenance of all of its obligations and responsibilities as set forth herein with a reputable third-party contractor chosen by the Tenant and approved in advance by the Landlord in writing, if required by Landlord (such approval not to be unreasonably withheld or delayed), and shall ensure that the Landlord is at all times in possession of a copy of such service contract and shall promptly deliver to the Landlord copies of regular inspection reports and details of repairs.
- (d) The Tenant shall give immediate written notice to the Landlord of any material accident, defect, damage or deficiency in any part of the Premises which comes to the attention of the Tenant notwithstanding the fact that the Landlord has no obligation in respect of same. The provisions of this Section 10.01(d) are for information purposes only and shall not be interpreted so as to imply or impose any obligation whatsoever upon the Landlord. The Tenant shall exercise all due diligence to become aware of any such situation.

**Section 10.02 Landlord Access and Repair.** The Tenant shall allow the Landlord and any persons designated by it the right to enter the Premises at any time upon forty-eight (48) hours' prior written notice to view the state of repair and condition thereof and the Tenant shall promptly perform any reasonable maintenance, repairs, replacement or Alterations according to written notice from the Landlord. Provided that if the Tenant neglects to so maintain or to make or cause to be made such repairs or replacements within Ten (10) Business Days or such longer period as reasonably required due to the nature of such work after receipt of written notice from the Landlord, the Landlord may, at its option, do such maintenance or make such repairs or replacements at the expense of the Tenant, and in any and every such case the Tenant covenants with the Landlord to pay to the Landlord forthwith as Additional Rent all reasonable sums which the Landlord may have expended in doing such maintenance and making such repairs and/or replacement; provided further that the doing of such maintenance or the making of any such repairs or replacements by the Landlord shall not relieve the Tenant from its obligations to maintain, repair and replace. The Landlord's right to enter the Premises, or to exercise distress against any inventory or property in the Premises, may be limited or restricted by Cannabis Laws. Notwithstanding anything to the contrary contained in this Lease, the Landlord covenants and agrees that it shall not enter the Premises or exercise distress in such a manner as would cause the Tenant or the Landlord to be in violation of any such Cannabis Laws. All entry into the Premises, by Landlord or any other authorized delegate, shall be subject to a minimum of 48-hours notice and, except in the case of emergency, shall be strictly accompanied access by a Tenant-designated security official, provided that the Tenant makes such designated security official available on the day of such entry and the Tenant hereby agreeing to make such designated security official available on the day of such entry. Such access shall be requested in writing, with time of entry and present delegates documented in writing. No entry to the Premises shall be granted unaccompanied, unless under extenuating emergency circumstances or by authorized law enforcement officials or due to Tenant not making its designated security official available on the day of such entry. If approval from any applicable governmental authorities is necessary in order for the Landlord, its mortgagees, prospective purchasers or other authorized delegates of the Landlord to enter and/or to inspect the Premises, the Tenant shall use its best efforts to support the Landlord and such others in obtaining such necessary approvals, time being of the essence. If the applicable governmental authorities require that

access by the Landlord or such others to certain space within the Premises is conditioned on the Landlord or such others being accompanied by a member of the Tenant's management team, the Tenant shall promptly make available such member of its management team for that purpose in order to provide such access to the Premises, time being of the essence.

### Section 10.03 **Landlord and Capital Repairs.**

- (a) The Landlord shall be responsible for and shall carry out, at its sole cost and expense, all repairs required as a result of, but only to the extent that Landlord was responsible for the construction, building, or erection of such building or Premises, improvements, or Alterations prior to the Commencement Date of this Lease:
  - (i) Inherent structural defects or weaknesses in the Premises;
  - (ii) Structural repairs and replacements;
  - (iii) Defects in repairs or construction performed or installations made by or on behalf of the Landlord; and
  - (iv) The negligent acts or omissions of the Landlord.
- (b) Notwithstanding anything to the contrary contained in this Lease and the provisions of this **ARTICLE X**, if at any time during the Term the cost of any repair or replacement to the Premises constitutes a major capital cost in accordance with GAAP, the Landlord shall make such repairs or replacements, provided that all such repairs and replacements shall be consistent with Building Standard. The cost of such repair or replacement shall be amortized over the useful life expectancy of the asset repaired or replaced on a straight line basis and the Tenant shall pay to the Landlord in each year of the Term the amortized amount of such cost within Ten (10) days after receipt of an invoice therefor from the Landlord. The Landlord covenants to maintain and make all repairs and replacements to the roof, the structural portions of the Premises so as to keep same in good repair and condition as would a prudent owner.

**Section 10.04 Alterations.** The Tenant shall not, without the prior written approval of the Landlord, which shall not be unreasonably withheld or delayed, make any Alterations in or to the Premises. The Tenant's request for approval shall be in writing and accompanied by an adequate description of the contemplated works, and where appropriate, working drawings and specifications, therefor. The Landlord's reasonable costs of having its architect, engineers or others examine such drawings and specifications shall be payable by the Tenant upon demand as Additional Rent. The Landlord may require that any or all such work be done by the Landlord's contractors or workers or by contractors or workers engaged by the Tenant but first approved by the Landlord. All such work shall be subject to inspection by and reasonable supervision of the Landlord and shall be performed in accordance with all applicable Laws and any reasonable conditions and regulations imposed by the Landlord, and shall be completed in a good and workmanlike manner and with reasonable diligence in accordance with the approvals given by the Landlord. The Tenant shall, at its sole costs and expense, before the commencement of any work, obtain all necessary building or other permits and keep same in force. Notwithstanding the foregoing, Alterations not affecting the Structure or electrical, mechanical or other

systems of the Building, and costing less than One Hundred Thousand Dollars (\$100,000) on a per project basis shall not be subject to the aforementioned provisions. The Tenant will however, provide the Landlord with copies of any plans and specifications that the Tenant produces. Notwithstanding anything in this Lease, the Landlord's consent will not be required for cosmetic alterations to the interior of the Premises that do not require a permit.

**Section 10.05 Construction Lien.** The Tenant covenants to pay promptly all its contractors and material suppliers and do any and all things necessary to minimize the possibility of a lien attaching to the Premises or to any part of the Building or the Lands and, should any such lien be made or registered, the Tenant shall discharge same within Five (5) Business Days after notice thereof is given to the Tenant at the Tenant's expense. In the event the Tenant shall fail to cause any such lien to be discharged as aforesaid, then, in addition to any other right or remedy of the Landlord, the Landlord may, but it shall not be so obligated, discharge same by paying the amount claimed to be due in Court and the amount so paid by the Landlord and all costs and expenses including but not limited to legal fees incurred for the discharge of such lien shall be due and payable by the Tenant to the Landlord as Additional Rent within Five (5) Business Days after notice thereof is given to the Tenant.

**Section 10.06 Ownership and Removal of Alterations.** All Alterations and Leasehold Improvements placed on or made to the Premises by Tenant, excluding personal property, furniture, trade fixtures, and other movable property not attached to the Building, shall at once become the property of Landlord, and subject to any other provision in this Lease, upon termination of this Lease shall be surrendered to Landlord or, at Landlord's option, shall be removed at Tenant's expense.

**Section 10.07 Tenant Not to Overload Floors or Facilities.** Tenant shall not bring or permit to be brought into any part of the Premises, any machinery, equipment, object or thing that by reason of its weight, size or use, might damage or endanger any part of the Premises or exceed or overload the capacity of any utility or mechanical facility or service.

**Section 10.08 Tenant Repairs:** The Tenant will, throughout the Term, keep the interior non-structural elements of the Premises in good repair, except that the Tenant will not be obligated to make, or pay for any repair or replacement to the Premises that are the Landlord's obligation to perform under this Lease.

## **ARTICLE XI ASSIGNMENT AND SUBLEASING**

**Section 11.01 Landlord's Consent Required.**

- (a) Other than a Permitted Transfer, the Tenant, directly or indirectly, voluntarily or by operation of law, shall not sell, assign, encumber, mortgage, pledge, or otherwise transfer or hypothecate all of any part of the Premises, or the Tenant's leasehold estate hereunder, or sublet all or any portion of the Premises or permit the Premises to be occupied by anyone other than the Tenant (each such act herein referred to as a "**Transfer**"), without the Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed.



- (b) The Tenant's request for consent to any Transfer shall be accompanied by a written statement setting forth the details of the proposed Transfer, including the name, business and financial condition of the prospective transferee (herein referred to as a "**Transferee**"), financial details of the proposed Transfer (such as the term of the sublease and the amount of rent and security deposit payable under any assignment or sublease), and any other information the Landlord deems relevant. Notwithstanding and without in any way limiting the interpretation of the foregoing, in determining whether or not to grant its consent, it shall not be unreasonable for the Landlord to withhold its consent unless it is shown to the Landlord's satisfaction, acting reasonably, that:
- (i) The proposed Transferee has a good business reputation;
  - (ii) The proposed Transferee has not been bankrupt in the Ten (10) years preceding the date of the proposed Transfer;
  - (iii) The proposed Transferee has financial strength at least sufficient to satisfy all of the obligations of the Tenant hereunder;
  - (iv) The Tenant is not in default under this Lease or any other agreement affecting the Premises; and
  - (v) Without affecting the interpretation of **Section 7.01** or any other provision hereof, the business proposed to be carried on by the Transferee on the Premises will not be more burdensome on the Premises than the business previously carried on by the Tenant on the Premises.
- (c) If the Landlord withholds, delays or refuses to give consent to any Transfer, whether or not the Landlord is entitled to do so, the Landlord shall not be liable for any losses or damages in any way resulting therefrom and the Tenant shall not be entitled to terminate this Lease or exercise any other remedy whatever in respect thereof except to seek the order of a court of competent jurisdiction compelling the Landlord to grant any such consent which the Landlord is obliged to grant pursuant to the terms of this Lease.
- (d) Any consent granted by the Landlord and any Transfer shall be made on the following conditions:
- (i) The proposed Transferee shall agree in writing to assume and perform all of the terms, conditions, covenants and agreements by this Lease imposed upon the Tenant herein, as if the Transferee had originally executed this Lease as tenant in a form to be approved by the Landlord, acting reasonably;
  - (ii) The Tenant shall pay the Landlord all reasonable legal fees in connection with the Transfer;
  - (iii) The consent of the Landlord is not a waiver of the requirement upon the Tenant for the Landlord's consent for any subsequent Transfer;

- (iv) The acceptance by the Landlord of Rent from a Transferee without the Landlord's consent to such Transfer shall not constitute a waiver of the requirement of such consent nor shall it constitute an acceptance of such party as the Tenant; and
- (v) If the Transfer does not take place within Sixty (60) days of the giving of consent by the Landlord, then the Landlord's consent to such Transfer shall, at the Landlord's option, expire and become null and void.

**Section 11.02 Change of Control.** The prohibition against a Transfer set out in **Section 11.01** applies to any change in the direct or indirect effective voting control of the Tenant (if the Tenant is or becomes a corporation), unless the Tenant is a public corporation whose shares are listed and traded on any recognized stock exchange in Canada or the United States. If the Tenant is a partnership or is controlled by a partnership (either directly or indirectly), this prohibition against a Transfer also includes a change in the constitution of the partnership resulting from the withdrawal or addition of any partners. The prohibition also applies to an assignment by operation of law.

**Section 11.03 No Release of Tenant.** Notwithstanding any Transfer (including a Permitted Transfer), and except as may be otherwise expressly agreed to in writing by the Landlord, no Transfer permitted under this Lease, whether with or without Landlord's consent, shall release the Tenant or change the Tenant's primary liability to pay the Rent and to perform all other obligations of the Tenant under this Lease. The Landlord's acceptance of Rent from any other person is not a waiver of any provision of this Lease. Consent by the Landlord to one Transfer is not consent to any subsequent Transfer. If the Tenant's transferee defaults under this Lease, the Landlord may proceed directly against the Tenant without pursuing remedies against the Transferee. The Landlord may consent to subsequent Transfers of this Lease by the Tenant's Transferee, without notifying the Tenant or obtaining its consent. Such action shall not relieve the Tenant's liability under this Lease. If the Tenant transfers the Tenant's interest hereunder, then the Landlord shall receive, as Additional Rent, the excess, if any, between the rent (or other consideration) paid in connection with such Transfer and the Rent payable by the Tenant hereunder.

**Section 11.04 Permitted Transfers.** Notwithstanding anything in this **ARTICLE XI** to the contrary, the Tenant may (if it is not then in default under this Lease), without the consent of the Landlord, but on prior written notice to the Landlord, and provided that the Transferee shall enter into an agreement under which it agrees to be bound by the Lease:

- (a) Assign this Lease to any Affiliate;
- (b) Effect a Transfer in conjunction with the sale of all or substantially all of the business of the Tenant;
- (c) If the Tenant is a corporation, amalgamate or merge with one or more other corporations, provided the resultant corporation has a creditworthiness and net worth equal to that of the original Tenant at the time of the amalgamation or merger;
- (d) Assign the Tenant's interest in this Lease to any bank or banks or other lending institutions for the purpose of securing indebtedness;
- (e) If the Tenant is a public corporation, there is a public offering of the Tenant; and/or

- (f) Sublease all or some portion of the Premises to an Affiliate.

## **ARTICLE XII INSURANCE AND INDEMNIFICATION**

**Section 12.01 Landlord's Insurance.** The Landlord shall, at all times throughout the Term, carry:

- (a) insurance on the Building (excluding the foundations and excavations) and the machinery, boilers and equipment contained therein or servicing the Premises and owned by the Landlord or the owners of the Premises (specifically excluding any property with respect to which the Tenant and other persons are obliged to insure) against damage by fire and extended perils or all-risks coverage;
- (b) public liability and property damage insurance with respect to the Premises; and
- (c) such other form or forms of insurance as the Landlord reasonably considers advisable.

**Section 12.02 Specific Features of the Landlord's Insurance Policies.** Such insurance shall be in such reasonable amounts and with such reasonable deductibles as would be carried by a prudent owner of a reasonably similar industrial building, having regard to size, age and location and may be satisfied by a blanket insurance policy or through one or more separate insurance policies.

**Section 12.03 Payment of the Landlord's Insurance Premiums and Deductibles.** The Tenant shall pay to the Landlord the insurance premiums in respect of the insurance required to be carried by the Landlord in this Lease, as Additional Rent, and in the event of any loss or damage, the Tenant shall pay directly to the Landlord any deductible which the Landlord is required to pay toward or for any insured loss relating to the Premises as Additional Rent. The Landlord shall submit the invoice for such insurance premiums or deductibles to the Tenant as they come due and the Tenant shall pay such amounts forthwith after receipt of such invoice. If the Tenant fails to pay any such premium or deductible when demanded, the Landlord may pay such premiums and deductibles, and claim them from the Tenant as Additional Rent. Notwithstanding any contribution by the Tenant to the cost of insurance premiums provided herein, the Tenant acknowledges and agrees that no insurable interest is conferred upon the Tenant under this Lease for purposes of any policies of insurance carried by the Landlord and the Tenant has no right to receive any proceeds of any such insurance policies carried by the Landlord.

**Section 12.04 Jeopardizing the Landlord's Insurance.** The Tenant shall comply promptly with all requirements of any insurer now or hereafter in effect pertaining to or affecting the Premises and shall not keep, store, use, sell, or offer to sell in or upon the Premises any article which may be prohibited by any insurance policy in force from time to time covering the Premises. If the occupation of the Premises, the conduct of business in the Premises, or any act or omission of the Tenant:

- (a) causes or results in any increase in premiums for the insurance carried from time to time by the Landlord, then the Tenant shall pay any such increase in premiums as Additional Rent forthwith upon demand by the Landlord; or

- (b) causes any insurance policy carried from time to time by the Landlord to be cancelled (or threatened by the insurer to be cancelled) or the coverage thereunder reduced (or threatened to be reduced) in any way by the insurer, the Tenant shall forthwith remedy the condition giving rise to cancellation, threatened cancellation, reduction, or threatened reduction of insurance, in any event, not later than forty-eight (48) hours after written notice thereof by the Landlord.

If the Tenant fails to do any of the foregoing, the Landlord shall be entitled (but without any obligation), at its sole option, to do all such things as may be necessary to protect its insurance coverage, with all outlays by the Landlord in so doing to be paid by the Tenant to the Landlord on demand as Additional Rent and without prejudice to any other rights and remedies of the Landlord under this Lease (including, without limitation, termination of the Lease).

**Section 12.05 Tenant's Insurance.** The Tenant shall, throughout the period that the Tenant remains in possession of the Premises (including, without limitation, during the entire Term and any overholding), at its sole cost and expense, take out and keep in full force and effect, the following insurance:

- (a) all-risks property insurance (including but not limited to sprinkler sudden and accidental escape or discharge, flood, earthquake and collapse coverage) in an amount equal to the full replacement cost thereof upon property of every description and kind of property owned by the Tenant or for which the Tenant is liable, or installed by or on behalf of the Tenant and which is located within the Premises, including, without limitation, Leasehold Improvements, trade fixtures, the Tenant's stock-in-trade, furniture and other personal property (provided that, if there is a dispute as to the amount which comprises full replacement cost, the decision of the Landlord shall be conclusive);
- (b) business interruption insurance in such amount as will reimburse the Tenant for direct or indirect loss of earnings attributable to all perils insured against by the Landlord hereunder and other perils commonly insured against by prudent tenants or attributable to prevention of access to the Premises as a result of such perils (including, without limitation, prevention of access related to **Section 18.01**);
- (c) comprehensive general and legal liability insurance, including bodily injury, property damage and personal injury liability, tenant's legal liability, contractual liability and contractors' protective insurance coverage with respect to the Premises and the Tenant's use of the Premises, with coverage to include the activities and operations conducted by the Tenant and any other person for whom the Tenant is at law responsible, written on a comprehensive basis with inclusive limits of not less than FIVE MILLION DOLLARS (\$5,000,000) for bodily injury to any one or more persons or property damage, and such higher limits as the Landlord requires from time to time;
- (d) if appropriate, broad form comprehensive boiler and machinery insurance on a blanket repair and replacement basis with limits for each accident in an amount not less than the full replacement cost of all Leasehold Improvements and of all boilers, pressure vessels, air-conditioning equipment and miscellaneous electrical apparatus owned or operated by

the Tenant or by others (other than the Landlord) on behalf of the Tenant in or serving the Premises;

- (e) insurance required by reason of the introduction, by or on behalf of the Tenant or any occupant of the Premises, of any radioactive material or other Hazardous Substances, into or on or about the Premises, or for any other material handling requiring special coverage; and
- (f) any other form of insurance which the Landlord, acting reasonably, requires from time to time in form, in amounts and for risks against which a prudent tenant would insure.

**Section 12.06 Specific Features of the Tenant's Insurance Policies.** All insurance policies to be taken out by the Tenant shall:

- (a) be taken out with insurers acceptable to the Landlord registered and licensed to carry on the business of insurance in the jurisdiction in which the Premises are situate;
- (b) be in a form satisfactory from time to time to the Landlord, which form may include a reasonable deductible;
- (c) be non-contributing, and shall apply only as primary and not as excess to any insurance available to the Landlord;
- (d) not be invalidated with regard to the interests of the Landlord or the Landlord's mortgagee by reason of any breach or violation of any warranties, representations or conditions contained in the policies;
- (e) contain an undertaking by the insurers to notify the Landlord and the Landlord's mortgagee in writing not less than thirty (30) days prior to any material change, cancellation or termination thereof;
- (f) name the Landlord and the Landlord's mortgagee as additional insured parties and, in respect of property damage insurance, incorporate the Landlord's mortgagee's standard mortgage clause, if any;
- (g) contain a waiver of subrogation by the insurer in respect of any claims to which it might otherwise be entitled against the Landlord or those for whom the Landlord is at law responsible as well as cross liability and severability of interest endorsements or clauses; and
- (h) be evidenced by certificates of insurance in a form satisfactory to the Landlord or, if required by the Landlord, certified copies of each such insurance policy, as soon as practicable upon request by the Landlord and in any event prior to the Tenant taking possession of the Premises and annually thereafter at least fifteen (15) days prior to the effective date of coverage (provided, however, that no such delivery of insurance certificates or insurance policy, or any review or approval of same by the Landlord shall derogate from or diminish the Landlord's rights or the Tenant's obligations contained in this Lease).

**Section 12.07 Failure of the Tenant to Insure.** If the Tenant fails to take out or keep in force any insurance required of the Tenant herein, whether or not the Landlord has been notified of the cancellation, termination or other failure of the Tenant's insurance, or should any such insurance not be approved by the Landlord, the Landlord has the right, in its sole discretion (but without any obligation), to effect such insurance at the sole cost of the Tenant, with all outlays by the Landlord to be paid by the Tenant to the Landlord on demand as Additional Rent without prejudice to any other rights and remedies of the Landlord under this Lease (including, without limitation, termination of the Lease).

**Section 12.08 Application of Insurance Proceeds.** The Tenant agrees that, in the event of damage or destruction to the Leasehold Improvements in the Premises, the Tenant shall use the proceeds of its insurance for the purpose of repairing or restoring such Leasehold Improvements. In the event of damage to or destruction of the Premises entitling the Landlord to terminate the Lease, then:

- (a) if the Premises have also been damaged or destroyed and the Lease is terminated, the Tenant shall forthwith pay to the Landlord or the Landlord's mortgagee, as the case may be, all of its insurance proceeds relating to the Leasehold Improvements in the Premises; and
- (b) if the Premises have not been damaged or destroyed, the Tenant shall upon demand deliver to the Landlord in accordance with the provisions of this Lease, the Leasehold Improvements and the Premises.

**Section 12.09 Limitation on the Landlord's Liability.** The Landlord shall not be liable for (and is hereby expressly released from) any death or injury arising from or out of any: (i) occurrence in, upon, at or relating to the Premises; (ii) damage to property of the Tenant or of others located on the Premises or elsewhere in the Premises; or (iii) any indirect or consequential damages sustained by the Tenant or others.

Such release and exclusion from liability: (i) applies to liability arising from all events, conditions, and circumstances of any nature or cause except in the case of direct or indirect loss or damage caused by the gross negligence of the Landlord, its agents, servants or employees or other persons for whom it may in law be responsible ; and (ii) does not apply to liability arising out of the willful and deliberate acts and omissions of the Landlord intended to cause damage or injury. Without limiting the generality of the foregoing, the Landlord shall not be liable for:

- (a) any injury or damage to persons or property resulting from fire, explosion, dampness, falling plaster, falling ceiling tile, falling ceiling fixtures (including part or all of the ceiling T-grid system) and diffuser coverings;
- (b) any injury or damage to persons or property resulting from steam, gas, electricity, water, rain, flood, snow or leaks or from the pipes, sprinklers, appliances, plumbing works, roof, windows or subsurface of any floor or ceiling of the Premises or from the street or any other place or by any other cause whatsoever;
- (c) any injury or damage caused by or to other occupants of the Premises, any occupants of adjacent property thereto, tradesmen, employees, and other invitees to the Premises, and the public;

- (d) any injury or damage to persons or property caused by any private construction or by any public or quasi-public works in, on, under or about the Premises; or
- (e) damage or loss of the property of the Tenant or the property of others stored on the Premises at the risk of the Tenant.

Section 12.10 **Indemnity.** Notwithstanding any other provision of this Lease, the Tenant agrees to protect, indemnify and save each of the Landlord and its officers, employees and agents completely harmless from and against any loss, claims, actions, damages, liability and expenses in connection with loss of life, personal injury, damage to property or any other loss or injury whatsoever arising out of this Lease, or any occurrence in, upon or at the Premises, or the occupancy or use by the Tenant of the Premises or any part thereof, or occasioned wholly or in part by any act or omission of the Tenant or by anyone permitted to be on the Premises by the Tenant (including, without limitation, any subrogation claims by the Tenant's insurers in respect of any of the foregoing). If the Landlord shall be made a party of any litigation commenced by any third party in respect of any of the foregoing, then the Tenant shall protect, indemnify and hold the Landlord harmless and shall pay all costs, expenses and reasonable legal fees incurred or paid by the Landlord in connection with such litigation unless the court determines that such liability arose out of the willful and deliberate acts and omissions of the Landlord or those for whom it is in law responsible intended to cause damage or injury. The Tenant shall also pay all costs, expenses and legal fees that may be incurred or paid by the Landlord in reasonably enforcing the terms, covenants and conditions in this Lease unless a court of law having jurisdiction shall decide otherwise.

Section 12.11 **Landlord to Look First to Insurance.** If the Tenant is or becomes liable to the Landlord for any loss, claims, actions, damages, liability that may be covered by policies of insurance required to be carried by the Landlord under this Lease, the Landlord shall look first to recover such amounts from the Landlord's own insurance before seeking to recover same from the Tenant.

Section 12.12 **Landlord's Indemnity.** The Landlord shall indemnify and save harmless the Tenant and its officers, directors, employees, shareholders, agents and those for whom the Tenant is in law responsible (the "**Tenant Indemnified Persons**") from any and all loss, claims, actions, damages, liability and expenses in connection with loss of life, injury to person, damage to or loss of or loss of use of property, or any other loss or injury arising from the gross negligence or willful misconduct of the Landlord or the gross negligence or willful misconduct of the Landlord's employees, agents or those for whom the Landlord is in law responsible. If the Tenant Indemnified Persons, without fault on their part, are made a party to any litigation commenced against or by the Landlord with regard to this Section 12.12, the Landlord shall indemnify and hold such Tenant Indemnified Persons harmless in connection with such litigation (including, without limitation, all reasonable costs and legal fees incurred or paid by the Tenant Indemnified Persons in respect of such litigation).

**ARTICLE XIII  
DAMAGE AND DESTRUCTION**

**Section 13.01 Partial Damage to Premises.**

- (a) The Tenant shall notify the Landlord in writing immediately upon the occurrence of any damage to the Premises. If the Premises are only partially damaged and if the proceeds received by Landlord from the insurance policies maintained by the Landlord are sufficient to pay for the necessary repairs, this Lease shall remain in effect and the Landlord shall repair the damage as soon as reasonably possible. The Landlord shall not be required to make repairs or replacements of any damage to the Leasehold Improvements or to any other fixtures, equipment, or personal property of the Tenant. If the insurance proceeds received by the Landlord are not sufficient to pay the entire cost of repair, or if the cause of the damage is not covered by the insurance policies which the Landlord is required under the terms of this Lease maintains, the Landlord may elect either to:
- (i) Repair the damage as soon as reasonably possible, in which case this Lease shall remain in full force and effect; or
  - (ii) Terminate this Lease effective as of the date the damage occurred.

The Landlord shall notify the Tenant within Fourteen (14) Business Days after receipt of notice of the occurrence of the damage whether the Landlord elects to repair the damage or terminate the Lease. If the Landlord elects to repair the damage, the Tenant shall pay the Landlord the deductible amount (if any) under the Landlord's insurance policies, and, if the damage was due to an act or omission of Tenant, the difference between the actual cost of repair and any insurance proceeds received by the Landlord. If the damage to the Premises occurs during the last Twelve (12) months of the Initial Term, the Landlord may elect to terminate this Lease effective as of the date the damage occurred, regardless of the sufficiency of any insurance proceeds. In such event, the Landlord shall not be obligated to repair or restore the Premises and the Tenant shall have no right to continue this Lease. The Landlord shall notify Tenant of its election within Fourteen (14) Business Days after receipt of notice of the occurrence of the damage.

**Section 13.02 Total or Substantial Destruction.**

- (a) If the Premises are totally or substantially destroyed by any cause whatsoever, or if the Building is substantially destroyed (even though the Premises are not totally or substantially destroyed), to the extent such that in the reasonable opinion of the Landlord's architect or engineer and it cannot be repaired or rebuilt, the Landlord shall have the option to terminate this Lease as of receipt of notice of termination regardless of whether Landlord receives any insurance proceeds. Notwithstanding the foregoing, and regardless of whether or not insurance proceeds are available, if the Premises can be rebuilt within Six (6) months, in the reasonable opinion of the Landlord's architect or engineer, the Landlord may elect to rebuild the Premises at the Landlord's own expense, in which case, this Lease shall remain in full force and effect. If the destruction was caused by an act or omission of the Tenant, the Tenant shall pay the Landlord the



difference between the actual cost of rebuilding and any insurance proceeds received by the Landlord. In the event that in accordance with this **Section 13.02** the Landlord is not bound to repair the Premises and the Tenant shall instead deliver up possession of the Premises to the Landlord, Rent shall be apportioned and paid to the date upon which possession is so delivered up (but subject to any abatement to which the Tenant may be entitled under **Section 13.03** hereof).

**Section 13.03 Rent Abatement.** If the Premises are destroyed or damaged, in whole or in part, and the Landlord repairs or restores the Premises pursuant to the provisions of this Lease, any Rent payable during the period of such damage, repair, and/or restoration shall be reduced in proportion to the part or parts of the Premises not reasonably capable of use and occupancy by the Tenant, if any. However, the abatement shall not exceed the proceeds received by the Landlord from the Tenant's business interruption insurance to be obtained pursuant to this Lease/loss of income insurance coverage. Except for such possible abatement of Rent, the Tenant shall not be entitled to any compensation, reduction, or reimbursement from the Landlord as a result of any damage, destruction, repair, or restoration of or to the Premises.

#### **ARTICLE XIV DEFAULTS AND REMEDIES**

**Section 14.01 Events of Default.** The Tenant shall be in default under this Lease if any one or more of the following events (herein sometimes referred to individually as an "**Event of Default**" and collectively as "**Events of Default**") shall happen and shall not have been remedied as herein provided:

- (a) **Non-Payment of Rent.** If the Tenant fails to make any payment of Rent due under this Lease or any part thereof after five (5) days' prior written notice.
- (b) **Non-Monetary Default.** Other than monetary defaults in **Section 14.01(a)**, if the Tenant fails to observe or perform of any of the other covenants, agreements, terms, or conditions of this Lease on the part of the Tenant to be kept and performed, and such default continues for a period of Ten (10) Business Days after written notice thereof from the Landlord to the Tenant, *provided, however, that* with respect to any default (other than a default which can be cured by the payment of money) that cannot be reasonably cured within said Ten (10) Business Day period, the Tenant shall have an additional period of Ten (10) Business Days to cure such default, provided the Tenant commences to cure within said Ten (10) Business Days and actually cures the default within Ten (10) Business Days after the Landlord's notice.
- (c) **Bankruptcy.** If the Tenant files a petition in bankruptcy or is adjudicated a bankrupt, becomes insolvent, or files any petition or proposal seeking any reorganization, arrangement, liquidation, dissolution, winding-up or similar relief for itself under any present or future Law, or makes an assignment for the benefit of creditors, or if any trustee, receiver, or liquidator of the Tenant or of all or any substantial part of its properties or of the Premises shall be appointed in any action, suit, or proceeding by or against the. The Tenant hereby agrees that, for the purposes of this Lease, in the event

that Tenant commences any proceeding under or seeks protection under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 (CCAA), the Landlord, at the Landlord's option, shall be considered to be a separate class of creditors distinct from any other class of creditors in any compromise, arrangement, classification or scheme proposed under the CCAA.

- (d) **Abandonment.** If the Tenant vacates, abandons, or fails to use the Premises or attempts to vacate or abandon (either actually or constructively) or the Landlord has reasonable cause to believe that the Tenant intends to vacate or abandon or attempt to vacate or abandon the Premises for a period in excess of Five (5) Business Days for the use for which it was leased as stated in Section 7.01 except that the Tenant shall not be deemed to have abandoned or vacated the Premises when and to the extent that the Premises are untenable by reason of damage by fire, other casualty or expropriation, or by Landlord's default.
- (e) **Misrepresentations.** The Tenant or any agent of the Tenant falsifies or misrepresents any report or other information required to be furnished to the Landlord pursuant to this Lease.
- (f) **Bulk Sale of Assets.** The Tenant makes or attempts to make a bulk sale of assets or otherwise disposes of its goods or removes or attempts or threatens to remove them from the Premises so that in Landlord's opinion there would not, in the event of such sale, disposal or removal, be sufficient goods on the Premises subject to distress to satisfy all Rent due or accruing for a period of Twelve (12) months and not permitted in accordance with ARTICLE XI.
- (g) **Unpermitted Transfer.** Tenant effects or attempts to effect a Transfer, including a change of control as described in Section 11.02 that is not permitted by this Lease.
- (h) **Writ of Execution.** This Lease or any of the Tenant's assets on the Premises are taken or seized under writ of execution, an assignment, pledge, charge, debenture or other security instrument.
- (i) **Insurance Cancellation.** Any insurance policy on the Building or any part thereof or to be carried by the Tenant shall be cancelled and the Tenant shall have failed to remedy the condition giving rise to such cancellation within Two (2) days' written notice given by the Landlord to the Tenant.
- (j) **Violations of Law.** If any judgment (whether final or not) is entered that has the effect (whether by restraining order, injunction, declaration, or otherwise) of establishing that the Tenant's use of the Premises constitutes a violation of Law.
- (k) **Heritage West Lease Default.** The parties hereto agree that certain related parties, being Heritage West and the Landlord have entered into the Heritage West Lease. Any default by Heritage West (or its assignees, successors, or such other transferees as the case may be), whether on notice or without notice by Landlord to Heritage West under the Heritage West Lease or to the Tenant under this Lease shall constitute an Event of Default under this Lease, and the Landlord

under this Lease shall have the full rights and remedies upon an Event of Default as set out herein.

**Section 14.02 Accelerated Rent.** In addition to any other rights or remedies the Landlord may have, including those set out in **ARTICLE XIV**, upon the occurrence of any Event of Default, the full amount of the current month's installment of Base Rent and Additional Rent, and any other payments required to be made monthly under this Lease, including any Rent under any Rent Free Period, together with the next three (3) months' installments of Base Rent and the aggregate of such payments for the next three (3) months, all of which shall be deemed to accrue on a day-to-day basis, shall immediately become due and shall be paid by the Tenant to the Landlord as accelerated Rent, and the Landlord may immediately distrain for it, together with any arrears of Rent that then remain outstanding and unpaid.

**Section 14.03 Remedies.** Upon the occurrence of any Event of Default set forth in **Section 14.01** hereof, the Landlord may, at its option, exercise any and all of the remedies listed below. No such remedy herein or otherwise conferred upon or reserved to the Landlord shall be considered exclusive of any other remedy, but same shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at Law or in equity, and every power and remedy given by the Lease or at Law to the Landlord may be exercised from time to time and as often as the occasion may rise or may be deemed expedient.

- (a) **Right of Landlord to Cure Defaults.** If the Tenant fails to perform or cause to be performed any of the covenants or obligations of the Tenant herein within Five (5) days after written notice from the Landlord to do so, the Landlord shall have the right (but shall not be so obligated) to perform or cause to be performed and to do or cause to be done such things as may be necessary or incidental thereto (including without limiting the foregoing, the right to make repairs, installations, erections and expend monies), and all reasonable payments, expenses, charges, fees and disbursements incurred or paid by or on behalf of the Landlord in respect thereof shall be paid by the Tenant to the Landlord within Five (5) days' written demand therefor together with all reasonable legal and administrative costs of the Landlord in respect thereof.
- (b) **Landlord May Sue for Arrears of Rent.** The Landlord may, if it elects to do so, bring suit for the collection of rents and/or any damages and expenses resulting from an Event of Default without entering into possession of the Premises or terminating this Lease.
- (c) **Landlord's Right of Re-Entry.** Upon the occurrence of an Event of Default, the Landlord may at any time thereafter, without notice to the Tenant, re-enter the Premises or any part thereof and terminate this Lease and all the rights of the Tenant thereunder:
  - (i) The Tenant shall immediately vacate the Premises and the Landlord may remove or cause to be removed from the Premises the Tenant and/or any other occupant or occupants thereof and may remove all property therefrom and sell or dispose of such property as the Landlord considers appropriate without prejudice to the rights of the Landlord to recover arrears of Rent or damages incurred by the Landlord;

- (ii) The Landlord shall be immediately entitled to the payment of all of the following, of which amounts shall be immediately due and payable by Tenant to Landlord:
  - (A) Rent up to the date of termination together with all reasonable payments, expenses, charges, fees and disbursements incurred or paid by or on behalf of the Landlord in respect of such termination.
  - (B) Accelerated Rent contemplated in **Section 14.02**; and
  - (C) Damages contemplated in Section 14.03(d).
- (d) **Right to Sue for Damages.** Upon the occurrence of an Event of Default and notwithstanding the termination of the Lease, the Landlord retains the right to sue the Tenant for damages for:
  - (i) All past due Rent and other amounts due the Landlord up to the date of expiration or termination; plus
  - (ii) Where the Landlord has relet the Premises after such termination, the difference between Rent provided for herein and the proceeds from any reletting of the Premises, payable in monthly installments over the period that would otherwise have constituted the remaining term of this Lease (including all reasonable expenses in connection with such reletting including, without limitation, all reasonable costs, fees, and expenses of repossession, brokers, advertising, legal fees, court costs, repairing, cleaning, repainting, and remodeling of the Premises for reletting on a complete indemnity basis); plus
  - (iii) Where Landlord has not relet the Premises after such termination, the value at the time such termination, of the excess, if any, of the amount of Rent and charges equivalent to Rent required to be paid under the Lease for the then unexpired remainder of the Term had it not been terminated, over the then rental value of the Premises, as determined by Landlord, on a present value basis, for the unexpired remainder of the Term; plus
  - (iv) Interest on the aggregate of the foregoing amounts at the Interest Rate.
- (e) **Right to Re-let.** Whenever the Landlord becomes entitled to re-enter upon the Premises under any provision of this Lease, the Landlord in addition to all other rights it may have, shall have the right as agent of the Tenant to enter the Premises and re-let them (for a term or terms shorter or longer than the balance of the Term, granting reasonable concessions in connection therewith) and to receive the rent therefor and to apply any rent derived from re-letting the Premises upon account of the rent due and to become due under this Lease and the Tenant shall be liable to the Landlord for the deficiency, if any, all without being deemed to have terminated the Lease.

Section 14.04 **Distress.** The Tenant waives and renounces the benefit of any present or future statute taking away or limiting the Landlord's right of distress, and covenants and agrees that notwithstanding any such statute, no assets on the Premises at any time during the Term shall be exempt from levy by

distress for rent in arrears. The Tenant will not sell, dispose of or remove any of the Leasehold Improvements/fixtures, goods and/or chattels of the Tenant from or out of the Premises during the Term without the consent of the Landlord, unless the Tenant is substituting new Leasehold Improvements/fixtures, goods and/or chattels of equal value or is bona fide disposing of individual items which have become excess for the Tenant's purposes, and the Tenant will be the owner of its Leasehold Improvements/fixtures, goods and/or chattels and will not permit them to become subject to any lien, mortgage, charge or encumbrance.

Section 14.05 **Non-Waiver of Defaults.** No condoning, excusing or overlooking by the Landlord of any Event of Default, breach or non-observance by the Tenant at any time or times in respect of any covenant, provision or condition herein contained shall operate as a waiver of the Landlord's rights hereunder in respect of any continuing or subsequent Event of Default, breach or non-observance, or so as to defeat or affect in any way the rights of the Landlord herein in respect of any such continuing or subsequent default or breach, and no waiver shall be inferred from or implied by anything done or omitted by the Landlord, save only an express waiver by the Landlord in writing.

Section 14.06 **Landlord's Rights Cumulative.** The Landlord may from time to time resort to any or all of the rights and remedies available to it upon the occurrence of an Event of Default, either by any provision of this Lease or by statute or any Laws, all of which rights and remedies are intended to be cumulative and not alternative, as the express provisions hereunder as to certain rights and remedies are not to be interpreted as excluding any other additional rights and remedies available to the Landlord by statute or common law or under any other applicable Laws.

## ARTICLE XV SUBORDINATION AND ACKNOWLEDGEMENTS

Section 15.01 **Subordination.** At the option of the Landlord, this Lease shall be subject and subordinate to any and all mortgages, charges and deeds of trust, which may now or at any time hereafter affect the Premises in whole or in part, whether or not any such mortgage, charge or deed of trust affects only the Lands or the Building or affects other premises as well. On request at any time and from time to time of the Landlord or of the mortgagee, chargee or trustee under any such mortgage, charge or deed of trust, the Tenant shall, promptly within Ten (10) Business Days, at no cost to the Landlord or mortgagee, chargee or trustee:

- (a) Attorn to such mortgagee, chargee or trustee and become its tenant of the Premises or the tenant of the Premises of any purchaser from such mortgagee, chargee or trustee in the event of an exercise of any permitted power of sale or foreclosure contained in any such mortgage, charge or deed of trust for the then unexpired residue of the Initial Term or any Extended Term, as applicable, on the terms herein contained; and/or
- (b) Postpone and subordinate this Lease to such mortgage, charge or deed of trust to the intent that this Lease and all right, title and interest of the Tenant in the Premises shall be subject to the rights of such mortgagee, chargee or trustee as fully as if such mortgage, charge or deed of trust had been executed and registered and the money thereby secured had been advanced before the execution of this Lease (and notwithstanding any authority or consent of such mortgagee or trustee, express or implied, to the making of this Lease).

Any such attornment or postponement and subordination shall extend to all renewals, modifications, consolidations, replacements and extension of any such mortgage, charge or deed of trust and every instrument supplemental or ancillary thereto or in implementation thereof. The Tenant shall forthwith execute any instruments of attornment or postponement and a subordination which may be so requested to give effect to this Section.

Section 15.02 **Estoppel Certificates.** Each party shall, within not more than Ten (10) days' written request therefor, execute and return to the other from time to time and without cost to the other, a statement in writing certifying that this Lease is unmodified and in full force and effect (or if modified, stating the modifications and that the Lease is in full force and effect as modified), the amount of the annual Base Rent then being paid or received hereunder, the dates to which same, by instalment or otherwise, and other charges hereunder have been paid or received, whether or not there is any existing default on the part of the reporting party of which the requesting party has notice, and any other information reasonably required.

## ARTICLE XVI NOTICES

Section 16.01 **Notices.** Any notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by email of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third (3<sup>rd</sup>) day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this **ARTICLE XVI**):

Notice to Landlord:	BJK Developments Ltd. Email: Russ.Zemp@kirkstire.ca Attention: Russ Zemp
Notice to Landlord's Counsel:	Dickinson Wright LLP 199 Bay Street, Suite 2200 Toronto, ON M5L 1G4 Email: PMuchnik@dickinsonwright.com Attention: Paul A. Muchnik
Notice to Tenant:	Email: dschwede@heritage.com Attention: David Schwede
Notice to Tenant's Counsel:	Owens Wright LLP 300-20 Holly Street

Toronto, Ontario M4S 3B1

Email: MMossip@owenswright.com

Attention: Megan Mossip

## **ARTICLE XVII END OF TERM**

Section 17.01 **Surrender of the Premises.** Upon the expiration or other termination of this Lease, the Tenant shall peaceably deliver to the Landlord vacant possession of the Premises, broom clean and in good order and condition, wear and tear excepted and in the condition in which the Tenant is required to maintain and keep the Premises during the Term pursuant hereto failing which, the Landlord may restore the Premises, equipment, and fixtures to such condition and the Tenant shall pay the cost thereof upon demand as Additional Rent.

Section 17.02 **Removal of Trade Fixtures** – intentionally deleted.

Section 17.03 **Removal of Leasehold Improvements.** Leasehold Improvements shall become the absolute property of the Landlord upon the expiry or earlier termination of the Term. At the expiry or earlier termination of the Term, the Tenant shall remove any or all of such Leasehold Improvements as required by the Landlord and in so doing shall repair all damage resulting therefrom and shall restore the Premises in their condition prior to the installation and removal of such leasehold improvements.

Section 17.04 **Holdover.** Any holding over by Tenant after the expiration or earlier termination of this Lease, by lapse of time or otherwise, shall not operate to extend or renew this Lease except by the express mutual written agreement between the parties hereto, and in the absence of such agreement, the Tenant shall continue in possession as a month-to-month tenant only, except that the monthly Rent shall be increased to an amount equal to One Hundred Fifty percent (150%) the monthly installment of Base Rent and Additional Rent paid in the month immediately preceding the expiration or earlier termination of this Lease. Either party may thereafter terminate such occupancy at the end of any calendar month by first giving to the other party no less than thirty (30) days' prior written notice.

## **ARTICLE XVIII GENERAL**

**Section 18.01 Force Majeure.** Notwithstanding any other provision in this Lease, in the event that either the Landlord or the Tenant shall be unable to fulfill or shall be delayed or restricted from the performance of any term or obligation under the Lease by reason of any Force Majeure Event other than the Tenant's obligation to pay Rent, or any other monies owed under the Lease, such party shall, so long and to the extent that any such delay or restriction exists, be relieved from the performance of such obligation and shall be granted a reasonable period of time to perform the obligation once the Force Majeure Event ceases to exist and the other party shall not be entitled to compensation for any

resulting loss, damage, inconvenience, nuisance, or discomfort. Both the Landlord and the Tenant acknowledge and agree that the provisions of this section do not apply to the Tenant's obligations to pay Rent or other monies owed under the Lease when due.

**Section 18.02 Health Emergency.** If the Landlord, acting in good faith, determines that a Health Emergency exists, the Landlord acting reasonably may amend, supplement or otherwise enforce any existing Health Emergency rules or regulations in existence, may impose additional rules and regulations, and may impose restrictions to mitigate or minimize the effects of the Health Emergency. Without limiting the generality of the foregoing:

- (a) During a Health Emergency, the Landlord shall be entitled to restrict or limit access to the Premises to employees of the Tenant only, and/or prohibit entry by visitors or invitees for a reasonable period of time during such event;
- (b) The Landlord shall have the right during a Health Emergency to require the Tenant to decontaminate all or any part of the Premises, failing which the Landlord shall be entitled to enter the Premises and to do so at the Tenant's expense. Any steps that the Landlord may choose to take are in its sole and unfettered discretion and nothing herein shall obligate the Landlord to effect any decontamination;
- (c) During a Health Emergency, the Landlord shall be entitled to impose sanitization requirements and/or implement health precautions consistent with the advice from medical experts or public health officials;
- (d) During a Health Emergency, the Landlord shall not be in default by reason of any action taken pursuant to its health emergency plan or any other decisions it makes in good faith in response to a Health Emergency;
- (e) During a Health Emergency, the Landlord shall not be liable in contract, tort, or otherwise, for any act or omission in exercising any decisions it makes in good faith in response to a Health Emergency; and
- (f) The Landlord shall be entitled during a Health Emergency to close all or any part of the Premises if it determines that it is not safe to continue to operate the Premises or certain parts of the Premises.

**Section 18.03 Compliance with Laws.**

- (a) THIS LEASE IS SUBJECT TO STRICT REQUIREMENTS FOR ONGOING REGULATORY COMPLIANCE BY THE PARTIES HERETO, INCLUDING, WITHOUT LIMITATION, REQUIREMENTS THAT THE PARTIES TAKE NO ACTION IN VIOLATION OF EITHER THE CANNABIS LAW OR THE GUIDANCE OR INSTRUCTION OF THE REGULATOR. Section 7.05 OF THIS LEASE CONTAINS SPECIFIC REQUIREMENTS AND COMMITMENTS BY THE PARTIES TO MAINTAIN FULLY THEIR RESPECTIVE COMPLIANCE WITH THE CANNABIS LAW AND THE REGULATOR. THE PARTIES HAVE READ AND FULLY UNDERSTAND THE REQUIREMENTS OF Section 7.05.



- (b) Notwithstanding anything in this Lease to the contrary: (i) The parties hereto agree and acknowledge that Landlord makes, will make, or will be deemed to make or have made any representation or warranty of any kind regarding the compliance of this Lease with any Cannabis Law; and (ii) Tenant shall not have any right of rescission or amendment arising out of or relating to any non-compliance with the Lease unless such non-compliance also constitutes a violation of applicable Law as determined in accordance with such applicable Law, Cannabis Law, or by the Regulator, and no party will seek to enforce the provisions hereof in a court of competent jurisdiction unless and until the parties have reasonably determined that the Lease is fully compliant with Cannabis Law.

**Section 18.04 Dispute Mechanism.** Any matter in dispute between the parties that cannot be settled, all parties being reasonable and acting in good faith, is to be decided by arbitration in accordance with the following arbitration procedure ("**Arbitration**"):

- (a) Landlord and Tenant agree to jointly appoint a single arbitrator within 10 business days after the date a dispute became arbitrable under this Lease. If the parties fail to agree, being reasonable and in good faith, upon a single arbitrator within such time period, then the Landlord shall, within 10 business days of the expiry date of the time period for the parties to have jointly appointed a single arbitrator, appoint an arbitrator and inform the Tenant in writing of such appointment. If Landlord fails to appoint an arbitrator within the time limited herein for such appointment, then the Tenant may appoint the arbitrator and inform the Landlord in writing of such appointment. In the event that the other party objects to the appointment of an arbitrator, then either Landlord or Tenant, as the case may be, shall be entitled to make application to a court of competent jurisdiction pursuant to the *Arbitration Act* (Ontario) for selection of an arbitrator and the provisions of the *Arbitration Act* (Ontario) shall govern such selection. Each party shall bear one-half of the legal costs of any such court application to appoint the arbitrator.
- (b) The resultant single arbitrator shall hear the submissions of the parties and render a decision within thirty (30) days of the appointment (or deemed appointment) of the single arbitrator. The decision of such arbitrator shall be final and binding on Landlord and Tenant. With respect to such arbitration, each party shall pay: (i) its own legal expenses including the expenses of its professional and other experts and witnesses; (ii) the fees and expenses of the arbitrator appointed by it; (iii) one-half of any other expenses of such arbitration. The arbitration shall be conducted in accordance with the *Arbitration Act* (Ontario), except where the provisions of the *Arbitration Act* (Ontario) conflict with the provisions of this Section (in which event the provisions of this Section shall prevail). For greater certainty, the parties acknowledge and agree that, with respect to the decision of the arbitrator, as the case may be, there shall be no right of appeal whatsoever therefrom by either party, on a question of fact, or of law, or of mixed fact and law.

**Section 18.05 Governing Law.** This Lease and all related documents including all schedules attached hereto, and the validity, performance and enforcement of this Lease and all matters arising out of or relating to this Lease, whether sounding in contract, tort, or statute, are governed by, and construed in accordance with, the laws of the province or territory in which the Premises are situate and the federal laws of Canada applicable therein.

Section 18.06 **Entire Agreement; Amendments and Modifications.** This Lease forms the entire agreement between the parties and no provision hereof shall be altered, waived, amended, or extended, except in writing signed by both parties. The Tenant affirms that, except as expressly set forth herein, neither the Landlord nor any of its agents has made, nor has the Tenant relied upon, any representation, warranty, or promise with respect to the Premises or any part thereof.

Section 18.07 **Waivers.** The Landlord shall not be considered to have waived any of the rights, covenants, or conditions of this Lease unless evidenced by its written waiver and the waiver of one default or right shall not constitute the waiver of any other. The acceptance of Rent shall not be construed to be a waiver of any breach or condition of this Lease.

Section 18.08 **Successors and Assigns.** The provisions of this Lease shall be binding upon and inure to the benefit of Landlord and Tenant, respectively, and their respective permitted successors and permitted assigns. Tenant agrees to become the tenant of Landlord's successor in interest under same terms and conditions of its tenancy hereunder.

Section 18.09 **Severability.** If any term or provision of this Lease is invalid, illegal, or unenforceable in any jurisdiction, such invalidity, illegality, or unenforceability shall not affect any other term or provision of this Lease or invalidate or render unenforceable such term or provision in any other jurisdiction provided the overall intention of the Lease is maintained, as near as possible, as it was prior to the invalidity, illegality, or unenforceable provision.

Section 18.10 **Headings.** The headings as to the contents of particular paragraphs herein are intended only for convenience and are in no way to be constructed as a part of this Lease or as a limitation of the scope of the particular paragraphs to which they refer.

Section 18.11 **Planning Act (Ontario).** Where applicable, this Lease shall be subject to the condition that it is effective only if the *Planning Act*, R.S.O. 1990, c. P.13, and any amendments thereto or any successor statutory provisions thereof, is complied with. Pending such compliance, the Term shall be deemed to be for a total period of one (1) day less than the maximum lease term permitted by Law without such compliance.

Section 18.12 **Registration of Lease.** The Tenant covenants and agrees with the Landlord that the Tenant will not register or record this Lease or any part thereof against the title to the Lands or any part thereof except by way of notice which shall be subject to the prior written approval of the Landlord which approval shall not be unreasonably withheld or delayed and which shall only describe the parties, the Premises and the Term.

Section 18.13 **Expropriation.** If during the Term, the Premises or any part thereof are taken by any lawful power or authority by the right of expropriation the Landlord and the Tenant shall co-operate so that each may receive the maximum awarded to which it is entitled at Law.

Section 18.14 **Counterparts.** This Lease may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original for all purposes, and all such counterparts shall together constitute but one and same instrument.

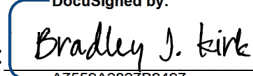
Section 18.15 **Authority.** Tenant makes the following representations to Landlord, on which Landlord is entitled to rely in executing this Lease: (i) Tenant is duly organized and existing under the

laws of the jurisdiction in which it was organized, and is qualified to do business in Canada and has the power to enter into this Lease and the transactions contemplated hereby and to perform its obligations hereunder; (ii) by proper resolution the signatory hereto has been duly authorized to execute and deliver this Lease; and (iii) the execution, delivery, and performance of this Lease and the consummation of the transactions herein contemplated will not conflict with or result in a violation or breach of, or default under Tenant's organizational or governing documents, as amended, or any indenture, mortgage, note, security agreement, or other agreement or instrument to which Tenant is a party or by which it is bound or to which any of its properties is subject. Landlord makes the following representations to Tenant, on which Tenant is entitled to rely in executing this Lease: (i) Landlord is duly organized and existing under the laws of the jurisdiction in which it was organized, and has the power to enter into this Lease and the transactions contemplated hereby and to perform its obligations hereunder; (ii) by proper resolution the signatory hereto has been duly authorized to execute and deliver this Lease; and (iii) the execution, delivery, and performance of this Lease and the consummation of the transactions herein contemplated will not conflict with or result in a violation or breach of, or default under Landlord's organizational or governing documents, as amended, or any indenture, mortgage, note, security agreement, or other agreement or instrument to which Landlord is a party or by which it is bound or to which any of its properties is subject.

[SIGNATURE PAGE FOLLOWS]


IN WITNESS WHEREOF, the Landlord and the Tenant have executed this Lease as of the day and year first above written.

**BJK DEVELOPMENTS LTD.**

DocuSigned by:  
By:   
Name: A7559A2827B9497... Bradley J. Kirk  
Title:

*I/We have the authority to bind the corporation.*

**333 JARVIS REALTY INC.**

DocuSigned by:  
By:   
Name: David Schwede  
Title: Director and officer

*I/We have the authority to bind the corporation.*

## SCHEDULE A

### LEGAL DESCRIPTION OF THE LAND

#### **Legal Description:**

##### PIN 64229-0014(LT):

PT LT 25 S/S JARVIS ST PL 348 BERTIE; PT LT 26 S/S JARVIS ST PL 348 BERTIE; PT LT 27 S/S JARVIS ST PL 348 BERTIE; PT LT 28 S/S JARVIS ST PL 348 BERTIE PARTS 1,2,3,4,5,6,7,8,9 ON 59R14734; SUBJECT TO AN EASEMENT OVER PT LT 25 S/S JARVIS ST PL 348 BERTIE, BEING PTS 3, 4 & 8 59R14734 IN FAVOUR OF PTS 11-30, 33-41, 42 & 43 59R14734 AS IN SN357644; SUBJECT TO AN EASEMENT OVER PT LT 25 S/S JARVIS ST PL 348 BERTIE, BEING PT 9 59R14734 IN FAVOUR OF PTS 11-30, 33-41, 42 & 43 59R14734 AS IN SN357645; SUBJECT TO AN EASEMENT OVER PT LT 25 S/S JARVIS ST PL 348 BERTIE, BEING PTS 2, 3 & 6 59R14734 IN FAVOUR OF PTS 11-30, 33-41, 42 & 43 59R14734 AS IN SN357646; TOGETHER WITH AN EASEMENT OVER PTS 11-26, 33-36, 38, 39, 41 & 43 59R14734 AS IN SN357650; TOGETHER WITH AN EASEMENT OVER PT LT 24 S/S JARVIS ST PL 348 BERTIE, BEING PTS 12, 13, 15, 20, 22 & 28 59R14734 AS IN SN357651; TOGETHER WITH AN EASEMENT OVER PT LT 24 S/S JARVIS ST PL 348 BERTIE, BEING PTS 17, 25, 30, 34 & 39 59R14734 AS IN SN357652; TOGETHER WITH AN EASEMENT OVER PT LT 24 S/S JARVIS ST PL 348 BERTIE, BEING PTS 33, 34, 35 & 37 59R14734 AS IN SN357653; TOWN OF FORT ERIE

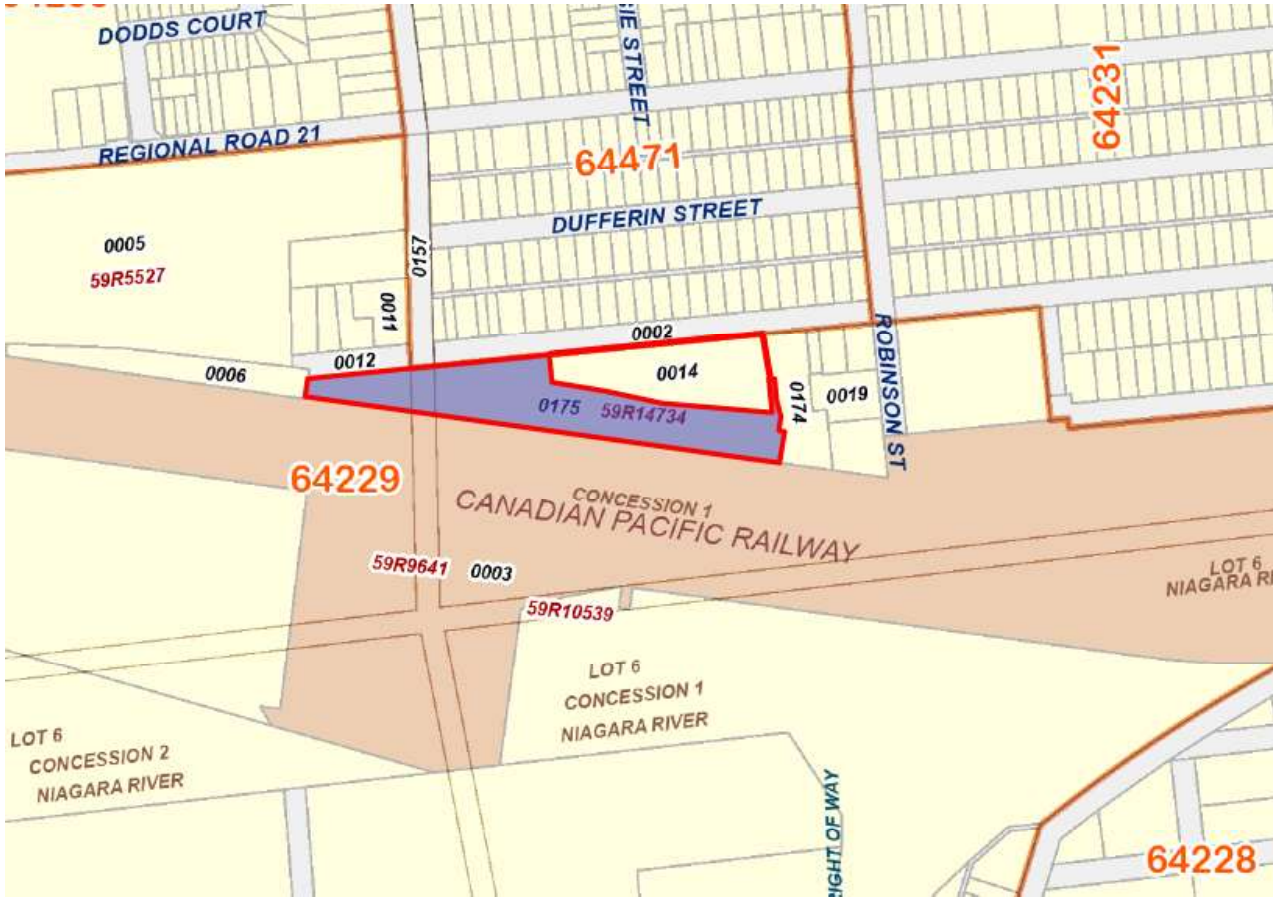
##### PIN 64229-0175(LT)

LT 6 W/S CROOKS ST PL 348 BERTIE; LT 29 S/S JARVIS ST PL 348 BERTIE; LT 30 S/S JARVIS ST PL 348 BERTIE; PT LT 7 CON 1 NIAGARA RIVER BERTIE; PT LT 7 CON 2 NIAGARA RIVER BERTIE; PT LT 24 S/S JARVIS ST PL 348 BERTIE; PT LT 25 S/S JARVIS ST PL 348 BERTIE; PT LT 26 S/S JARVIS ST PL 348 BERTIE; PT LT 27 S/S JARVIS ST PL 348 BERTIE; PT LT 28 S/S JARVIS ST PL 348 BERTIE; PT RDAL BTN CON 1 & 2 NIAGARA RIVER BERTIE; PT CROOKS ST PL 348 BERTIE CLOSED BY RO443035 BEING PTS 10, 31 AND 32 59R14734; SUBJECT TO AN EASEMENT OVER PT LT 24 S/S JARVIS ST PL 348 BERTIE, BEING PT 32 59R14734 IN FAVOUR OF PTS 11- 30, PTS 33-41, PTS 42-43 59R14734 AS IN SN357645; TOGETHER WITH AN EASEMENT OVER PTS 11-26, 33-36, 38-39, PT 41 & PT 43 59R14734 AS IN SN357650; TOGETHER WITH AN EASEMENT OVER PT LT 24 S/S JARVIS ST PL 348 BERTIE, BEING PTS 12, 13, 15, 20, 22 & 28 59R14734 AS IN SN357651; TOGETHER WITH AN EASEMENT OVER PT LT 24 S/S JARVIS ST PL 348 BERTIE, BEING PTS 17, 25, 30, 34 & 39 59R14734 AS IN SN357652; TOGETHER WITH AN EASEMENT OVER PT LT 24 S/S JARVIS ST PL 348 BERTIE, BEING PTS 33-35 & 37 59R14734 AS IN SN357653; TOWN OF FORT ERIE

#### **Municipal Addresses:**

333 Jarvis Street, Fort Erie, Ontario

**Map Describing the Property**



Note: The Lands are as demarcated by the red boundary above. This map is provided for reference only and is not to be relied on for accuracy, representation, or warranty of the Vendor; Purchaser agrees that it shall conduct its own due diligence to determine the Property, Lands, and Building being conveyed.

**SCHEDULE B**  
**FLOOR PLAN**

***THIS IS EXHIBIT "C" TO THE  
AFFIDAVIT OF DAVID  
SCHWEDE SWORN BEFORE ME  
THIS 2<sup>ND</sup> DAY OF APRIL, 2024***

A handwritten signature in blue ink, consisting of a stylized, cursive script that is difficult to decipher but appears to be a name.

---

***A Commissioner Etc.***



**LEASE SUMMARY (ENTIRE PARCEL)**

**THIS LEASE SUMMARY** is attached to and forms part of the Indenture of Lease dated for reference October 31, 2023.

BETWEEN:

**BJK DEVELOPMENTS LTD.**, a corporation  
incorporated under the laws of British Columbia and  
having an office at 200 – 537 Leon Avenue,  
Kelowna, BC V1Y 2A9

(the “**Landlord**”)

AND:

**HERITAGE CANNABIS WEST CORPORATION**, a  
corporation incorporated under the laws of British  
Columbia and having its Registered and Records office  
at c/o Pushor Mitchell LLP 301 – 1665 Ellis Street,  
Kelowna, BC V1Y 2B3

(the “**Tenant**”)

**ARTICLE**

1.1 and 3 Term: ten (10) years.

1.1 Commencement Date: November 1 2023.

1.1 Expiry Date: October 31, 2033.

1.1 Rentable Area of the Building: Approximately 28,906 square feet

1.1 Civic Address of Premises: 5450 Highway 97, Falkland, British Columbia V0E 1W1.

4.1(a) Annual Basic Rent shall be payable in instalments in advance on the 1<sup>st</sup> day of each and every month during the Term, as follows:

<b>LEASE YEAR</b>	<b>ANNUAL RATE PER SQUARE FOOT</b>	<b>PER MONTH</b>
1	N/A	N/A
2	\$16.40 plus Sales Taxes	\$39,500 plus Sales Taxes
3	\$21.57 plus Sales Taxes	\$51,970 plus Sales Taxes
4-10	<i>See Article 16</i>	<i>See Article 16</i>

4.1(b) Additional Rent commences on the Commencement Date.

7.1 Use of Premises: the Premises shall be used only for operation of cannabis cultivation, sales, processing, extraction, and general office use for management and ancillary uses, all of the foregoing in compliance with the Cannabis Law, Applicable Laws, and the guidance and instruction of the Regulator, but for no other purpose (the “**Permitted Use**”). In the event that a change in the Applicable Laws renders

the use described in the previous sentence a violation of the Applicable Law, upon Landlord’s receipt of written notice of the same from Tenant, the “Permitted Use” will mean any use in compliance with the Applicable Laws.

16.1 Extension Provisions – N/A.

18.4 Landlord’s Address for Rent Payments and Notices:

BJK Developments Ltd.  
238 22nd Street N  
Lethbridge, Alberta T1H 3R7

Attention: Russ Zemp  
Email: russ.zemp@kirkstire.ca

18.4 Tenant’s Address for Notices:

Heritage Cannabis West Corporation  
5450 Highway 97  
Falkland, British Columbia V0E 1W1

Attention: David Schwede  
Email: dschwede@heritagecann.com


18.20 Deposit: N/A.

Schedules:


Schedule A – Landlord’s Work  
Schedule B – Special Provisions

The articles, sections, subsections or Schedules of this Lease identified above in the margin are those articles, sections, subsections, or Schedules where references to particular Lease information initially appears. Each such reference shall incorporate the applicable information from this Lease Summary.

**BJK DEVELOPMENTS LTD.**, by its  
authorized signatory:

Per:   
Name: Bradley J. Kirk  
Title:

**HERITAGE CANNABIS WEST  
CORPORATION**, by its authorized signatory:

Per:   
Name: David Schwede  
Title: Director and Officer

**THIS LEASE** dated for reference October 31, 2023.

BETWEEN:

**BJK DEVELOPMENTS LTD.**, a corporation incorporated under the laws of British Columbia and having an office at 200 – 537 Leon Avenue, Kelowna, BC V1Y 2A9

(the “**Landlord**”)

AND:

**HERITAGE CANNABIS WEST CORPORATION**, a corporation incorporated under the laws of British Columbia and having its Registered and Records office at c/o Pushor Mitchell LLP 301 – 1665 Ellis Street, Kelowna, BC V1Y 2B3

(the “**Tenant**”)

## **ARTICLE 1 - DEFINITIONS**

### **1.1 Defined Terms**

The Landlord and the Tenant hereby agree that in this Lease the following words or phrases shall, unless there is something in the context inconsistent therewith, have the meanings hereinafter set out:

- (a) “**Additional Rent**” shall mean:
- (i) to the extent such are not paid directly by the Tenant, the Tenant’s Taxes;
  - (ii) the Operating Expenses; and
  - (iii) all other sums which may be payable to the Landlord hereunder or reimbursable to the Landlord hereunder, including, without limitation, all interest and penalties payable by the Tenant hereunder, whether or not such sums are referred to as Rent or Additional Rent or otherwise;
- but Additional Rent shall not include the Annual Basic Rent;
- (b) “**Affiliate**” shall have the meaning given to such term in the *Business Corporations Act* (British Columbia);
- (c) “**Annual Basic Rent**” shall mean the amount specified as such in the Lease Summary;
- (d) “**Applicable Laws**” or “**Applicable Law**” shall mean all laws, bylaws, statutes, and ordinances (including building codes and zoning ordinances and regulations), rules, orders, ordinances, rulings, decrees, guidelines, policies, directives, and requirements of all Authorities, whether now or hereafter in force, respecting the use, condition and occupation of the Premises and all

Leasehold Improvements, trade fixtures, furniture, fixtures, equipment and contents thereof, and which may be applicable to the Premises, or any part thereof, including, without limitation, any reciprocal easement, covenant, restriction, or other agreement, restriction of easement of record affecting the Premises as of the date of this Lease or subsequent thereto. Notwithstanding the foregoing, the term “Applicable Laws” explicitly excludes all Cannabis Laws and Environmental Laws, as required;

- (e) “**Arbitration Act**” means the *Arbitration Act* (British Columbia) and amending acts thereto;
- (f) “**Authorities**” shall mean any government, governmental agency, board, branch, department or other governmental authority, whether federal, provincial or municipal, having jurisdiction over all or part of the Premises or the parties.
- (g) “**Building**” shall mean the existing building and improvements constructed on the Land together with any replacements thereto made during the Term of this Lease;
- (h) “**Business Day**” shall mean any day which is not a Saturday or a Sunday or a statutory holiday in British Columbia;
- (i) “**City**” means the City of Falkland;
- (j) “**Commencement Date**” shall mean the date specified as such in the Lease Summary;
- (k) “**Environmental Laws**” means any statutes, laws, regulations, orders, bylaws, standards, guidelines, permits, and other lawful requirements of any Authorities having jurisdiction over the Premises now or hereafter in force relating in any way to the environment, health, occupational health and safety, or transportation of dangerous goods, including the principles of common law and equity;
- (l) “**Expiry Date**” shall mean the date specified as such in the Lease Summary;
- (m) “**Hazardous Substance**” or “**Hazardous Substances**” means any pollutants, contaminants, deleterious substances, underground or above-ground tanks, asbestos materials, hazardous, corrosive, or toxic substances, special waste or waste of any kind, or any other substance which is now or hereafter prohibited, controlled or regulated under Environmental Laws. Notwithstanding the foregoing, cannabis and related substances or products containing or relating to the same are explicitly excluded from this definition of Hazardous Substances, unless deemed otherwise by such Applicable Law or the Authorities;
- (n) “**Heritage East**” means Heritage Cannabis East Corporation, a corporation incorporated under the laws of the Province of Ontario with its Registered and Records office at with a registered and records office address of c/o Owens Wright LLP, 20 Holly St Suite 300, Toronto, ON M4S 3B1;
- (o) “**Heritage East Lease**” means the lease dated for reference October 31, 2023, between Heritage East, as tenant, and BJK Developments Ltd., as landlord, for the property municipally known as 333 Jarvis Street, Fort Erie, Ontario;
- (p) “**Insurance Costs**” shall mean all premiums and other amounts which the Landlord may expend in effecting or maintaining insurance coverage under the provisions of this Lease;

- (q) **“Land”** shall mean that certain parcel or tract of land located at 5450 Highway 97, Falkland, British Columbia V0E 1W1, and legally described as follows:

Parcel Identifier: 004-553-357

THAT PART OF THE SOUTHWEST 1/4 OF SECTION 1 SHOWN ON AMENDED PLAN B814 (DD 238383F); TOWNSHIP 18 RANGE 12 WEST OF THE 6TH MERIDIAN KAMLOOPS DIVISION YALE DISTRICT EXCEPT PLANS 13176 AND KAP75817;

- (r) **“Landlord’s Work”** shall mean the work to be performed by the Landlord if any, as set out in a Schedule “B” to this lease and otherwise as may be agreed or amended in writing by the Landlord and the Tenant from time to time;
- (s) **“Lease”** shall mean this indenture together with the Lease Summary and the schedules attached hereto;
- (t) **“Leasehold Improvements”** means all fixtures (other than the Tenant’s trade fixtures), improvements including drainage improvements, installations, Alterations and additions now or from time to time hereafter made, erected or installed, whether by the Tenant, the Landlord or anyone else, in the Premises with the exception of trade fixtures, racking, and furniture and equipment not of the nature of fixtures, but includes all of the following, whether or not any of the same are in fact Tenant's or trade fixtures and whether or not they are easily disconnected and moveable: doors, immovable partitions and hardware; mechanical, electrical and utility installations; carpeting, other affixed floor and window coverings and drapery hardware; decorations; heating, ventilating and air-conditioning equipment; lighting fixtures; built-in furniture and built-in furnishings; counters in any way connected to the Premises or to any utility services located therein. Drainage improvements means all drainage retention and storm water runoff systems, and any other drainage requirements for cannabis production, and its related uses as anticipated by the Permitted Use;
- (u) **“Lease Summary”** shall mean pages 1 through 2 attached to and forming part of this Lease and headed “Lease Summary”;
- (v) **“Mortgages”** shall mean all mortgages, debentures, deeds of trust, and mortgages securing bonds and all instruments and indentures supplemental thereto which may now or hereafter charge the Premises, and all renewals, modifications, consolidations, replacements, and extensions thereof;
- (w) **“Operating Expenses”** shall mean all expenses in connection with the operation and maintenance of all or any portion of the Premises and, without restricting the generality of the foregoing, shall include, without duplication:
- (i) the Taxes;
  - (ii) the Insurance Costs;
  - (iii) the Utility Costs;
  - (iv) maintenance, replacement and repair of the Building and all components thereof including, without limiting the generality of the foregoing and without duplication: repairs and replacements to (1) the Roof of the Building (provided such replacement cost shall be amortized over its useful life), (2) all parts of the Building not required to be maintained by the Tenant, and (3) all interior climate control (including heating,

ventilating and air-conditioning) systems, installations, equipment and facilities in or servicing the Building or other equipment and fuel, energy and other costs of providing heat, ventilating and air-conditioning (but excluding repairs and replacements to the Structural Elements of the Building that are the Landlord's responsibility pursuant to Section 9.6);

- (v) such costs where incurred by the Landlord in order to comply with all statutes, by-laws, laws, regulations, ordinances and orders from time to time or at any time in force during the Term or newly coming into force during the Term;
- (vi) depreciation (in accordance with generally accepted accounting principles from time to time) of all capital and maintenance equipment which by its nature requires periodic replacement including, but not limited to all heating, ventilating and air-conditioning equipment together with interest (provided that, when any such item is replaced or substantially repaired, only the undepreciated amount of the excess cost incurred may be included as part of the costs hereunder or the Landlord may establish a new depreciation rate over the useful life of such item);
- (vii) the cost of snow, ice and refuse clearance and removal, landscape maintenance;
- (viii) consultants' fees as required from time to time and the costs and fees incurred in the preparation of any audit of Operating Expenses, and incurred by the Landlord, with the Tenant's prior approval which shall not be unreasonably withheld or delayed, for legal proceedings taken in order to protect or preserve the general well-being of the Premises or the Tenant's use and enjoyment of the Premises, or to enforce covenants in any leases, covenants, rights of way or easements as they affect the general well-being of the Premises;
- (ix) an amount equal to the deductible amount payable by the Landlord pursuant to any insurance policy effected by the Landlord pursuant to its covenant to insure under this Lease; and
- (x) Sales Taxes on goods and services provided by or on behalf of the Landlord;

but Operating Expenses shall not include interest on the Landlord's debt or capital retirement of the Landlord's debt;

- (x) "**Operating Year**" shall mean a 12-month period which shall be established by the Landlord from time to time, commencing on the first day of a month in any calendar year and ending on the last day of such calendar year, provided that the first operating period shall commence on the Commencement Date and end on the last day of the such calendar year and the last operating period shall terminate to coincide with the Expiry Date;
- (y) "**Premises**" shall mean all of the Land and the Building;
- (z) "**Prime Rate**" means that annual rate of interest (commonly called the prime rate) charged by the Royal Bank of Canada (the "**Bank**") at its main branch, Toronto, Ontario from time to time to its most creditworthy commercial customers in respect of commercial loans in Canada (or if the Bank shall cease to quote such rate, such rate as is quoted by any other Canadian Chartered Bank designated by the Landlord, or if all Canadian Chartered banks cease to quote such rate, the last such quoted rate by the Bank or, if applicable, the designated Canadian Chartered Bank), and if

such rate shall be changed during any day the rate payable hereunder shall be the rate applicable at the commencement of such day, the intention being that the interest rate applicable and payable hereunder shall fluctuate from time to time as and when the prime rate fluctuates;

- (aa) “**Relative Portion**” shall mean, with respect to any amount payable under this Lease, that fraction which has as its denominator the period of time expressed in days in respect of which an amount payable hereunder is calculated and which has as its numerator the number of days within the same calculation period, but which fall within the Term or any extension period;
- (bb) “**Release**” includes release, spill, leak, pump, pour, emit, discharge, eject, escape, leach, dispose, or dump;
- (cc) “**Rent**” shall mean the Annual Basic Rent and the Additional Rent;
- (dd) “**Roof**” includes the roof membrane of the Building;
- (ee) “**Sales Taxes**” shall mean any and all taxes, fees, levies, charges, assessments, rates, duties, and excises (whether characterized as sales taxes, purchase taxes, goods and services taxes, or any other form) which are imposed on the Landlord, which the Landlord is liable to pay or which the Landlord is liable to collect and remit, and which are levied, rated, or assessed on the act of entering into this Lease or otherwise on account of this Lease, on the use or the occupancy of the Premises or any portion thereof, on the Rent payable under this Lease or any portion thereof, or in connection with the business of renting the Premises or any portion thereof, including, without limitation, GST,

Provided however that Sales Taxes shall exclude all of the following:

- (i) income tax under Part I of the *Income Tax Act*, R.S.C. 1985 (5th supp.), c. 1 as it existed on the Commencement Date;
  - (ii) the Tenant’s Taxes; and
  - (iii) the Taxes;
- (ff) “**Sign**” shall mean any sign, picture, notice, lettering, direction, or other advertising or informational device of whatever nature;
  - (gg) “**Structural Elements of the Building**” shall mean the foundation, load bearing columns, joists, Roof decking, supports, beams and bearing walls forming part of the Building;
  - (hh) “**Taxes**” shall mean all taxes, fees, levies, charges, assessments, rates, duties, and excises which are now or may hereafter be levied, imposed, rated, or assessed upon or with respect to the Premises or any part thereof or any personal property of the Landlord used therefore, whether levied, imposed, rated, or assessed by the government of Canada, the government of British Columbia, or any political subdivision, political corporation, district, municipality, city, or other political or public entity, and whether or not now customary or in the contemplation of the parties on the date of this Lease. Without restricting the generality of the foregoing, Taxes shall include all:
    - (i) real property taxes, general and special assessments;

- (ii) taxes, fees, levies, charges, assessments, rates, duties, and excises for transit, housing, schools, police, fire, or other governmental services, or for purported benefits to the Premises;
- (iii) local improvement taxes, service payments in lieu of taxes, and taxes, fees, levies, charges, assessments, rates, duties, and excises, however described, that may be levied, rated, or assessed as a substitute for, or as an addition to, in whole or in part, any property taxes or local improvement taxes; and
- (iv) costs and expenses, including legal and other professional fees and interest and penalties on deferred payments, incurred by the Landlord in contesting or appealing any taxes, assessments, rates, levies, duties, excises, charges, or other amounts as aforesaid;

but Taxes shall exclude all of the following:

- (v) income tax under Part I of the *Income Tax Act*, R.S.C. 1985 (5th supp.), c. 1, as amended and as it existed on the Commencement Date, place of business taxes, corporation taxes or other taxes personal to the Landlord;
  - (vi) the Tenant's Taxes; and
  - (vii) the Sales Taxes;
- (ii) "**Tenant's Taxes**" shall mean all taxes, fees, levies, charges, assessments, rates, duties, and excises which are now or may hereafter be levied, imposed, rated, or assessed by any lawful authority relating to or in respect of the business of the Tenant or relating to or in respect of personal property and all business and trade fixtures, machinery and equipment, cabinet work, furniture, tents (whether or not affixed to the Land) and movable partitions owned or installed by the Tenant at the expense of the Tenant or being the property of the Tenant, or relating to or in respect of the Leasehold Improvements or other improvements to the Premises built, made, or installed by the Tenant, on behalf of the Tenant or at the Tenant's request, whether any such amounts are included by the taxing authority in the Taxes;
  - (jj) "**Term**" shall mean the term specified in the Lease Summary;
  - (kk) "**Transfer**" shall mean any transfer, assignment, charge, mortgage, sublease, licence, sharing of possession, parting with possession, or any other disposition of this Lease or any estate or interest therein or the Premises or any part thereof, including without limitation a transfer by operation of law;
  - (ll) "**Transferee**" shall mean any person to whom a Transfer is made or intended to be made; and
  - (mm) "**Utility Costs**" shall mean all charges for water, gas, telephone, heat, air-conditioning, ventilation, electric light and power, and all other utilities and services used on or in respect of the Premises or any part thereof, together with all costs and charges for all fittings, machines, apparatus, meters, and any other thing leased or supplied in respect thereof and all costs and charges for all work and services performed by any corporation, authority, or commission in connection with such utilities and services in respect of the Premises.



**ARTICLE 2 - LEASE OF THE PREMISES**

**2.1 Subject to Landlord's Mortgages**

In consideration of the rents, covenants, conditions, and agreements hereinafter respectively reserved and contained, the Landlord hereby leases to the Tenant the Premises, subject to the Landlord's Mortgages, the easements, covenants, and rights-of-way now registered against the title to the Premises and any future easements, covenants, and rights-of-way which may be registered against title to the Lands in accordance with the requirements of any Authorities having jurisdiction over the Lands or in favour of a public utility, which do not materially impair the usefulness of the Premises as a property within the applicable zoning for the Land under the current City Zoning and Development Bylaws.

**2.2 Landlord's Work**

The Landlord shall perform the Landlord's Work with reasonable dispatch and in a good and workmanlike manner.

**ARTICLE 3 - TERM**

**3.1 Duration of Term**

The Tenant shall have and hold the Premises, subject to the exceptions and reservations aforesaid, unto the Tenant for the Term from and including the Commencement Date until and including the Expiry Date.

**ARTICLE 4 - RENT**

**4.1 Annual Basic Rent and Additional Rent**

The Tenant shall pay to the Landlord during the Term the following Rent payable at the Landlord's address specified in the Lease Summary or at such other place as the Landlord may from time to time designate in writing, in the following instalments:

- (a) the Annual Basic Rent (plus applicable Sales Taxes) payable in advance in consecutive monthly instalments on the first day of each and every month in each and every year of the Term, commencing on the Commencement Date and continuing until and including the first day of the month in which the Expiry Date falls; and
- (b) the Additional Rent payable in advance in consecutive monthly instalments on the first day of each and every month in each and every year of the Term, commencing on the Commencement Date and continuing until and including the first day of the month in which the Expiry Date falls, unless indicated otherwise in this Lease.

**4.2 Tenant To Pay Rent**

The Tenant shall pay the Annual Basic Rent and Additional Rent when due in accordance with the provisions of this Lease.

**4.3 No Abatement**

The Tenant covenants and agrees with the Landlord that all of the Rent payable under this Lease shall be paid by the Tenant without demand, deduction, set-off, or abatement whatsoever, except as specifically provided in section 10.1(a). The Tenant covenants and agrees that the Landlord may at its option apply

all sums received from or due to the Tenant against any amounts due and payable hereunder in such manner as the Landlord may see fit, regardless of any designation or instructions by the Tenant to the contrary.

#### **4.4 Adjustments**

If the Term shall commence or cease on a day other than the commencement of or the end of any period of time in respect to which any amount payable hereunder is calculated, then the Tenant shall pay to the Landlord its Relative Portion of such amount for such period of time. Without limiting the generality of the foregoing, if the Term does not subsist during the whole of any calendar year, the Tenant shall pay the Relative Portion of the estimated and actual Operating Expenses for such Operating Year.

#### **4.5 Accrual of Annual Basic Rent**

The Annual Basic Rent shall accrue from day to day. Where the calculation of any Additional Rent is not made until the termination or expiry of this Lease, the obligation of the Tenant to pay such Additional Rent shall survive the termination or expiry of this Lease and such amounts shall be payable by the Tenant upon demand by the Landlord.

#### **4.6 Net Lease**

It is the intention of the parties that this Lease shall be a fully net lease and that the Annual Basic Rent provided to be paid to the Landlord hereunder shall be net to the Landlord and shall yield to the Landlord the entire such rental during the Term and any extension thereof without abatement for any cause whatsoever except as set forth in section 10.1(a). Save as specifically set forth in this Lease, all costs, expenses, and obligations of every kind and nature whatsoever relating to the Premises whether or not herein referred to and whether or not of a kind now existing or within the contemplation of the parties, shall be paid by the Tenant.

#### **4.7 Sales Taxes**

The Landlord will, acting reasonably, estimate the amount of Sales Taxes to be paid in advance with monthly payments of Rent for the period to which the estimate applies; and any necessary adjustment will be made in the same manner as set out in section 5.2. Amounts payable by the Tenant as Sales Taxes will not be deemed to be Rent or Additional Rent, but the Landlord will have the same rights and remedies for non-payment of Sales Taxes as it has for non-payment of Rent.

### **ARTICLE 5 - ADDITIONAL RENT**

#### **5.1 Estimated Expenses**

The Landlord shall have the right to make reasonable estimates of the amount of any or all of the Additional Rent for each Operating Year during the Term.

#### **5.2 Payment**

The Tenant shall pay to the Landlord in equal monthly instalments on the first day of each month during each Operating Year the Additional Rent or any portion thereof as estimated by the Landlord for the Operating Year which falls in whole or in part within the respective Operating Year. In the event that the Tenant makes any overpayment to the Landlord on account of any Additional Rent payable under this Article 5 during any Operating Year, the Tenant shall be entitled to a credit or a refund, at the Landlord's

option, to the Tenant's account in respect of the payment of such item of Additional Rent for the next succeeding Operating Year. Upon the expiry of the Term and any extension thereof and the fulfilment by the Tenant of all of its obligations under this Lease, any remaining credit shall be refunded to the Tenant.

### **5.3 Landlord's Certificate**

A certificate of an officer of the Landlord as to the actual Additional Rent or any portion thereof for any Operating Year shall be final and binding upon the Tenant and the Landlord.

### **5.4 Access to Records**

The Tenant shall have the right upon giving to the Landlord ten (10) days prior notice to have access to and inspect, at its expense, during the Landlord's regular business hours the books and accounts for the Premises relating to the Additional Rent and to elect to have an independent audit made of the same, at its expense, by an independent auditor selected jointly by the Tenant and the Landlord, each party acting reasonably. Any errors determined by the audit shall be adjusted immediately. The Tenant shall reimburse the Landlord for all reasonable costs incurred by the Landlord in furnishing information and records in connection with such access, inspection or audit by or on behalf of the Tenant, including but not limited to the Landlord's accounting and administrative expenses, photocopying or other reproducing costs, except in the event any such audit indicates an adjustment to Additional Rent is required in favour of the Tenant, in which event the Landlord shall bear its own costs. Any such inspection will be completed or any claims or disputes will be raised no later than one (1) year after following receipt of a certificate from the Landlord pursuant to section 5.3. Subject to the foregoing, the Landlord's statement on Additional Rent shall be final and binding on the Tenant.

## **ARTICLE 6 - TENANT'S TAXES AND UTILITY COSTS**

### **6.1 Payment**

The Tenant shall promptly pay to the applicable authorities the Tenant's Taxes and any utility costs related to the Premises and not included in Utility Costs as they become due.

### **6.2 Evidence of Payment**

The Tenant shall promptly provide to the Landlord, when and if requested by the Landlord, receipts for payments made by the Tenant in respect of the Tenant's Taxes, its utility costs and any other Operating Expenses or other amounts which the Tenant is required to pay pursuant to this Lease, if payable directly by the Tenant.

### **6.3 Contest of Taxes**

The Landlord, acting reasonably, may contest any Taxes and appeal any assessments related thereto and may withdraw any such contest or appeal or may agree with the relevant Authorities on any settlement in respect thereof. The Tenant will co-operate with the Landlord in respect of any such reasonable contest and appeal and shall provide to the Landlord such information and execute such documents as the Landlord reasonably request to give full effect to the foregoing. If The Tenant desires to contest any Taxes or appeal any assessments related thereto, it shall not do so without obtaining the prior written consent of the Landlord, which consent shall not be unreasonably withheld or delayed. The Tenant shall promptly upon request pay all reasonable costs and expenses, including without limitation legal expenses incurred by the Landlord arising out of such contest or appeal by the Landlord or the Tenant, and indemnify the Landlord against all costs, liabilities or damages incurred by the Landlord arising out of

such contest or appeal by the Landlord or the Tenant. While any such contest or appeal by either the Landlord or the Tenant is in progress, the Tenant shall continue to pay the Taxes as if such contest or appeal had not been commenced.

## **ARTICLE 7 - USE OF PREMISES**

### **7.1 Use of Premises**

The Tenant shall not use the Premises or allow the Premises to be used for any purpose other than that specified in the Lease Summary, nor in any manner inconsistent with such use and occupation, and the Tenant shall not, at any time during the Term or any extension thereof, commit or suffer to be committed any waste upon the Premises, nor shall the Tenant use, exercise, carry on, or permit, or suffer to be used, exercised, or carried on, in, or upon the Premises, or any part thereof, any noxious, noisome, or offensive art, trade, business, occupation, or calling, or keep, sell, use, handle, or dispose of any merchandise, goods, or things which are objectionable, or by which the Premises or any part thereof may be damaged or injuriously affected, and no act, matter, or thing whatsoever shall, at any time during the Term or any extension thereof, be done in or upon the Premises or any part thereof which may result in annoyance, nuisance, grievance, damage, or disturbance to other occupants of the Premises to the occupiers or owners of any other lands or premises or to the holders of any registered easement, right of way, or other encumbrance charging the whole or part of the Land or the Building. The Tenant shall use its best efforts to prevent anything being done on the Premises which may result in any lands and premises other than the Premises being picketed or otherwise subjected to industrial action or demonstrations. The Tenant shall immediately advise the Landlord of the presence of, and shall do all things necessary to remove, any dangerous condition from time to time existing on the Premises, and arising as a result of the act or omission of the Tenant or any person for whom the Tenant is, at law, responsible.

### **7.2 Access for Maintenance and Repair**

- (a) It is understood and agreed that notwithstanding anything herein to the contrary, the Landlord shall have the right at all times and from time to time throughout the Term, and any extension, to temporarily obstruct or close off portions of the Premises for the purposes of maintenance, repair, or construction, provided however that the Landlord shall not unreasonably interfere with the use and enjoyment of the Premises beyond the extent necessarily incidental to such changes, additions, and installations, and shall make good any physical damage to the Premises arising in the course of such changes, additions, and installations. The Landlord agrees to use its reasonable efforts to complete all construction, alterations, maintenance, and repairs as expeditiously as possible under the circumstances.
- (b) The Tenant shall not have any right to object to nor any right to any claim of damages, compensation, or other sums whatsoever, nor any right of set-off or reduction of the Rent as a result of or on account of any exercise of the Landlord's rights under subsection 7.2(a). It is further understood and agreed that the exercise by the Landlord of its rights set forth in subsection 7.2(a) shall not be deemed to be constructive or actual eviction of the Tenant, nor a breach of any covenant of quiet enjoyment or other covenant contained in this Lease.

### **7.3 Compliance with Laws**

The Tenant shall do, observe, and perform all of its obligations and all matters and things necessary or expedient to be done, observed, or performed by the Tenant by virtue of any Applicable Laws, Cannabis Laws or lawful requirements of any Authorities or any public utility lawfully acting under statutory authority, and all demands and notices in pursuance thereof whether given to the Tenant or the Landlord

and in any manner or degree affecting the exercise or fulfilment of any right or obligation arising under or as a result of this Lease and affecting the Premises and the use thereof by the Tenant. If any such demand or notice is given lawfully requiring the execution of works by reason of anything done, omitted, or permitted by the Tenant, then:

- (a) if such notice is given to the Tenant, the Tenant shall forthwith deliver the same or a true copy thereof to the Landlord and the Tenant shall forthwith execute, at its own expense, to the satisfaction of the Landlord and the person giving such notice, all such works as the Landlord may approve in writing in order to comply with the requirements of that notice; and
- (b) if such notice is given to the Landlord, the Landlord shall notify the Tenant and thereupon the Tenant shall forthwith execute, at its own expense, to the satisfaction of the Landlord and the person giving such notice, all such works as the Landlord and the person giving such notice may require in order to comply with the requirements of the said notice.

Notwithstanding the foregoing, the Landlord shall have the right to execute any such works and the Tenant shall afford to the Landlord all necessary access to the Premises and other facilities for such purpose and the Tenant shall, on demand by the Landlord, pay to the Landlord all costs and expenses incurred by the Landlord in executing and performing any and all such works.

#### **7.4 Security**

The Landlord is not responsible for the security of persons or property on or about the Premises and Landlord is not and will not be liable in any way whatsoever for any criminal activity or any breach of security on or about the Building or the Premises, or Land. Tenant will be responsible for obtaining and maintaining all security with respect to the Premises, Building, and Land, whether by the use of devices, security guard personnel, or otherwise. Tenant acknowledges and agrees that Landlord will have no liability to Tenant or its employees, agents, contractors, or invitees for the implementation or exercise of, or for the failure to implement or exercise, any security measures with respect to the Premises, Building, and Land.

#### **7.5 No Overloading**

The Tenant shall not permit or allow any overloading of the floor of the Premises or the bringing into or upon any part of the Building or any other part of the Premises of any articles, inventory, equipment, vehicles, machinery, chattels, or fixtures that by reason of their weight or size might damage or endanger the structure of the Building or any other portion of the Premises.

### **ARTICLE 8 - INDEMNITY AND INSURANCE**

#### **8.1 Tenant's Insurance**

- (a) The Tenant shall, at its sole cost and expense from and after the date the Landlord delivers to the Tenant possession of the Premises and through the Term and during such other period of time that the Tenant occupies the Premises, take out and maintain in full force and effect, the following:
  - (i) "all risks" insurance upon all merchandise, stock-in-trade, furniture, fixtures, equipment, Leasehold Improvements, and other property of every kind and description located at the Premises, owned by, or made or installed by or on behalf of the Tenant and any sub-tenant or licensee or for which the Tenant is responsible or legally liable, in an amount at least equal to the full insurable value thereof, calculated on a stated amount co-insurance

and replacement cost basis (provided that if there is a dispute as to the amount which comprises full replacement cost, the decision of the Landlord shall be conclusive);

- (ii) automobile liability insurance to a limit of liability of not less than \$2,000,000 in any one accident, covering all licensed motor vehicles owned by the Tenant and used in connection with its and its licensee's or sub-tenant's business carried on from the Premises;
  - (iii) comprehensive bodily injury and property damage liability insurance applying to the operations of the Tenant and its licensee or sub-tenant carried on from the Premises and which shall include, without limitation, personal injury liability, product liability, contractual liability, non-owned automobile liability, and protective liability coverage with respect to the occupancy of the Premises by the Tenant; and such insurance shall be written for an amount of not less than \$5,000,000 per occurrence, or such higher amount as the Landlord may from time to time reasonably require;
  - (iv) tenant's all-risks legal liability insurance in an amount not less than the replacement cost of the Premises;
  - (v) broad form comprehensive boiler and machinery insurance on all boilers and pressure vessels in the Premises;
  - (vi) business interruption insurance in such amounts as will reimburse the Tenant for direct or indirect loss of earnings attributable to all perils required to be insured against by the Tenant hereunder;
  - (vii) insurance required by reason of the introduction, by or on behalf of the Tenant or any occupant of the Premises, of any radioactive material or other Hazardous Substances, into or on or about the Premises, or for any other material handling requiring special coverage; and
  - (viii) any other form or forms of insurance as the Landlord may reasonably require from time to time in amounts and for perils against which a prudent tenant acting reasonably would protect itself in similar circumstances.
- (b) All policies of insurance referred to in this clause shall include the following provisions:
- (i) the policies shall not be affected or invalidated by any act, omission, or negligence of any person which is not within the knowledge or control of the insured thereunder;
  - (ii) subject to subsection 10.1(b), all property damage policies written on behalf of the Tenant shall contain a waiver of any subrogation rights which the Tenant's insurers may have against the Landlord and against those for whom the Landlord is, in law, responsible, whether any insured loss or damage is caused by the act, omission, or negligence of the Landlord, or by those for whose acts the Landlord is, in law, responsible, or otherwise;
  - (iii) all policies of liability insurance shall include the Landlord and any persons, firms, or corporations affiliated with the Landlord and designated by the Landlord as additional insureds and shall provide that each person, firm, or corporation insured under such policies shall be insured in the same manner and to the same extent as if separate policies

had been issued to each; and all policies shall contain an undertaking by the insurers to give the Landlord not less than 30 days' prior written notice of any cancellation or other termination thereof, or any change which restricts or reduces the coverage afforded thereby.

- (c) The Tenant agrees that certificates of insurance or, if required by the Landlord or any of the Landlord's Mortgagees, certified copies of each policy shall be delivered to the Landlord as soon as practicable after the placing thereof. The Tenant shall, when required by the Landlord, forthwith provide to the Landlord evidence that all premiums for all insurance policies have been paid.
- (d) For good and valuable consideration, and subject to section 8.4, the Tenant does hereby release and relieve the Landlord and those persons for whom the Landlord is, in law, responsible, from liability and responsibility for, and waives its entire claim for recovery of any loss or damage whatsoever arising out of or incident to, the occurrence of any of the perils covered by, or which would be covered by, the insurance policies which the Tenant is obligated to obtain and maintain in force under the terms of this Lease.
- (e) The Tenant shall not do or permit anything to be done upon the Premises whereby any policy of insurance against loss or damage to the Premises or against legal liability for damage to persons or property caused by the ownership, maintenance, use, or occupancy of the Premises, the Land, or the Building, or by reasons of the conduct of any business carried on thereon, may be invalidated; and for such purpose, upon receipt of notice in writing from any insurer of the Premises, the Land, or the Building requiring the execution of works or a discontinuance of any operations in order to correct such situation, the Tenant shall comply therewith.
- (f) The Tenant agrees that if the Tenant fails to take out or keep in force any insurance coverage referred to in this section 8.1, or if any such insurance is not approved by the Landlord and the Landlord's Mortgagees, and the Tenant does not rectify the situation within 72 hours after written notice by the Landlord to the Tenant setting forth the Landlord's objections, then the Landlord shall have the right, without assuming any obligation in connection therewith, to effect such insurance coverage and shall have the right to recover all costs and premiums incurred in effecting such insurance coverage from the Tenant pursuant to this clause 8.1.

## **8.2 Indemnify Landlord**

The Tenant shall indemnify and save harmless the Landlord from and against any and all manner of actions or causes of action, damages, costs, loss, or expenses of whatever kind (including without limitation legal fees on a solicitor and own client basis) which the Landlord may sustain, incur, or be put to by reason of or arising out of any act or omission of the Tenant or any persons for whom the Tenant is, at law, responsible, or from the use or occupation of the Premises, in whole or in part and, without limiting the generality of the foregoing, from the non-observance or non-performance by the Tenant or any persons for whom the Tenant is, at law, responsible of any of the obligations imposed under the provisions of any laws, ordinances, regulations, or requirements of any federal, provincial, municipal, or other authority, or any of the covenants, agreements, terms, conditions, and provisos contained in this Lease to be observed and performed by the Tenant; and such liability to indemnify and save harmless shall survive any termination of this Lease and the expiry of the Term or any extension hereof, anything in this Lease to the contrary notwithstanding.

### **8.3 Landlord's Insurance**

- (a) The Landlord shall, during the Term and any extension thereof, take out and maintain in full force and effect insurance against all risks of physical loss or damage to the Building, and such fixtures and improvements as the Landlord shall determine, including the perils of flood and earthquake and including gross rental value insurance, in amounts equal to the full insurable value thereof calculated on a replacement cost basis, and subject to such deductibles, as typically arranged by and available to reasonably prudent owners of properties similar to the Premises at the time such coverage is placed. Provided however that the full insurable value shall not include, and the insurance shall not cover, any property of the Tenant, whether owned by the Tenant or held by it in any capacity, nor Leasehold Improvements, other than Leasehold Improvements included within the Landlord's Work, nor any other property of whatsoever kind and description located at the Premises whether made or installed by or on behalf of the Tenant. The Landlord shall, after placing such insurance coverage, advise the Tenant of the amount of the deductible referred to in this subsection.
- (b) The Landlord shall, upon written request by the Tenant not more than twice in any Operating Year, provide the Tenant with evidence from time to time that such insurance has been effected.
- (c) The Landlord may, but shall not be obligated to, take out and carry any other form or forms of insurance as the Landlord or the Landlord's Mortgagees may consider advisable or beneficial, including, without limiting the foregoing, comprehensive liability insurance and boiler and machinery insurance and insurance against loss of Annual Basic Rent and Additional Rent.
- (d) The costs of the Landlord's insurance shall be included in Insurance Costs, payable by the Tenant as a component of Operating Expenses. Notwithstanding any contribution by the Tenant to any Insurance Costs as provided for herein, no insurable interest shall be conferred upon the Tenant under policies carried by the Landlord.

### **8.4 Limitation of Liability of Landlord**

- (a) The Landlord shall not be liable for any personal injury, death, or property loss or damage sustained by the Tenant or its employees, agents, sublessees, licensees, or those doing business with it on the Premises, no matter how caused, except to the extent caused by the gross negligence of the Landlord or those persons for whom the Landlord is, in law, responsible; and the Tenant:
  - (i) shall indemnify the Landlord against all actions or liabilities arising out of such personal injury, death, or property damage or loss, except to the extent caused by the gross negligence of the Landlord or those persons for whom the Landlord is, in law, responsible; and
  - (ii) hereby releases the Landlord and its officers, agents, and employees from all claims for damages or other expenses arising out of such personal injury, death, or property loss or damage, except to the extent caused by the gross negligence of the Landlord or those persons for whom the Landlord is, in law, responsible.
- (b) Without limiting the foregoing, the Landlord shall not be liable for any personal injury, death, or property loss or damage sustained by the Tenant or its employees, agents, sublessees, licensees, or invitees on the Premises caused by theft or breakage or by steam, water, rain, snow, radioactive



materials, microwaves, deleterious substances, gases, pollutants, or any other materials or substances which may leak into, or issue or flow from any neighbouring lands or adjacent premises, or from the water, steam, or drainage pipes or plumbing works of the same or from any place, or any loss or damage caused by or attributable to the condition or arrangements of any electric or other wiring except to the extent caused by the gross negligence of the Landlord or by those persons for whom the Landlord is, in law, responsible; and the Tenant:

- (i) shall indemnify the Landlord against all actions or liabilities arising out of such personal injury, death, or property damage or loss except to the extent caused by the gross negligence of the Landlord or those persons for whom the Landlord is, in law, responsible; and
- (ii) hereby releases the Landlord and its officers, agents, and employees from all claims for damages or other expenses arising out of such personal injury, death, or property loss or damage, except to the extent caused by the gross negligence of the Landlord or those persons for whom the Landlord is, in law, responsible.

### **8.5 Indemnify Tenant**

The Landlord shall indemnify and save harmless the Tenant and its officers, directors, employees, shareholders, agents and those for whom the Tenant is in law responsible (the “**Tenant Indemnified Persons**”) from any and all loss, claims, actions, damages, liability and expenses in connection with loss of life, injury to person, damage to or loss of or loss of use of property, or any other loss or injury arising from the gross negligence or willful misconduct of the Landlord or the gross negligence or willful misconduct of the Landlord’s employees, agents or those for whom the Landlord is in law responsible. If the Tenant Indemnified Persons, without fault on their part, are made a party to any litigation commenced against or by the Landlord with regard to this Section 8.5, the Landlord shall indemnify and hold such Tenant Indemnified Persons harmless in connection with such litigation (including, without limitation, all reasonable costs and legal fees incurred or paid by the Tenant Indemnified Persons in respect of such litigation).

## **ARTICLE 9 - MAINTENANCE, REPAIRS, AND ALTERATIONS**

### **9.1 Repair by Tenant**

The Tenant will at all times during the Term at its own cost and expense replace, repair, maintain and keep in a good state of repair consistent with the standards of a careful owner, the Premises and all equipment and fixtures therein including, without limitation, exterior and interior doors, windows, glass partitions, glass and plate glass within the Premises or attached to or forming part of any exterior or partition wall of the Premises, heating, ventilating and air-conditioning equipment and fixtures and plumbing and electrical equipment and fixtures within the Premises. The Tenant will make all repairs required hereunder:

- (a) in a good and workmanlike manner;
- (b) with reasonable expedition; and
- (c) in accordance with all laws and regulations of the Authorities having jurisdiction.

## 9.2 Repair on Notice

- (a) The Tenant shall permit the Landlord and its duly authorized agents or nominees, with or without workers and others, at all reasonable times to enter upon the Premises for the purpose of examining the state of repair, condition, and use thereof, and to permit such entry after the Landlord shall have given forty-eight (48) hours' notice in writing to the Tenant of such intended entry and examination, or without notice in the event of an emergency or a perceived emergency, and in every case the Tenant shall afford the Landlord all aid and facilities in such entry and examination, and upon notice in writing of defect or want of repair being given by the Landlord to the Tenant, to cause the same to be repaired or replaced, as required by section 9.1, within thirty (30) days from the date of the giving of such notice by the Landlord. If the Tenant shall at any time default in the performance or observance of any of the covenants in this Lease for or relating to the repair, maintenance, replacement, cleaning, renewal, or decoration of the Premises or any part thereof and such default shall continue for ten (10) days after notice in writing from the Landlord of default in respect of repair, maintenance, replacement, cleaning, renewal, or decoration of the Premises, then the Tenant shall permit the Landlord and its duly authorized agents and nominees, with or without workers and others, and without prejudice to the Landlord's right of re-entry, to enter into and upon the Premises and repair, replace, decorate, clean, renew, and maintain the same at the expense of the Tenant; and the Tenant shall afford the Landlord all aid and facilities in doing or causing the same to be done and shall repay to the Landlord on demand all costs and expenses in respect of such repairs, maintenance, replacement, cleaning, renewal, and decoration as aforesaid.

All entry into the Premises, by Landlord or any other authorized delegate, except in the case of emergency, shall be strictly accompanied access by a Tenant-designated security official, provided that the Tenant makes such designated security official available on the day of such entry and the Tenant hereby agreeing to make such designated security official available on the day of such entry. Such access shall be requested in writing, with time of entry and present delegates documented in writing. No entry to the Premises shall be granted unaccompanied, unless under extenuating emergency circumstances or by authorized law enforcement officials or due to Tenant not making its designated security official available on the day of such entry. If approval from any applicable Authorities is necessary in order for the Landlord, the Landlord's Mortgagees, prospective purchasers or other authorized delegates of the Landlord to enter and/or to inspect the Premises, the Tenant shall use its best efforts to support the Landlord and such others in obtaining such necessary approvals, time being of the essence. If the applicable Authorities require that access by the Landlord or such others to certain space within the Premises is conditioned on the Landlord or such others being accompanied by a member of the Tenant's management team, the Tenant shall promptly make available such member of its management team for that purpose in order to provide such access to the Premises, time being of the essence.

- (b) The Tenant shall pay to the Landlord administration charges of the Landlord in the sum of 15% of the total cost of any work (other than the Landlord's Work) specifically completed by the Landlord on behalf of the Tenant, such work being deemed to be the responsibility of the Tenant.

### **9.3 Business and Trade Fixtures**

The Tenant may install its usual business and trade fixtures in the usual manner in the Premises, provided such installation does not damage the Premises and provided further that, if requested by the Landlord, the Tenant shall have submitted to the Landlord plans and specifications for such business and trade fixtures and obtained the prior written consent of the Landlord thereto, which consent shall not be unreasonably withheld. The Tenant shall not mortgage, charge, encumber, or grant a security interest in its business and trade fixtures installed in or on the Premises without the prior written consent of the Landlord, which consent will not be unreasonably withheld. All business and trade fixtures owned or installed by the Tenant in or on the Premises shall remain the property of the Tenant and shall be removed by the Tenant at the expiration of the Term or any extension thereof or at the sooner termination thereof, provided that the Tenant at its expense shall repair any damage to the Premises or any part thereof caused by such removal. Such removal by the Tenant shall be permitted provided that the Tenant is not in default under any covenant or agreement contained herein at the time of such removal; and if in default, the Landlord shall have a lien on the Tenant's business and trade fixtures as security against loss or damage resulting from any such default by the Tenant, and the Tenant's business and trade fixtures shall not be removed by the Tenant until such default is cured, unless otherwise directed by the Landlord. The Landlord may elect to require the Tenant to remove all or any part of the business and trade fixtures owned or installed by or on behalf of the Tenant at the expiration or termination of the Term or any extension thereof, in which event such removal shall be done at the Tenant's expense and the Tenant shall, at its expense, repair any damage to the Premises caused by such removal. If the Tenant does not remove its business and trade fixtures forthwith after written demand by the Landlord, such property shall, if the Landlord elects, be deemed to become the Landlord's property or the Landlord may remove the same at the expense of the Tenant and the cost of such removal shall be paid by the Tenant forthwith to the Landlord on written demand, and the Landlord shall not be responsible for any loss or damage to such property as a result of such removal.

### **9.4 Alterations and Additions**

The Tenant shall be entitled from time to time during the Term to make alterations, installations, removals, additions, or improvements (individually and collectively called "**Tenant's Alterations**") to the Premises with the Landlord's prior written consent (which the Landlord will not unreasonably withhold or delay) but provided always that the Tenant's Alterations:

- (a) do not affect any Structural Elements of the Building;
- (b) do not affect the Roof or the exterior of the Building;
- (c) meet or exceed the standards of materials and construction employed in the original construction of the Building and the Tenant's fixturing work completed or in progress on the Commencement Date;
- (d) do not require that a permit or other approval be issued by or on behalf of the City or other Authorities; and
- (e) comply with all Applicable Laws, including without limitation the applicable building code and bylaws of the City;

and provided that, if requested by the Landlord, the Tenant shall submit to the Landlord copies of the required building permits issued by the City and copies of the required building inspections by the City

following substantial completion of the Tenant's Alterations. With respect to Tenant Alterations which require the Landlord's prior written consent, the Landlord covenants not to unreasonably withhold or delay such consent. Notwithstanding the foregoing, Tenant's Alterations costing less than One Hundred Thousand Dollars (\$100,000.00) shall not require the Landlord's prior written consent, provided that the Tenant must still comply with all other requirements of this Section.

### **9.5 Leasehold Improvements**

Any and all Leasehold Improvements, but not Tenant's business and trade fixtures in or upon the Premises, whether placed there by the Tenant or the Landlord or a previous occupant of the Premises, shall immediately upon such placement become, and shall thereafter remain, the property of the Landlord without compensation therefore to the Tenant. Notwithstanding anything herein contained, the Landlord shall be under no obligation to repair, maintain, replace, or insure the Leasehold Improvements. The Landlord may elect that any or all Leasehold Improvements (save and except Leasehold Improvements included within the Landlord's Work) made or installed by or on behalf of the Tenant under this Lease, or under the provisions of any previous lease to the Tenant, be removed at the expiry or earlier termination of the Term or any extension thereof, and it shall be the Tenant's obligation to restore the Premises to the condition in which they were prior to the installation of the Leasehold Improvements. Such removal and restoration shall be at the sole expense of the Tenant. The Tenant shall not mortgage, charge, encumber, or grant any security interest in any Leasehold Improvements made or installed by or on behalf of the Tenant hereunder.

### **9.6 Landlord's Repairs**

The Landlord shall be responsible for carrying out, at its sole cost and expense:

- (a) repairs to inherent defects in the Structural Elements of the Building; and
- (b) repairs and replacements to the Structural Elements of the Building;
- (c) repairs and replacements to the Premises resulting from a negligent act or omission of the Landlord.

Notwithstanding the foregoing, the Landlord shall only be responsible for the foregoing to the extent that Landlord was responsible for the construction, building, or erection of such building or Premises, improvements, or Alterations prior to the Commencement Date of this Lease. Further, the Landlord shall not be responsible for any repairs caused by the acts or omissions of the Tenant or those persons for whom the Tenant is at law responsible.

Notwithstanding anything to the contrary contained in this Lease and the provisions of this Article 9, if at any time during the Term the cost of any repair or replacement to the Premises constitutes a major capital cost in accordance with generally accepted accounting principals, the Landlord shall make such repairs or replacements. The cost of such repair or replacement shall be amortized over the useful life expectancy of the asset repaired or replaced on a straight line basis and the Tenant shall pay to the Landlord in each year of the Term the amortized amount of such cost as Additional Rent. The Landlord covenants to maintain and make all repairs and replacements to the Structural Elements of the Building of the Premises so as to keep same in good repair and condition as would a prudent owner.

**ARTICLE 10 - DAMAGE, DESTRUCTION, OR EXPROPRIATION OF THE PREMISES**

**10.1 Damage and Destruction**

- (a) If the Premises are damaged by fire or other casualty which renders all of the Premises or a substantial area of the Premises unusable by the Tenant and materially adversely affects the business carried on by the Tenant from the Premises, then the Annual Basic Rent shall from and after the date of the damage abate in the same proportion as such unusable area of the Premises bears to the total area of the Premises, and such abatement shall continue until such unusable area of the Premises is capable of use by the Tenant or until this Lease is terminated, whichever shall first occur. However, the abatement shall not exceed the proceeds received by the Landlord from the Tenant's business interruption insurance to be obtained pursuant to this Lease.
- (b) Except as provided in subsection 10.1(c), if the Premises are damaged by fire or other casualty not caused by the negligence of the Tenant or those for whom it is responsible at law, and the damage is covered by insurance held by the Landlord under this Lease, then the damage to the Premises shall be repaired by the Landlord at its expense provided that the Tenant shall, to the limits of insurance it ought to have received under the terms of this Lease, be responsible for any costs in excess of insurance proceeds received. The Tenant shall, at its expense, repair all Leasehold Improvements and any installations, alterations, additions, partitions, improvements, and fixtures made by or on behalf of the Tenant and all damage caused by its negligence or the negligence of those for whom it is responsible in law. At the option of the Landlord, such repairs shall be performed by the Landlord at the expense of the Tenant if the Landlord considers that this would be more efficient and cost-effective. All repairs which the Landlord is required to make hereunder shall be made with due diligence, provided that the Landlord shall not be liable to the Tenant for any loss or damage suffered by the Tenant as a result of any delay which may arise by reason of adjustment of insurance on the part of the Landlord or on account of the circumstances described in section 18.7.
- (c) If, in the Landlord's opinion, the Premises are damaged by fire or other casualty to the extent that it cannot reasonably be repaired or rebuilt within 180 days after the occurrence of such damage, and if the Landlord shall consequently decide not to restore the same, then the Landlord shall, within 15 working days after the happening of such fire or other casualty, give to the Tenant a notice in writing of such decision and thereupon the Term and any extension of this Lease shall expire effective the fifteenth (15<sup>th</sup>) Business Day following the occurrence of the damage, and the Tenant shall vacate the Premises and surrender the Premises to the Landlord, and all rights of the Tenant hereunder shall cease and determine within two (2) Business Days following the effective date of termination. If the Premises is damaged as aforesaid and the Landlord does not give notice as aforesaid, then the Landlord shall diligently proceed to repair or rebuild the Premises in accordance with subsection 10.1(b). If such repair or rebuilding is not completed and available for occupation by the Tenant within 240 days from the time of the fire or other casualty causing the damage, the Tenant may at its option, to be exercised within ten (10) days of the termination of the said period of 240 days (or the termination of such later period as extended by clause 18.7) by notice in writing, terminate this Lease and all of the rights of the Tenant hereunder, and the Tenant shall then have no further liability for Rent in respect of any period after the date of termination.

**10.2 Expropriation**

If the whole of the Premises shall be acquired or condemned by an authority having the power for such acquisition or condemnation then the Term and any extension thereof shall cease from the date of entry by such authority. Nothing herein contained shall prevent the Landlord or the Tenant or both from recovering damages from such authority for the value of their respective interests or for such other damages and expenses allowed by law.

## **ARTICLE 11 - ASSIGNMENT AND SUBLETTING**

### **11.1 Assignment and Subletting**

- (a) The Tenant shall not make, grant, execute, enter into, consent to, or permit any Transfer without the prior written consent of the Landlord, such consent may be unreasonably withheld unless the Transfer is to an Affiliate of the Tenant in which case the Landlord's consent may not be unreasonably withheld. In the event that the Tenant desires to make, grant, execute, enter into, consent to, or permit any Transfer then the Tenant shall give prior written notice to the Landlord of such desire, specifying therein the proposed Transferee and providing to the Landlord such information on the nature of the business of the proposed Transferee, together with its financial responsibility and standing, as the Landlord may reasonably require, together with the terms and conditions of the proposed Transfer. The Tenant shall also deliver to the Landlord a copy of the Transfer intended to be executed by the Tenant and the Transferee, together with the Landlord's administration fee required hereunder. The Landlord shall, within ten (10) Business Days thereafter, notify the Tenant in writing that:
  - (i) it consents to such Transfer; or
  - (ii) that it does not consent to such Transfer, in which event the Landlord must advise the Tenant of its reason for not consenting.
- (b) Provided always and notwithstanding subsection 11.1(a), the Landlord's consent to a Transfer does not constitute a waiver of the necessity for the Tenant to obtain the prior written consent of the Landlord to any subsequent Transfer, and no Transfer shall in any manner release the Tenant from its obligations for the payment of the Rent and the observance and performance of the covenants, terms, and conditions herein provided during the Term.
- (c) Upon the initial request for a Transfer together with receipt from the Tenant of the administration fee and undertaking required in subsection 11.1(d), and provided that the Landlord does not withhold its consent to such Transfer, the Landlord shall provide to the Tenant its standard-form written agreement pertaining to Transfers. The Tenant shall require each Transferee, at the time of any Transfer, to execute and deliver the Landlord's standard-form written agreement between the Tenant, the Landlord, and the Transferee wherein the Transferee agrees to observe and perform all of the covenants, agreements, provisos, terms, and conditions of this Lease, and wherein the Tenant acknowledges and agrees that it shall continue to be liable under this Lease during the Term and any extension of the Term. If either the Tenant or the Transferee fails to execute and deliver the said standard-form written agreement then the Landlord shall have the right to refuse to grant its consent to such Transfer, or where such consent is not required the Transfer shall not be effective until the said standard-form written agreement is executed and delivered by the Tenant and the Transferee. Without in any way restricting the generality of the Landlord's right to refuse consent to any Transfer, the Landlord shall have the right to refuse to consent to any Transfer if the Lease is not in good standing.

- (d) The Tenant shall, together with its initial request to the Landlord for consent to any Transfer, pay to the Landlord an administration fee of a minimum of \$2,000.00 or such other greater fee as the Landlord may reasonably charge from time to time, and the Tenant shall also undertake to reimburse to the Landlord any solicitors' fees and any other costs, charges, and expenses which may be incurred by the Landlord in connection with the Tenant's request for consent to any Transfer.
- (e) If the Tenant is a corporation other than a corporation whose shares are publicly traded through a recognized security exchange regulated by Authorities or if the Transferee is a corporation other than a corporation whose shares are publicly traded through a recognized security exchange regulated by Authorities, and at any time during the Term or any extension thereof any or all of the corporate shares or voting rights of shareholders of the Tenant or the Transferee shall be transferred by sale, assignment, bequest, inheritance, trust, operation of law, or other disposition, or treasury shares be issued, so as to result in the control of the Tenant or the Transferee having changed from one person or group of persons to another person or group of persons without the prior written consent of the Landlord, which consent shall not be unreasonably withheld, then and so often as such a change of control shall occur the Landlord shall have the right to terminate this Lease at any time after such change of control by giving the Tenant 60 days' prior written notice of such termination. The Tenant shall, upon request by the Landlord, make available to the Landlord from time to time for inspection and copying all books and records of the Tenant which alone or with other data show the applicability or otherwise of this sub-clause. This subsection shall not be applicable to any transfer of shares which are listed on a security exchange (including, without limitation, NASDAQ) regulated by the Authorities.
- (f) If the Transfer does not take place within sixty (60) days of the giving of consent by the Landlord, then the Landlord's consent to such Transfer shall, at the Landlord's option, expire and become null and void.

## **ARTICLE 12 - DEFAULT**

### **12.1 Payments by Landlord Regarded as Rent**

If the Tenant shall fail to observe or perform any of the covenants or obligations of the Tenant under or in respect of this Lease within five (5) days after written notice from the Landlord to the Tenant to do so, the Landlord may from time to time at its discretion perform or cause to be performed any of such covenants or obligations or any part thereof, and for such purpose may do such things as may be requisite, and may enter upon the Premises to do such things; and all costs and expenses incurred and expenditures made by or on behalf of the Landlord shall be forthwith paid by the Tenant to the Landlord. If the Tenant fails to pay the same, the Landlord may add the same to the Rent and recover the same by all remedies available to the Landlord for the recovery of Rent in arrears. Nothing in this section 12.1 shall require the Landlord to directly or indirectly commence or complete such performance of the Tenant's covenants or obligations. If the Landlord shall suffer or incur any damage, loss, cost, or expense whatsoever for which the Tenant is in any way liable hereunder, by reason of any failure of the Tenant to observe or comply with any of the covenants or agreements of the Tenant in this Lease, then in every such case the amount of any such damage, loss, cost, or expense shall be due and payable by the Tenant to the Landlord on demand by the Landlord and the Landlord shall have the right at its option to add the cost or amount of any such damage, loss, cost, or expense to the Rent hereby reserved, and any such amount shall thereupon immediately be due and payable as Rent and recoverable by the Landlord by all remedies available to the Landlord for the recovery of Rent in arrears.

## **12.2 Re-Entry on Default**

The Tenant further covenants with the Landlord that in the event of the breach, non-observance, or non-performance of any covenant, agreement, stipulation, proviso, condition, rule, or regulation herein contained on the part of the Tenant to be kept, performed, or observed hereunder, and any such breach, non-observance, or non-performance shall continue for ten (10) Business Days after written notice thereof from the Landlord to the Tenant (except that with respect to any default (other than a default which can be cured by the payment of money) that cannot be reasonably cured within said ten (10) Business Day period, the Tenant shall have an additional period of ten (10) Business Days to cure such default, provided the Tenant commences to cure within said ten (10) Business Days and actually cures the default within ten (10) Business Days after the Landlord's notice) or five (5) days in the case of non-payment of Rent, or in case the Term shall be taken in execution or attachment for any cause whatsoever, then and in any such case the Landlord, in addition to any other remedy now or hereafter provided, may re-enter and take possession immediately of the Premises or any part thereof in the name of the whole by reasonable persons and property therefrom, and may use such reasonable force and assistance in making such removal as the Landlord may deem advisable to recover at once full and exclusive possession of the Premises; and such re-entry shall not operate as a waiver or satisfaction in whole or in part of any right, claim, or demand arising out of or connected with any breach, non-observance, or non-performance of any covenant or agreement on the part of the Tenant to be kept, observed, or performed.

## **12.3 Bankruptcy or Insolvency of Tenant**

- (a) If during the Term or any extension thereof any of the goods and chattels of the Tenant shall be seized or taken in attachment by any creditor of the Tenant, or if a writ of execution, sequestration, or extent shall issue against the goods and chattels of the Tenant located within British Columbia, or if any petition or other application is granted by any court of competent jurisdiction for the dissolution, liquidation, or winding-up of the Tenant or for the appointment of a receiver or receiver and manager, or if the Tenant shall become bankrupt or insolvent or take the benefit of any statute now or hereafter in force for bankrupt or insolvent debtors, or if the Premises shall be used for any purpose other than permitted by section 7.1 without the prior written consent of the Landlord, or if the Tenant shall make an assignment for the benefit of creditors or shall make any sale or other disposition of all or substantially all of its goods and chattels (except incidental to its amalgamation with any other company), then and in every case the Tenant shall be, and be deemed to be, in default under this Lease; the then-current and the next ensuing three months' Annual Basic Rent and Additional Rent (to be determined for the current year at rates estimated by the Landlord acting reasonably) and any additional money owing hereunder shall immediately become due and payable; the Landlord may re-enter and take possession of the Premises or any part thereof in the name of the whole, and have again, repossess, and enjoy the Premises in its former estate, anything herein to the contrary notwithstanding, as though the Tenant were holding over after the expiration of the Term; and the Term and any extension thereof shall, at the option of the Landlord, forthwith become forfeited and determined and the then-current and the next ensuing three (3) months' Annual Basic Rent, the Additional Rent (to be determined for the current year at rates estimated by the Landlord acting reasonably) and any additional money owing hereunder shall be recoverable by the Landlord as if it were Rent in arrears, but the Tenant shall remain liable under this Lease.
- (b) The Tenant acknowledges and agrees that unless it receives the prior written consent of the Landlord, under no circumstances shall it file any notice of termination, repudiation, or disclaimer seeking to take advantage of s. 65.2 of the *Bankruptcy and Insolvency Act* (Canada), as amended from time to time and hereby waives any and all rights to do so. The Tenant agrees that if, in breach of this section, it files such a notice, the Landlord may, in addition to all of its other



remedies, produce and rely on this section in challenging the validity of the notice in the court proceedings contemplated by s. 65.2 of the *Bankruptcy and Insolvency Act*; and the Landlord may, in those or any other proceedings, apply for injunctive relief or other relief against the Tenant filing the notice.

#### **12.4 Sale and Reletting**

The Tenant covenants and agrees that upon the Landlord becoming entitled to re-enter upon the Premises under any of the provisions of this Lease, the Landlord, in addition to all other rights and remedies, shall have the right to enter the Premises as the agent of the Tenant either by reasonable force or otherwise without being liable for any prosecution therefore, and to relet the Premises as the agent of the Tenant, and to receive all rent therefore, and as agent of the Tenant to take possession of any business and trade fixtures of the Tenant and any goods and property whatsoever on the Premises, and to sell the same at public or private sale without notice, and to apply the proceeds of such sale and any rent derived from reletting the Premises in payment of the Rent due under this Lease, after deducting its costs of conducting such sale and its costs of reletting; and the Tenant shall be liable to the Landlord for any deficiency.

#### **12.5 Termination**

The Tenant covenants and agrees that upon the Landlord becoming entitled to re-enter upon the Premises under any of the provisions of this Lease, the Landlord, in addition to all other rights and remedies, shall have the right to forthwith terminate this Lease and the Term or any extension thereof and all of the rights of the Tenant hereunder by giving notice in writing addressed to the Tenant of its intention so to do, and any other payments for which the Tenant is liable under this Lease shall be paid and the Tenant shall forthwith deliver up possession of the Premises to the Landlord, and the Landlord may re-enter and take possession of the Premises without limitation to its right to claim damages arising from the Tenant's breach.

#### **12.6 Distress**

At any time that the Landlord is entitled to levy distress against the goods and chattels of the Tenant, it may use such reasonable force as it may deem necessary for the purpose of gaining admission to the Premises without being liable for any action in respect thereof or for any loss or damage occasioned thereby, and the Tenant hereby expressly releases the Landlord from all actions, proceedings, claims, or demands whatsoever for or on account of or in respect of any such forcible entry or any loss or damage sustained by the Tenant in connection therewith. The Tenant waives and renounces the benefit of any present or future statute taking away or limiting the Landlord's right of distress, and covenants and agrees that notwithstanding any such statute none of the goods and chattels of the Tenant on the Premises at any time during the Term or any extension thereof shall be exempt from levy by distress for Rent in arrears. The Tenant covenants and agrees to indemnify and save harmless the Landlord from and against any and all manner of actions or causes of action, damages, costs, loss, or expenses of whatever kind which the Landlord may sustain, incur, or be put to by reason of or arising out of the distress, seizure, or the levy of distress against any goods or chattels on or in the Premises, whether owned by the Tenant or any other person, and such liability to indemnify and save harmless shall survive any termination of this Lease and the expiry of the Term or any extension thereof, anything in this Lease to the contrary notwithstanding.

#### **12.7 Landlord's Expenses Enforcing Lease**

If it is necessary for the Landlord to retain the services of any person for the purpose of assisting the Landlord in enforcing any of its rights under this Lease or otherwise available at law, the Landlord shall be entitled to collect from the Tenant the cost of all such services including, but not limited to, all charges

by any bailiff effecting a distress and all legal fees and disbursements incurred in enforcing the Landlord's rights hereunder and in connection with all necessary court proceedings at trial or on appeal on a solicitor and own client basis, as if the same were Rent reserved and in arrears hereunder.

### **12.8 Remedies Cumulative**

No remedy conferred upon or reserved to the Landlord under this Lease, by statute or otherwise, shall be considered exclusive of any other remedy, but the same shall be cumulative and shall be in addition to every other remedy available to the Landlord and all such remedies and powers of the Landlord may be exercised concurrently and from time to time and as often as the Landlord deems expedient.

## **ARTICLE 13 - SUBORDINATION, ATTORNMENT, AND STATUS CERTIFICATE**

### **13.1 Provide Financial Information**

Whenever any of the Landlord's Mortgagees, in connection with any financing of the Premises or any part thereof, shall require information relating to the financial position of the Tenant, then the Tenant, within thirty (30) days after receipt by it of a notice in writing from the Landlord requesting such information, shall furnish directly to such Landlord's Mortgagee copies of the unaudited summary form financial statements including unaudited summary form statements of profit and loss and surplus or deficit, in respect of each of the three years immediately preceding the year in which such notice is given. All such information shall be used by such Landlord's Mortgagees in connection with such financing only, and shall be supplied to such Landlord's Mortgagees on the condition that the information be treated on a confidential basis.

### **13.2 Subordination**

This Lease is and shall be subject, subordinate, and postponed to all Mortgages to the extent that without execution of any document other than this Lease, the Mortgages shall have priority over this Lease notwithstanding the respective dates of execution, delivery, or registration thereof. Without limiting the generality of the foregoing, the Tenant agrees to promptly execute any document in confirmation of such subordination and postponement of this Lease to any of the Mortgages. At Tenant's cost, the Landlord will use commercially reasonable efforts to cause the Landlord's Mortgagee or other party holding any financial encumbrances of the Lands to execute and deliver to the Tenant a non-disturbance agreement based on commercially reasonable terms.

### **13.3 Attornment**

Whenever required by any of the Landlord's Mortgagees under any of the Mortgages, or in the event of an exercise by any of the Landlord's Mortgagees of the power of sale in any of the Mortgages, the Tenant shall attorn to and become, in each case, a tenant of such Landlord's Mortgagees or any purchaser from such Landlord's Mortgagee for the then-unexpired residue of the Term upon all of the terms and conditions hereof.

### **13.4 Estoppel Certificate**

The Tenant shall at any time and from time to time upon ten (10) days' prior notice from the Landlord execute and deliver to the Landlord, or the Landlord's Mortgagees, or a prospective purchaser of the whole or any portion of the Landlord's interest in the Premises, a statement in writing confirming the terms of this Lease, certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the modifications and that the same is in full force and effect as modified), and certifying the

amount of the Rent then being paid hereunder, the dates to which the Rent and other charges hereunder have been paid, that the Landlord has complied with all the terms of this Lease, that the Premises are acceptable to the Tenant, that the Tenant shall not amend, modify, or surrender this Lease or make any prepayment of the Rent other than the Rent for the current month without the prior written consent of the Landlord's Mortgagees or prospective purchaser, that there are no outstanding set-offs or equities disclosed or undisclosed as between the Landlord and the Tenant, that no money other than a maximum of one month's Rent in accordance with the provisions of the Lease has been prepaid by the Tenant to the Landlord, that the Tenant is aware of the assignment by the Landlord to the Landlord's Mortgagees of all Rents under this Lease, and any other matters pertaining to this Lease in respect of which the Landlord may desire certification.

#### **ARTICLE 14 - QUIET ENJOYMENT**

The Landlord covenants with the Tenant for quiet enjoyment, subject to the charges, exceptions and reservations in ARTICLE 2 - and subject to any rights of entry by the Landlord as provided in this Lease.

#### **ARTICLE 15 - MISCELLANEOUS COVENANTS**

##### **15.1 Signs**

The Tenant shall not, at any time, affix or exhibit or permit to be affixed or exhibited upon any part of the Premises, any Sign, unless such Sign shall have been first approved in writing by the Landlord and such Sign complies at all times with the requirements of any lawful authority having jurisdiction over the same and if such compliance is obtained and the Landlord is of the opinion that such sign will not damage the Building, or weaken its structure, the Landlord's consent shall not be unreasonably withheld or delayed. If any Sign no longer complies with the terms of the consent given by the Landlord or the requirements of any lawful authority having jurisdiction over the same, then the Landlord, after giving the Tenant thirty (30) days' notice, shall have the right at any time to remove any such Sign at the Tenant's expense; and the costs, charges, and expenses of such removal shall forthwith be paid by the Tenant to the Landlord. The repair provisions of sections 9.1 and 9.2 shall also apply to the Signs.

##### **15.2 Keep Clean and Abate Nuisance**

The Tenant shall keep the Premises clean and tidy and in good order. Upon written notice to the Tenant from the Landlord or from any lawful authority having jurisdiction, the Tenant shall forthwith, at its sole expense, abate any nuisance caused by vibration, noise, or offensive smell, or by any undue emission of smoke, vapour, or dust caused by the Tenant or arising directly or indirectly out of the operations carried on upon the Premises.

##### **15.3 Pollution**

The Tenant shall:

- (a) not use or permit to be used all or any part of the Premises for the sale, storage, manufacture, disposal, use, or any other dealing with any Hazardous Substances, without the prior written consent of the Landlord, which may be unreasonably withheld, except that the Tenant may use and store minor amounts of substances necessary and incidental to its lawful operations and permitted use of the Premises provided such substances are used in amounts and in a manner which by all reasonable standards are safe, pose no risk or harm to the Premises, or any person or property in, upon or adjacent to the Premises, do not increase the rates of insurance, or void any policy of insurance, and provided the Tenant strictly complies with all Environmental Laws,

indemnifies the Landlord in respect thereof, and otherwise complies with all obligations and covenants set out in the provisions of this Lease including this subsection 15.3(a);

- (b) strictly comply, and cause any person for whom it is in law responsible to comply, with all Environmental Laws regarding the use and occupancy of the Premises;
- (c) promptly provide to the Landlord a copy of any environmental site assessment, audit, or report relating to the Premises conducted by or for the Tenant at any time;
- (d) promptly notify the Landlord in writing of any release of a Hazardous Substance or Hazardous Substances or any other occurrence or condition at the Premises or any adjacent property which would contaminate the Premises or subject the Landlord or the Tenant to any fines, penalties, orders, investigations, or proceedings under Environmental Laws;
- (e) on the expiry or earlier termination of this Lease, or at any time if requested by the Landlord or required by any Authorities pursuant to Environmental Laws, remove from the Premises all Hazardous Substances and remediate any contamination of the Premises or any adjacent property resulting from Hazardous Substances, in either case brought onto, used at, or released from the Premises by the Tenant or any person for whom it is in law responsible. The Tenant shall perform these obligations promptly at its own cost and in accordance with Environmental Laws. All such Hazardous Substances shall remain the property of the Tenant, notwithstanding any rule of law or other provision of this Lease to the contrary and notwithstanding the degree of their affixation to the Premises;
- (f) indemnify the Landlord and its directors, officers, employees, agents, successors, and assigns from any and all liabilities, actions, damages, claims, losses, costs, fines, penalties, and expenses whatsoever (including all legal and consultants' fees and expenses and the cost of remediation of the Premises and any adjacent property) arising from or in connection with:
  - (i) any breach of or non-compliance with the provisions of this clause by the Tenant;
  - (ii) any release or alleged release of any Hazardous Substance or Hazardous Substances at or from the Premises related to or as a result of the use and occupation of the Premises or any act or omission of the Tenant or any person for whom it is in law responsible;
  - (iii) any act or omission of the Tenant or persons for whom the Tenant is at law responsible on or about the Premises or elsewhere during the Term; or
  - (iv) any illness, injury or death of persons, or any loss or damage to property, on or about the Premises, except to the extent caused by any act or omission of the Landlord or those persons for whom the Landlord is at law responsible.

The obligations of the Tenant under this section 15.3 shall survive the expiry or earlier termination of this Lease.

#### **15.4 Environmental Laws**

In performing or causing to be performed its obligations pursuant to this Lease, the Landlord shall comply with all Environmental Laws in respect of Hazardous Substances.

### **15.5 Failure to Comply**

In circumstances where both the Landlord and the Tenant, or those for whom they are in law responsible, have failed to comply with Environmental Laws regarding the same Hazardous Substances, then each party shall be liable to the other for that portion of loss or damage which is attributable to it, or the act negligence or omission, or of those for whom it is in law responsible.

### **15.6 No Excavation**

The Tenant shall not excavate, dig, or extract any sand, gravel, earth, or minerals of any description out of the Land.

### **15.7 Easements**

The Tenant shall not, without the prior written consent of the Landlord, permit any encroachment, right of way, easement, or other encumbrance to be made or entered into, against, or upon the Premises or any part thereof.

### **15.8 Liens**

The Tenant shall use its best efforts to ensure that no claim of lien shall be filed in respect of any work which may be carried out by it or on its behalf in the Premises, and if a claim of lien shall be filed in respect of any such work the Tenant shall take all necessary steps to have the claim of lien cancelled and discharged from the Building within 15 days of the date the Tenant has knowledge of such filing, and the Tenant shall indemnify and save harmless the Landlord from any and all loss, cost, expense, damage, and liability in respect of such claim of lien. The Landlord, in addition to any right or remedy, shall have the right, but shall not be obliged, to discharge any claim of lien from the Building by paying the amount claimed to be due or by procuring a discharge of such liens by deposit in the appropriate court, and in any such event the Landlord shall be entitled, if it so acts, to expedite the prosecution of any action for the enforcement of such claim of lien by the lien claimant and to pay the amount of the judgment, if any, in favour of the lien claimant with interest and costs. In any such event the Tenant shall forthwith pay to and reimburse the Landlord for all money expended by the Landlord and all costs and expenses incurred by the Landlord.

### **15.9 Registered Charges**

The Tenant shall pay all money owed by it under any security interest or other charge registered or filed against the Premises, and immediately upon all of the payments having been made thereunder, the Tenant shall obtain a memorandum of satisfaction or other appropriate document of discharge and shall register the same at its own expense in the proper land title office or other appropriate office of public record as the Landlord may require to discharge the same from the title to the Premises.

### **15.10 Exhibit Premises**

The Landlord shall have the right to exhibit the Premises to:

- (a) prospective tenants or subtenants during the nine-month period prior to the Expiry Date or the date of expiration of and any extension of the Term; and

- (b) the Landlord's Mortgagees and prospective mortgagees and any prospective purchaser of the whole or any part of the Landlord's interest in the Premises;

and for such purposes the Landlord may place upon the Premises a sign or notice stating that the Premises are for rent or for sale, and the Landlord shall have the right of entry to the Premises at any reasonable time, and the Tenant at its option may have a servant or agent present at the time of such entry.

#### **15.11 No Auctions**

The Tenant shall not permit any sale by auction nor any fire sale, bankruptcy sale, moving sale, going-out-of-business sale, or bulk sale to be held upon the Premises or any part thereof.

#### **15.12 Entry for Benefit of Adjoining lands and premises**

The Tenant shall permit the Landlord, its agents, workers, and other persons authorized by the Landlord, and the tenants of any adjoining or neighbouring lands and premises and their respective agents and workers, to enter upon the Premises at all reasonable times so far as may be necessary or useful in order to construct, examine, repair, or rebuild any adjoining or neighbouring lands and premises or for any other reasonable purpose, provided that the Landlord shall make good all damage occasioned by the exercise of such rights by the Landlord, its agents, workers, and any other persons authorized by the Landlord. Insofar as any tenant of any adjoining or neighbouring lands and premises and its respective agents and workers are concerned, no such rights shall be exercisable until such tenant and its agents and workers shall have covenanted with the Tenant to make good all damage occasioned by the exercise of such rights by that tenant and its respective agents and workers. A representative of the Tenant shall be entitled to accompany any person entering upon the Premises pursuant to this clause.

### **ARTICLE 16 - ANNUAL BASIC RENT DETERMINATION**

The Annual Basic Rent to be paid by the Tenant to the Landlord for each Lease Year after the third (3<sup>rd</sup>) Lease Year shall be the greater of:

- (a) the Annual Basic Rent payable to the Landlord during the immediately preceding Lease Year; and
- (b) the amount, based on then current market rates for lands and premises similar to the Premises in the City regardless of the status and use of the Premises at the time of determination, such current market rates to be agreed upon between the Landlord and the Tenant or if no agreement is reached by the date (the "**Agreement Date**") which is sixty (60) days prior to the date upon which the next Lease Year is to commence, then the amount determined by a single arbitrator, appointed by the parties hereto pursuant to the provisions of the Arbitration Act. The Arbitration Act shall govern the arbitration proceedings. The determination made by the said arbitrator shall be final and binding upon the Landlord and the Tenant and the cost of arbitration shall be apportioned between the parties as the arbitrator may deem appropriate. The provisions of this clause shall be deemed to be a submission to arbitration within the provisions of the Arbitration Act of British Columbia and amending acts.

### **ARTICLE 17 - INDEMNITOR PROVISIONS**

*Intentionally deleted.*

## **ARTICLE 18 - MISCELLANEOUS MATTERS**

### **18.1 Registration of Lease**

The Landlord shall not be required to execute and deliver this Lease in registrable form.

### **18.2 No Warranties**

The Tenant acknowledges and agrees that no representations, warranties, agreements, or conditions have been made other than those expressed herein, and that no agreement collateral hereto shall be binding upon the Landlord unless it be made in writing and duly executed on behalf of the Landlord.

### **18.3 No Waiver**

- (a) The failure of the Landlord to exercise any right or option in connection with any breach or violation of any term, covenant, or condition herein contained shall not be deemed to be a waiver or relinquishment of such term, covenant, or condition nor of any subsequent breach of the same or any other term, covenant, or condition herein contained. The subsequent acceptance of the Rent or any portion hereunder by the Landlord shall not be deemed to be a waiver of a preceding breach by the Tenant of any term, covenant, or condition of this Lease.
- (b) The acceptance of any of the Rent from, or the performance of any obligation hereunder by, a person other than the Tenant shall not be construed as an admission by the Landlord of any rights, title, or interest of such person as a Transferee or otherwise in the place and stead of the Tenant.
- (c) The acceptance by the Landlord of a part payment of any money required to be paid hereunder shall not constitute waiver or release of the right of the Landlord to payment in full of such money.

### **18.4 Notices**

A notice, demand or request required or permitted to be given hereunder by one party to the other must be in writing and will be sufficiently given if delivered in person, transmitted electronically (including by facsimile or e-mail) in legible form or mailed in British Columbia by registered mail addressed as follows:

- (a) if to the Landlord

BJK Developments Ltd.  
238 22nd Street N  
Lethbridge, Alberta T1H 3R7

Attention: Russ Zemp  
Email: russ.zemp@kirkstire.ca

- (b) if to Tenant

Heritage Cannabis West Corporation  
5450 Highway 97  
Falkland, British Columbia V0E 1W1

Attention: David Schwede  
Email: dschwede@heritagecann.com

In which case such notice, demand or request will be considered to have been given to the party to whom it is addressed if delivered, upon delivery, if transmitted electronically on the first (1<sup>st</sup>) Business Day following such transmission, or if mailed, on the third (3<sup>rd</sup>) Business Day following the date of mailing, and each party at any time may give notice to the other of a change of address after which the address so specified will be considered to be the address of the party who gave the notice.

### **18.5 Peaceful Surrender**

The Tenant shall, at the expiration or sooner determination of the Term, forthwith peacefully surrender and yield up unto the Landlord the Premises and its appurtenances, together with all fixtures or improvements which at any time during the Term shall be made therein or thereon, in the state of repair required to be maintained by the Tenant hereunder, without notice from the Landlord; and shall deliver to the Landlord all keys to the Premises which the Tenant has in its possession.

### **18.6 Holding Over**

If the Tenant shall hold over with the Landlord's written consent after the expiration of the Term or any extension thereof, and the Landlord shall accept the new Rent or any portion thereof, the new tenancy thereby created shall be deemed to be a monthly tenancy and not a yearly tenancy and shall be subject to the covenants and conditions herein contained insofar as the same are applicable to a tenancy from month to month, except that if the Tenant remains in possession without the Landlord's written consent, the monthly instalments of Annual Basic Rent shall be equal to one hundred and fifty percent (150%) of the monthly instalments of Annual Basic Rent payable for the last month of the later of the Term or any extension thereof, pro-rated on a daily basis for each day that the Tenant remains in possession, and in addition the Tenant shall be liable for all costs, expenses, losses, and damages resulting or arising from the failure of the Tenant to deliver up possession of the Premises to the Landlord.

### **18.7 Inability to Perform**

Whenever and to the extent that the Landlord shall be unable to fulfil, or shall be delayed or restricted in the fulfilment of any obligation hereunder by reason of being unable to obtain the material, goods, equipment, service, utility, or labour required to enable it to fulfil any such obligation, or by reason of any statute, law, or order-in-council or any regulation or order passed or made pursuant thereto, or by reason of the order or direction of any administrator, controller, or board, or any governmental department or officer or other authority, or by act of God, or by reason of not being able to obtain any permission or authority required thereby, despite commercially reasonable efforts by the Landlord, or by reason of strikes, lockouts, or other industrial disturbances, explosion, breakage or accident to machinery, or by reason of any other cause beyond its control whether of the foregoing character or not, the Landlord shall be entitled to extend the time for fulfilment of such obligation by a time equal to the duration of such delay or restriction, and the Tenant except as otherwise specifically set out in this Lease, shall not be entitled to compensation for any inconvenience, nuisance, discomfort, or damage thereby occasioned, and shall not be entitled to cancel or terminate this Lease. Notwithstanding the foregoing, the provisions of this section do not apply to the Tenant's obligations to pay Rent or other monies owed under the Lease when due.



### **18.8 Interest**

Interest on any money due to the Landlord under this Lease shall be paid by the Tenant and shall accrue on a daily basis at the Prime Rate plus 4% per annum (but, in no event, in excess of the maximum permissible interest rate then in effect in Canada), such rate of interest to be calculated and compounded monthly, not in advance, from the respective date upon which any such money becomes due to the Landlord.

### **18.9 Governing Law**

This Lease shall be construed in accordance with, and governed by, the laws of the province of British Columbia and the laws of Canada applicable therein.

### **18.10 Number and Gender**

Where required the singular number shall be deemed to include the plural and the neuter gender the masculine or feminine.

### **18.11 Covenants**

The Landlord and the Tenant agree that all of the provisions of this Lease are to be construed as covenants and agreements as though the words imparting such covenants and agreements were used in each separate provision thereof. Should any provision or provisions of this Lease be illegal or not enforceable, it or they shall be considered separate and severable from this Lease and its remaining provisions shall remain in force and be binding upon the parties as though the said provision or provisions had never been included.

### **18.12 Time of the Essence**

Time shall be of the essence of this Lease, save as herein otherwise specified.

### **18.13 Headings**

Any captions, headings, and marginal notes throughout this Lease are for convenience and reference only and the words and phrases contained therein shall in no way be held or deemed to define, limit, describe, explain, modify, amplify, or add to the interpretation, construction, or meaning of any provision of or the scope or intent of this Lease nor in any way affect this Lease.

### **18.14 Enurement**

This Lease shall extend to, be binding upon, and enure to the benefit of the Landlord and the Tenant and their respective heirs, executors, administrators, successors, and permitted assigns.

### **18.15 Continuation of Obligations**

This Lease and the obligations of the Tenant hereunder shall continue in full force and effect notwithstanding any change in the person or persons comprising the Landlord.

#### **18.16 Counterparts and Electronic Signature**

This Lease may be executed and delivered by the parties in one or more counterparts, each of which will be an original, and each of which may be executed and delivered by facsimile, e-mail or other functionally equivalent electronic means of transmission, and those counterparts will together constitute one and the same instrument.

#### **18.17 Landlord's Limit of Liability**

The term "Landlord" as used in this Lease so far as covenants or obligations on the part of the Landlord are concerned shall be limited to mean the Landlord as described in the Lease Summary, while it retains its interest in the Premises, but upon a sale, transfer, or other disposition of that interest, the Landlord shall be automatically and immediately relieved from all liability arising out of the requirement for performance of any obligations on the part of the Landlord herein contained, provided the Landlord's successor or assign shall assume all outstanding obligations of the Landlord hereunder. The Tenant agrees to attorn to a purchaser, transferee, or person acquiring the interest of the Landlord in the Premises, such attornment to be effective and self-operative without the necessity of the execution of any further instrument on the part of the Landlord, the Tenant, or any other person.

#### **18.18 Consents**

Wherever and whenever the approval or consent of the Landlord is required to be obtained, such approval or consent may be given by such officers, agents, committee, person, or persons as may from time to time be nominated or appointed in writing by the Landlord for such purpose, and any such power of nomination or appointment may be delegated by the Landlord. Subject to the terms of this Lease, such nominees, appointees, or delegates shall have the right to withhold approval of or consent to, and may reject, any matter or thing submitted for approval or consent, and every such approval or consent given shall be in writing and may contain such conditions and stipulations as the Landlord may deem fit.

#### **18.19 Amendments**

This Lease shall constitute the entire agreement between the parties with respect to the subject matter hereof and shall not be modified, amended, or waived except by an instrument in writing duly executed and delivered by the parties or by their successors and permitted assigns.

#### **18.20 Deposit**

*Intentionally deleted.*

#### **18.21 Schedules**

The Schedules if any, attached hereto are hereby incorporated in and form part of this Lease.

IN WITNESS WHEREOF the parties have duly executed and delivered this Lease as of the day and year first above written.

**BJK DEVELOPMENTS LTD.**, by its  
authorized signatory:

DocuSigned by:  
*Bradley J. Kirk*  
Per: \_\_\_\_\_  
A7559A2027B9407...  
Name: Bradley J. Kirk  
Title: ASO

**HERITAGE CANNABIS WEST  
CORPORATION**, by its authorized signatory:

DocuSigned by:  
*David Schwede*  
Per: \_\_\_\_\_  
45DB3351CE1C45C...  
Name: David Schwede  
Title: Director and Officer

A

**SCHEDULE "A"**  
**LANDLORD'S WORK**

N/A.

**SCHEDULE “B”  
SPECIAL PROVISIONS**

1. **Cannabis Definitions.** In this Section 1, capitalized terms and expressions will have the meanings set out below:
  - (a) **“Cannabis Laws”** means, collectively:
    - (i) all federal, provincial, municipal, regional, territorial, or aboriginal law or regulation related to the growth, production, processing, possession, or distribution of cannabis within Canada applicable to the Premises and the Landlord, the Tenant and their agents and persons for whom they are responsible at law, including without limitation the *Access to Cannabis for Medical Purposes Regulations* (Canada), the *Cannabis Act* (Canada), *Cannabis Control and Licensing Act* (British Columbia), *Cannabis Distribution Act* (British Columbia) and the *Criminal Code* (Canada) and any regulations made thereunder as they may be amended or replaced from time to time;
    - (ii) all terms, conditions, restrictions and requirements of Cannabis Permits; and
    - (iii) any order, directive, edict or administrative decision by any related to the growth, production, processing, possession, or distribution of cannabis within Canada applicable to the Landlord, Tenant and the Premises; and
  - (b) **“Cannabis Permits”** means, collectively, all authorizations, registrations, permits, certificates of approval, approvals, grants, licences, quotas, consents, commitments, rights or privileges (other than those relating to the intellectual property) issued or granted to the Landlord, the Tenant, or any occupant of the Premises by a Canadian Authorities in relation to the growth, production, processing, possession, or distribution of cannabis within Canada.
2. **Compliance with Cannabis Laws**

This Lease is subject to strict requirements for ongoing regulatory compliance by the parties hereto, including, without limitation, requirements that the parties take no action in violation of either the Cannabis Law or the guidance or instruction of the Authorities.

The Tenant shall be solely responsible for obtaining from all relevant Authorities all necessary permits, licences and approvals as may be necessary to permit the Tenant to hold this Lease and to occupy the Premises and conduct its business thereon as required by all Applicable Laws and/or Cannabis Laws, including without limiting the generality of the foregoing, all necessary Cannabis Permits.

The Landlord and Tenant each covenant not to do any act which breaches or potentially breaches any Cannabis Law applicable to the Permitted Use of Premises, and will reasonably cooperate with any Authorities exercising jurisdiction regarding any Cannabis Law. Without limiting the generality of the foregoing, the Landlord and Tenant each agree that notwithstanding any other provision of this Lease, it will not exercise any right of entry, inspection, repair, renovation or distraint except in compliance with any Cannabis Permits issued relating to the Premises or Cannabis Law applicable to the Permitted Use of Premises.

Notwithstanding anything else contained in this Lease, the Tenant agrees and acknowledges that Landlord makes **NO** representation or warranty of any kind regarding the compliance of this Lease with any Cannabis Law and the Tenant shall not have any right of rescission or amendment arising out of or

relating to any non-compliance with the Lease unless such non-compliance also constitutes a violation of Applicable Law as determined in accordance with such Applicable Law, Cannabis Law, Environmental Law or by the Authorities.

**3. Rent Free Period**

Notwithstanding anything to the contrary in this Lease, the Tenant shall not be required to pay Annual Basic Rent during the first year of the Lease. For clarity, the Tenant shall still be required to pay Additional Rent and all other amounts payable under the Lease during this period.

**4. Termination Right**

Notwithstanding anything to the contrary in this Lease, after the first two (2) years of the Term of this Lease, either the Landlord or the Tenant may terminate this Lease by giving six (6) months' written notice to the other party.

**5. Cross Default with Heritage East Lease**

The parties hereto acknowledge and confirm that certain related parties, being Heritage East, as tenant, and the Landlord, as landlord, have simultaneously entered into the Heritage East Lease. The Tenant hereby agrees that any default by Heritage East (or its assignees, successors, or such other transferees as the case may be), whether on notice or without notice by Landlord to Heritage East under the Heritage East Lease or to the Tenant under this Lease shall constitute a default under this Lease, and the Landlord under this Lease shall have the full rights and remedies upon such default as set out herein.

**6. Acceptance of Premises**

Notwithstanding anything else contained in this Lease, the Tenant acknowledges that, as of the date of this Lease agreement, it is in possession of the Premises that the Tenant is already and is in possession of the Premises, and accepts the Premises on an "as is" basis and that neither the Landlord, nor any of the Landlord's agents, has made any oral or written representations or warranties expressed or implied of any kind whatsoever in respect of the Premises, including in connection with the condition, suitability for development, legality, fitness for a particular purpose, merchantability, title, physical characteristics, profitability, use or zoning, environmental condition, existence of latent defects, quality, or any other aspect or characteristic of the Premises. The Tenant hereby acknowledges that the Premises is acceptable for Tenant's intended Permitted Use. The Tenant expressly waives any warranty of condition or of habitability of suitability for occupancy, use, habitation, fitness for a particular purpose, or merchantability, express or implied, relating to the Premises.

**7. Landlord Legal Costs**

The Tenant agrees that it shall be responsible for the legal fees incurred by the Landlord for the preparation, negotiation, and execution of this Lease, and such legal fees shall be paid by Tenant to Landlord on the Commencement Date by wire transfer to the Landlord or the Landlord's solicitors as the Landlord may direct.

***THIS IS EXHIBIT "D" TO THE  
AFFIDAVIT OF DAVID  
SCHWEDE SWORN BEFORE ME  
THIS 2nd DAY OF APRIL, 2024***

A handwritten signature in blue ink, consisting of a stylized 'D' followed by a horizontal line and a small flourish.

---

***A Commissioner Etc.***



Licence No. - N° de licence  
LIC-IOFZ019P4Z-2023

**LICENCE**

This licence is issued in accordance with the *Cannabis Act* and the *Industrial Hemp Regulations*

**LICENCE**

Cette licence est délivrée conformément à la *Loi sur le cannabis* et le *Règlement sur le chanvre industriel*

**Licence Holder / Titulaire de la licence :**  
Cannacure Corporation

**Mailing address / Adresse postale :**  
333 JARVIS ST  
FORT ERIE, ON, CANADA, L2A 2S9

The above-mentioned person is authorized to conduct, at the site specified on this licence, the activities listed below for the following licence class:

La personne susmentionnée est autorisée à effectuer, sur le site spécifié sur cette licence, les activités énumérées ci-dessous pour la catégorie de licence suivante :

**Industrial Hemp**

**Chanvre industriel**

**Cultivation/Propagation**

**Culture/Multiplication**

- N/A

- nd

**Non-Cultivation/Sans-culture**

Site	Authorized Activities and Forms	Activités autorisées et formes
333 JARVIS ST FORT ERIE, ON, CANADA, L2A 2S9	<ul style="list-style-type: none"> <li>• to sell industrial hemp: flowering heads, leaves or branches</li> <li>• to import grain</li> <li>• to export grain</li> </ul>	<ul style="list-style-type: none"> <li>• vendre du chanvre industriel: têtes florales, feuilles ou branches</li> <li>• importer des grains</li> <li>• exporter des grains</li> </ul>

**Conditions**

**Conditions**

The licence holder may only sell the flowering heads, leaves, and branches of industrial hemp to a holder of a licence issued under the Cannabis Act in relation to industrial hemp or non-hemp cannabis.	Le titulaire d'une licence autorisant la vente ne peut vendre les têtes florales, les feuilles et les branches qu'au titulaire d'une licence ou d'une licence au sens du Règlement sur le cannabis.
---	---

**Effective date** of the licence:

This licence is effective as of **January 20, 2023**

**Date d'entrée** en vigueur de la licence:

Cette licence entre en vigueur à compter du **20 janvier 2023**

**Expiry date** of the licence:

This licence expires on **January 20, 2028**

**Date d'expiration** de la licence:

La présente licence expire le **20 janvier 2028**



Licence No. - N° de licence  
LIC-1WWUVE76T8-2021-12

**LICENCE**

This licence is issued in accordance with the *Cannabis Act* and *Cannabis Regulations*

**LICENCE**

Cette licence est délivrée conformément à la *Loi sur le cannabis* et le *Règlement sur le cannabis*

**Licence Holder / Titulaire de la licence :**  
Heritage Cannabis East Corporation

**Licensed Site / Lieu autorisé :**  
333 JARVIS ST  
FORT ERIE, ON, CANADA, L2A 2S9

The above-mentioned person is authorized to conduct, at the site specified on this licence, the activities listed below for the following licence classes and subclasses.

La personne susmentionnée est autorisée à effectuer, sur le site spécifié sur cette licence, les activités énumérées ci-dessous pour les catégories et les sous-catégories de licence suivantes.

Standard Cultivation

Culture standard

Activities	Activités
<ul style="list-style-type: none"> <li>To possess cannabis</li> <li>To obtain dried cannabis, fresh cannabis, cannabis plants or cannabis plant seeds by cultivating, propagating and harvesting cannabis</li> <li>For the purposes of testing, to obtain cannabis by altering its chemical or physical properties by any means</li> <li>To sell cannabis in accordance with subsection 11(5) of the Cannabis Regulations</li> </ul>	<ul style="list-style-type: none"> <li>Avoir du cannabis en sa possession</li> <li>Obtenir du cannabis séché, du cannabis frais, des plantes de cannabis ou des graines provenant de telles plantes par la culture, la multiplication et la récolte de cannabis</li> <li>Afin d'effectuer des essais sur du cannabis, obtenir du cannabis par l'altération, par tout moyen, de ses propriétés physiques ou chimiques</li> <li>Vendre du cannabis en vertu du paragraphe 11(5) du Règlement sur le cannabis</li> </ul>

Conditions	Conditions
The licence holder must meet the requirements set out in the Health Canada document entitled "Mandatory cannabis testing for pesticide active ingredients - Requirements".	Le titulaire de la licence doit respecter les exigences énoncées dans le document de Santé Canada intitulé « Analyse obligatoire du cannabis pour les résidus de principes actifs de pesticides-Exigences ».

Standard Processing

Transformation standard

Activities	Activités
<ul style="list-style-type: none"> <li>To possess cannabis</li> <li>To produce cannabis, other than obtain it by cultivating, propagating or harvesting it</li> <li>To sell cannabis in accordance with subsection 17(5) of the Cannabis Regulations</li> </ul>	<ul style="list-style-type: none"> <li>Avoir du cannabis en sa possession</li> <li>Produire du cannabis, sauf en l'obtenant par la culture, la multiplication et la récolte</li> <li>Vendre du cannabis en vertu du paragraphe 17(5) du Règlement sur le cannabis</li> </ul>

Conditions	Conditions
The licence holder must meet the requirements set out in the Health Canada document entitled "Mandatory cannabis testing for pesticide active ingredients - Requirements".	Le titulaire de la licence doit respecter les exigences énoncées dans le document de Santé Canada intitulé « Analyse obligatoire du cannabis pour les résidus de principes actifs de pesticides-Exigences ».
The only cannabis products that the licence holder may sell or distribute to (i) a holder of a licence for sale, and (ii) a person that is authorized under a provincial Act referred to in subsection 69(1) of the Act to sell cannabis, are as follows: cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis topicals; cannabis extracts; and edible cannabis.	Les seuls produits du cannabis que le titulaire de la licence peut vendre ou distribuer (i) à un titulaire d'une licence de vente et (ii) à une personne autorisée sous le régime d'une loi provinciale visée au paragraphe 69(1) de la Loi à vendre du cannabis sont les suivants : plantes de cannabis; graines provenant d'une plante de cannabis; cannabis séché; cannabis frais; cannabis pour usage topique; extrait de cannabis; et cannabis comestible.



Manager, Controlled Substances and Cannabis Branch

Gestionnaire, Direction générale des substances contrôlées et du cannabis



Conditions	Conditions
The only cannabis products that the licence holder may send or deliver to the purchaser at the request of (i) a holder of a licence for sale, and (ii) a person that is authorized under a provincial Act referred to in subsection 69(1) of the Act to sell cannabis, are as follows: cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis topicals; cannabis extracts; and edible cannabis.	Les seuls produits du cannabis que le titulaire de la licence peut expédier ou livrer à l'acheteur à la demande (i) d'un titulaire d'une licence de vente et (ii) d'une personne autorisée sous le régime d'une loi provinciale visée au paragraphe 69(1) de la Loi à vendre du cannabis sont les suivants : plantes de cannabis; graines provenant d'une plante de cannabis; cannabis séché; cannabis frais; cannabis pour usage topique; extrait de cannabis; et cannabis comestible.

Sale for Medical Purposes

Vente à des fins médicales

Activities	Activités
<ul style="list-style-type: none"> <li>To possess cannabis</li> <li>To sell cannabis products in accordance with section 27 and Part 14, Division 1 of the Cannabis Regulations</li> </ul>	<ul style="list-style-type: none"> <li>Avoir du cannabis en sa possession</li> <li>Vendre des produits du cannabis en vertu de l'article 27 et la section 1 de la partie 14 du Règlement sur le cannabis</li> </ul>

Conditions	Conditions
N/A	nd

**Indoor Area(s) / Zone(s) intérieure(s)**

The possession of cannabis and the other activities mentioned above are authorized in the following building(s) / La possession de cannabis et les autre activités mentionnées ci-haut sont autorisées dans les bâtiment(s) suivant(s) :

Building 1

**Effective date** of the licence:

This licence is effective as of **March 15, 2023**

**Date d'entrée** en vigueur de la licence:

Cette licence entre en vigueur à compter du **15 mars 2023**

**Expiry date** of the licence:

This licence expires on **October 6, 2026**

**Date d'expiration** de la licence:

La présente licence expire le **6 octobre 2026**

Manager, Controlled Substances and Cannabis Branch

Gestionnaire, Direction générale des substances contrôlées et du cannabis

Licence No. - N° de licence  
LIC-LYJVQCPT30-2022-2

**LICENCE**

This licence is issued in accordance with the *Cannabis Act* and *Cannabis Regulations*

**LICENCE**

Cette licence est délivrée conformément à la *Loi sur le cannabis* et le *Règlement sur le cannabis*

**Licence Holder / Titulaire de la licence :**  
Heritage Cannabis East Corporation

The above-mentioned person is authorized to conduct, at the site specified on this licence, the activities listed below for the following licence classes and subclasses:

- Research

La personne susmentionnée est autorisée à effectuer, sur le site spécifié sur cette licence, les activités énumérées ci-dessous pour les catégories et les sous-catégories de licence suivantes :

- Recherche

**Site and authorized activities**

**Site et activités autorisées**

Site	Activities	Activités
333 JARVIS ST FORT ERIE, ON, CANADA, L2A 2S9	<ul style="list-style-type: none"> <li>• to possess cannabis for the purpose of research</li> <li>• to produce cannabis for the purpose of research</li> </ul>	<ul style="list-style-type: none"> <li>• aux fins de recherche, avoir du cannabis en sa possession</li> <li>• aux fins de recherche, produire du cannabis</li> </ul>

**Conditions**

**Conditions**

This licence is restricted, in addition to all other applicable conditions, in that all research conducted with cannabis under this licence is reviewed and endorsed using the Licence Holder's Research Project Administration Framework provided to Health Canada on June 17, 2022.	En plus de toutes autres conditions qui s'appliquent, cette licence est limitée du fait que toutes les recherches menées sur le cannabis en vertu de cette licence sont examinées et approuvées à l'aide du Cadre d'administration des projets de recherche du titulaire de licence fourni à Santé Canada le 17 juin 2022.
This licence is restricted, in addition to all other applicable conditions, in that research activities may be conducted with cannabis in any operations areas at this site and cannabis may be stored in any storage areas at this site, provided that the physical security measures of those areas are in accordance with the Licence Holder's Physical Security Measures Framework provided to Health Canada on June 17, 2022.	En plus de toutes autres conditions qui s'appliquent, cette licence est limitée du fait que les activités de recherche peuvent être menées sur le cannabis dans toutes les zones d'exploitation de ce lieu et le cannabis peut être entreposé dans toutes les zones d'entreposage de ce lieu à condition que les mesures de sécurité physique de ces zones soient conformes au Cadre des mesures de sécurité physique du titulaire de licence fourni à Santé Canada le 17 juin 2022.
All record keeping requirements pertaining to this research licence must be met in accordance with Part 11 of the <i>Cannabis Regulations</i> .	Toutes les exigences relatives à la tenue des dossiers de cette licence de recherche doivent être satisfaites conformément à la partie 11 du <i>Règlement sur le cannabis</i> .
The researcher may only possess and produce cannabis if such possession and production is to use in accordance with the Licence Holder's Research Project Administration Framework provided to Health Canada on June 17, 2022.	Le chercheur peut seulement posséder et produire du cannabis que si cette possession et cette production sont pour une utilisation en conformité au Cadre d'administration des projets de recherche du titulaire de licence, fourni à Santé Canada le 17 juin 2022.
No administration to or testing on animals is authorized under this licence.	Aucune administration ni aucun essai sur des animaux n'est autorisé en vertu de cette licence.
No administration to or testing on humans involving any aspects of a clinical trial, as defined in section C.05.001 of the <i>Food and Drug Regulations</i> , is authorized under this licence.	Aucune administration ni aucun essai sur des humains impliquant des aspects d'un essai clinique, tel que défini à l'article C.05.001 du <i>Règlement sur les aliments et drogues</i> , n'est autorisé en vertu de cette licence.



Manager, Controlled Substances and Cannabis Branch

Gestionnaire, Direction générale des substances contrôlées et du cannabis



Conditions	Conditions
<p>With respect to research involving the administration or distribution of cannabis to human research subjects for assessments of taste, sight, smell or touch of cannabis, in addition to any other conditions listed in this licence, the researcher must meet the requirements set out in the documents entitled <i>Appendix B: Additional conditions for licensed researchers administering or distributing cannabis to human research subjects</i> and/or <i>Appendix C: Additional conditions for licensed researchers administering or distributing cannabis to human research subjects using cannabis obtained by a holder of a licence for processing in the final form of cannabis</i>, as applicable.</p>	<p>En ce qui a trait aux recherches qui nécessitent l'administration ou la distribution de cannabis à des sujets de recherche humains à fins d'évaluation de goût, d'apparence, d'odeur ou de propriétés tactiles du cannabis, en plus de tout autres conditions indiquées sur la licence, le chercheur doit rencontrer les exigences énoncées dans les documents intitulés <i>Annexe B: Conditions additionnelles pour des titulaires de licence de recherche qui administrent ou distribuent du cannabis à des sujets de recherche humains</i> et/ou <i>Annexe C: Conditions additionnelles pour des titulaires de licence de recherche qui administrent ou distribuent du cannabis à des sujets de recherche humains en utilisant du cannabis qui a été obtenu d'un titulaire d'une licence de transformation sous sa forme finale de cannabis</i>, selon le cas.</p>
<p>The holder of the licence must submit an annual report for the review of their licence to the Minister before April 1st of each year and include all required information.</p>	<p>Le titulaire de la licence doit soumettre au ministre, avant le 1er avril de chaque année, un rapport annuel qui doit inclure toutes les informations requises pour la vérification de leur licence.</p>

**Effective date** of the licence:

This licence is effective as of **March 23, 2023**

**Date d'entrée** en vigueur de la licence:

Cette licence entre en vigueur à compter du **23 mars 2023**

**Expiry date** of the licence:

This licence expires on **July 14, 2027**

**Date d'expiration** de la licence:

La présente licence expire le **14 juillet 2027**

Manager, Controlled Substances and Cannabis Branch

Gestionnaire, Direction générale des substances contrôlées et du cannabis



Licence No. - N° de licence  
LIC-TUFEZWBC14-2023-1

**LICENCE**

This licence is issued in accordance with the *Cannabis Act* and the *Industrial Hemp Regulations*

**LICENCE**

Cette licence est délivrée conformément à la *Loi sur le cannabis* et le *Règlement sur le chanvre industriel*

**Licence Holder / Titulaire de la licence :**  
Heritage Cannabis West Corporation

**Mailing address / Adresse postale :**  
5450 HWY 97  
FALKLAND, BC, CANADA, V0E 1W0

The above-mentioned person is authorized to conduct, at the site specified on this licence, the activities listed below for the following licence class:

**Industrial Hemp**

**Cultivation/Propagation**

- N/A

**Non-Cultivation/Sans-culture**

La personne susmentionnée est autorisée à effectuer, sur le site spécifié sur cette licence, les activités énumérées ci-dessous pour la catégorie de licence suivante :

**Chanvre industriel**

**Culture/Multiplication**

- nd

Site	Authorized Activities and Forms	Activités autorisées et formes
5450 HWY 97 FALKLAND, BC, CANADA, V0E 1W0	<ul style="list-style-type: none"> <li>• to sell industrial hemp: seed, grain, flowering heads, leaves or branches</li> <li>• to import seed</li> <li>• to import grain</li> <li>• to export seed</li> <li>• to export grain</li> </ul>	<ul style="list-style-type: none"> <li>• vendre du chanvre industriel: graines, grains, têtes florales, feuilles ou branches</li> <li>• importer des graines</li> <li>• importer des grains</li> <li>• exporter des graines</li> <li>• exporter des grains</li> </ul>

**Conditions**

**Conditions**

The licence holder may only sell the flowering heads, leaves, and branches of industrial hemp to a holder of a licence issued under the Cannabis Act in relation to industrial hemp or non-hemp cannabis.	Le titulaire d'une licence autorisant la vente ne peut vendre les têtes florales, les feuilles et les branches qu'au titulaire d'une licence ou d'une licence au sens du Règlement sur le cannabis.
---	---

**Effective date** of the licence:

This licence is effective as of **March 3, 2023**

**Date d'entrée** en vigueur de la licence:

Cette licence entre en vigueur à compter du **3 mars 2023**

**Expiry date** of the licence:

This licence expires on **January 20, 2028**

**Date d'expiration** de la licence:

La présente licence expire le **20 janvier 2028**



Senior Manager, Industrial Hemp & Import – Export, Controlled Substances and Cannabis Branch  
Gestionnaire principale, chanvre industriel, Direction générale des substances contrôlées et du cannabis

Licence No. - N° de licence  
LIC-81WQTM2WBL-2021-9

**LICENCE**

This licence is issued in accordance with the *Cannabis Act* and *Cannabis Regulations*

**LICENCE**

Cette licence est délivrée conformément à la *Loi sur le cannabis* et le *Règlement sur le cannabis*

**Licence Holder / Titulaire de la licence :**  
Heritage Cannabis West Corporation

**Licensed Site / Lieu autorisé :**  
5450 HIGHWAY 97  
FALKLAND, BC, CANADA, V0E 1W0

The above-mentioned person is authorized to conduct, at the site specified on this licence, the activities listed below for the following licence classes and subclasses.

La personne susmentionnée est autorisée à effectuer, sur le site spécifié sur cette licence, les activités énumérées ci-dessous pour les catégories et les sous-catégories de licence suivantes.

Standard Cultivation

Culture standard

Activities	Activités
<ul style="list-style-type: none"> <li>To possess cannabis</li> <li>To obtain dried cannabis, fresh cannabis, cannabis plants or cannabis plant seeds by cultivating, propagating and harvesting cannabis</li> <li>For the purposes of testing, to obtain cannabis by altering its chemical or physical properties by any means</li> <li>To sell cannabis in accordance with subsection 11(5) of the Cannabis Regulations</li> </ul>	<ul style="list-style-type: none"> <li>Avoir du cannabis en sa possession</li> <li>Obtenir du cannabis séché, du cannabis frais, des plantes de cannabis ou des graines provenant de telles plantes par la culture, la multiplication et la récolte de cannabis</li> <li>Afin d'effectuer des essais sur du cannabis, obtenir du cannabis par l'altération, par tout moyen, de ses propriétés physiques ou chimiques</li> <li>Vendre du cannabis en vertu du paragraphe 11(5) du Règlement sur le cannabis</li> </ul>

Conditions	Conditions
The licence holder must meet the requirements set out in the Health Canada document entitled "Mandatory cannabis testing for pesticide active ingredients - Requirements".	Le titulaire de la licence doit respecter les exigences énoncées dans le document de Santé Canada intitulé « Analyse obligatoire du cannabis pour les résidus de principes actifs de pesticides-Exigences ».

Standard Processing

Transformation standard

Activities	Activités
<ul style="list-style-type: none"> <li>To possess cannabis</li> <li>To produce cannabis, other than obtain it by cultivating, propagating or harvesting it</li> <li>To sell cannabis in accordance with subsection 17(5) of the Cannabis Regulations</li> </ul>	<ul style="list-style-type: none"> <li>Avoir du cannabis en sa possession</li> <li>Produire du cannabis, sauf en l'obtenant par la culture, la multiplication et la récolte</li> <li>Vendre du cannabis en vertu du paragraphe 17(5) du Règlement sur le cannabis</li> </ul>

Conditions	Conditions
The licence holder must meet the requirements set out in the Health Canada document entitled "Mandatory cannabis testing for pesticide active ingredients - Requirements".	Le titulaire de la licence doit respecter les exigences énoncées dans le document de Santé Canada intitulé « Analyse obligatoire du cannabis pour les résidus de principes actifs de pesticides-Exigences ».
The only cannabis products that the licence holder may sell or distribute to (i) a holder of a licence for sale, and (ii) a person that is authorized under a provincial Act referred to in subsection 69(1) of the Act to sell cannabis, are as follows: cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis topicals; cannabis extracts; and edible cannabis.	Les seuls produits du cannabis que le titulaire de la licence peut vendre ou distribuer (i) à un titulaire d'une licence de vente et (ii) à une personne autorisée sous le régime d'une loi provinciale visée au paragraphe 69(1) de la Loi à vendre du cannabis sont les suivants : plantes de cannabis; graines provenant d'une plante de cannabis; cannabis séché; cannabis frais; cannabis pour usage topique; extrait de cannabis; et cannabis comestible.



Manager, Controlled Substances and Cannabis Branch

Gestionnaire, Direction générale des substances contrôlées et du cannabis



Conditions	Conditions
The only cannabis products that the licence holder may send or deliver to the purchaser at the request of (i) a holder of a licence for sale, and (ii) a person that is authorized under a provincial Act referred to in subsection 69(1) of the Act to sell cannabis, are as follows: cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis topicals; cannabis extracts; and edible cannabis.	Les seuls produits du cannabis que le titulaire de la licence peut expédier ou livrer à l'acheteur à la demande (i) d'un titulaire d'une licence de vente et (ii) d'une personne autorisée sous le régime d'une loi provinciale visée au paragraphe 69(1) de la Loi à vendre du cannabis sont les suivants : plantes de cannabis; graines provenant d'une plante de cannabis; cannabis séché; cannabis frais; cannabis pour usage topique; extrait de cannabis; et cannabis comestible.

Sale for Medical Purposes

Vente à des fins médicales

Activities	Activités
<ul style="list-style-type: none"> <li>To possess cannabis</li> <li>To sell cannabis products in accordance with section 27 and Part 14, Division 1 of the Cannabis Regulations</li> </ul>	<ul style="list-style-type: none"> <li>Avoir du cannabis en sa possession</li> <li>Vendre des produits du cannabis en vertu de l'article 27 et la section 1 de la partie 14 du Règlement sur le cannabis</li> </ul>

Conditions	Conditions
N/A	nd

**Indoor Area(s) / Zone(s) intérieure(s)**

The possession of cannabis and the other activities mentioned above are authorized in the following building(s) / La possession de cannabis et les autre activités mentionnées ci-haut sont autorisées dans les bâtiment(s) suivant(s) :

Building 1

**Effective date** of the licence:

This licence is effective as of **March 16, 2023**

**Date d'entrée** en vigueur de la licence:

Cette licence entre en vigueur à compter du **16 mars 2023**

**Expiry date** of the licence:

This licence expires on **July 19, 2024**

**Date d'expiration** de la licence:

La présente licence expire le **19 juillet 2024**

Manager, Controlled Substances and Cannabis Branch

Gestionnaire, Direction générale des substances contrôlées et du cannabis

Licence No. - N° de licence  
LIC-SQ9HMLUT2P-2021-2

**LICENCE**

This licence is issued in accordance with the *Cannabis Act* and *Cannabis Regulations*

**LICENCE**

Cette licence est délivrée conformément à la *Loi sur le cannabis* et le *Règlement sur le cannabis*

**Licence Holder / Titulaire de la licence :**  
Heritage Cannabis West Corporation

The above-mentioned person is authorized to conduct, at the site specified on this licence, the activities listed below for the following licence classes and subclasses:

- Research

La personne susmentionnée est autorisée à effectuer, sur le site spécifié sur cette licence, les activités énumérées ci-dessous pour les catégories et les sous-catégories de licence suivantes :

- Recherche

**Site and authorized activities**

**Site et activités autorisées**

Site	Activities	Activités
5450 HWY 97 FALKLAND, BC, CANADA, V0E1W0	<ul style="list-style-type: none"> <li>• to possess cannabis for the purpose of research</li> <li>• to produce cannabis for the purpose of research</li> </ul>	<ul style="list-style-type: none"> <li>• aux fins de recherche, avoir du cannabis en sa possession</li> <li>• aux fins de recherche, produire du cannabis</li> </ul>

**Conditions**

**Conditions**

This licence is restricted, in addition to all other applicable conditions, in that all research conducted with cannabis under this licence is reviewed and endorsed using the Licence Holder's Research Project Administration Framework provided to Health Canada on April 29, 2020 and May, 17 2021.	En plus de toutes autres conditions qui s'appliquent, cette licence est limitée du fait que toutes les recherches menées sur le cannabis en vertu de cette licence sont examinées et approuvées à l'aide du Cadre d'administration des projets de recherche du titulaire de licence fourni à Santé Canada le 29 avril 2020 et le 17 mai 2021.
This licence is restricted, in addition to all other applicable conditions, in that research activities may be conducted with cannabis in any operations areas at this site and cannabis may be stored in any storage areas at this site, provided that the physical security measures of those areas are in accordance with the Licence Holder's Physical Security Measures Framework provided to Health Canada on May 17, 2021.	En plus de toutes autres conditions qui s'appliquent, cette licence est limitée du fait que les activités de recherche peuvent être menées sur le cannabis dans toutes les zones d'exploitation de ce lieu et le cannabis peut être entreposé dans toutes les zones d'entreposage de ce lieu à condition que les mesures de sécurité physique de ces zones soient conformes au Cadre des mesures de sécurité physique du titulaire de licence fourni à Santé Canada le 17 mai 2021.
All record keeping requirements pertaining to this research licence must be met in accordance with Part 11 of the <i>Cannabis Regulations</i> .	Toutes les exigences relatives à la tenue des dossiers de cette licence de recherche doivent être satisfaites conformément à la partie 11 du <i>Règlement sur le cannabis</i> .
The production of cannabis (including industrial hemp) will only take place at the site associated with the address indicated on this licence.	La production de cannabis (y compris du chanvre industriel) sera uniquement réalisée au lieu associé à l'adresse indiquée sur cette licence.
No administration to or testing on humans is authorized under this licence.	Aucune administration ni aucun test sur les humains n'est autorisé sous cette licence.
No administration to or testing on animals is authorized under this licence.	Aucune administration ni aucun essai sur des animaux n'est autorisé en vertu de cette licence.

**Effective date** of the licence:

This licence is effective as of **March 23, 2023**

**Date d'entrée** en vigueur de la licence:

Cette licence entre en vigueur à compter du **23 mars 2023**

**Expiry date** of the licence:

This licence expires on **June 3, 2026**

**Date d'expiration** de la licence:

La présente licence expire le **3 juin 2026**



Manager, Controlled Substances and Cannabis Branch

Gestionnaire, Direction générale des substances contrôlées et du cannabis



***THIS IS EXHIBIT "E" TO THE  
AFFIDAVIT OF DAVID  
SCHWEDE SWORN BEFORE ME  
THIS 2<sup>ND</sup> DAY OF APRIL, 2024***

A handwritten signature in blue ink, consisting of a stylized, cursive script that is difficult to decipher but appears to be a name.

---

***A Commissioner Etc.***



# HERITAGE CANNABIS HOLDINGS CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

ANNUAL AND QUARTERLY HIGHLIGHTS

For the Year Ended October 31, 2023

February 26, 2024

*This Management Discussion and Analysis for Heritage Cannabis Holdings Corp. provides analysis of the Company's audited consolidated financial results for the year ended October 31, 2023. The following information should be read in conjunction with the accompanying audited consolidated financial statements and related notes for the years ended October 31, 2023 and October 31, 2022.*

## Introduction

This Management Discussion and Analysis (“MD&A”) focuses on significant factors that have affected the performance of Heritage Cannabis Holdings Corp. (the “Company” or “Heritage”) and such factors that may affect its future performance. This MD&A should be read in conjunction with the Company’s audited consolidated financial statements and related notes for the years ended October 31, 2023 and October 31, 2022, which were prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). Unless otherwise noted, all currency amounts are in Canadian dollars. This MD&A is dated February 26, 2024.

## Forward-Looking Statements

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

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

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other

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

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

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

## United States Cannabis and Hemp Oil Industry Activities

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

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

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

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

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

## Management's Responsibility for Financial Statements

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

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

## Company Overview

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

The Company's head office and principal address is 1450 St. Paul Street, Kelowna, British Columbia, V1Y2E6 and the registered office of the Company is located at Suite 300-20 Holly street, Toronto, Ontario, Canada, M4S3B1 c/o Owens Wright. At its August 9, 2019 annual general and special meeting of the shareholders of the Company, the shareholders approved a continuance into Ontario, which was effective on November 4, 2019.

Heritage is a vertically integrated licensed cannabis producer, operating two Health Canada licensed manufacturing facilities in Canada. Under the licenses, Heritage is offering innovative products to both the medical and recreational

legal cannabis markets in Canada, the U.S., and internationally. Heritage focuses on extraction and the creation of extract and extract-derivative products and brands for adult use and cannabis-based medical solutions. The Company has an extensive portfolio of high-quality cannabis products under the brands Purefarma, Pura Vida, Really Awesome Dope (“RAD”), Premium 5, Adults Only, feelgood., ArthroCBD, CB4, Opticann, Dank Drops, and Thrifty. In pursuit of its vision, Heritage has built an infrastructure and platform to advance its products to compete in domestic and international markets.

In Canada, Heritage operates through its wholly owned subsidiaries Heritage Cannabis West Corporation (“Heritage West”) and Heritage Cannabis East Corporation (“Heritage East”), both regulated under the Cannabis Act Regulations. Heritage West holds a Health Canada issued cultivation, processing, and medical sales license, as well as an industrial hemp and research license. Heritage West operates out of a 15,500 square foot processing facility in Falkland, British Columbia, which has been outfitted with extraction, downstream processing, formulation and packaging areas and an approved security-level vault. Heritage East holds a Health Canada cultivation, processing, and medical sales license, as well as an industrial hemp and research license. Heritage East operates out of a 122,000 square foot facility in Fort Erie, Ontario, which formerly operated as a manufacturing plant for a pharmaceutical white labeler. Presently, approximately 87,525 square feet of the facility has been licensed for cannabis activities, and Management believes that the size and layout of the facility offer significant advantages in terms of expansion and diversification of product offerings and services. Management has earmarked the remainder of the facility for extraction and strategic partnerships, including related storage requirements.

On September 15, 2022, the Company increased its ownership in Heritage West and Mainstrain Market Ltd. (“Mainstrain”) from 75% to 100%. The Company paid \$50,000 in cash and issued 2,000,000 Common Shares valued at \$70,000 as total consideration for its purchase of 500 common shares and 400,000 preferred shares in Heritage West from the non-controlling shareholder. As a result of the NCI purchase, the entire contingent consideration payable issued in Heritage West acquisition was settled (Note 20).

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

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

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

## Heritage Brands

### Purefarma

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

### **Pura Vida**

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

### **Premium 5**

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

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

### **RAD**

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

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

### **Adults Only**

Adults Only targets the “high octane” consumer with a high-quality cannabis experience and offers a large format cartridge. Initially launching with Canada’s first liquid diamond vape, the brand seeks to make the Canadian cannabis landscape more fun and entertaining.

### **Thrifty**

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

### **feelgood.**

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

### **ArthroCBD**

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

## **CB4**

CB4 medical cannabis products are based on trusted pharmaceutical technology platforms that are optimized for the effective delivery of cannabinoids – for maximum effect and to minimize unwanted effects. The CB4 suite of products are familiar to most medical patients and their caregivers: oral capsules, sublingual filmstrips, and topically administered products in the form of gels and creams. CB4 products are based on an innovative pharmaceutical technology that delivers results consistently, and in convenient dosage forms. These dosage forms are tested and optimized to deliver active ingredients for effective results. CB4 products also contain the highest quality ingredients and are thoroughly quality tested for consistency.

## **Opticann**

Medical products from medical professionals, for medical patients. Op-ti-cann: Optimized Cannabinoid medical products based on the best science and cutting-edge pharmaceutical technology. Opticann products are targeted to meet medical needs, and are delivered with compassion and understanding.

## **Dank Drops**

Drops uses high quality cannabis from Canadian craft micro-growers and will be available in limited quantities, with additional Dank Drops available provincially to meet demand.

## **Fourth Quarter Corporate Developments**

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

### **Corporate**

On August 15, 2023, the Company announced the appointment of Jasmine Paige as Interim Chief Financial Officer (“CFO”), replacing Dan Phaure as he pursues new opportunities.

On October 11, 2023, the Company announced the procurement of an EU GMP certified extraction machine to be added to the existing fleet of extractors which is anticipated to double the Company’s hydrocarbon processing capacity. The extractor has the capacity to add 3,600,000 grams of cannabis processing and is EU GMP certified – a global standard for manufacturing practices - allowing for increased international sales of Heritage’s cannabis derivative products to countries such as Germany, the United Kingdom, Australia, and others as cannabis legalization continues to expand across the globe.

Heritage has been experiencing an increased demand for its products both across Canada, and the United States where the Company has already launched products in New York, Missouri, and West Virginia. This new extractor is expected to help to boost production in order to meet the growing Canadian retail demand, as well as create supply to enter global markets as demand for EU GMP certified extracts grows internationally. Additionally, Heritage has been actively pursuing and participating in the vibrant B2B market and amping up production of extracts will support this important and growing sector of the market.

On October 30, 2023, the Company announced its intention to sell the Company’s real estate properties in Ontario (the “Ontario Property”) and British Columbia (the “BC Property”) to BJK Developments Ltd. (the “BJK Purchaser”) for a net purchase price of \$9,714,475 (the “Purchase Price”) and lease the Ontario and BC properties back from the BJK Purchaser (the “Sale and Leaseback Transaction”). Pursuant to the Sale Leaseback Transaction, Heritage entered into ten (10) year lease agreements with the Purchaser, for its Health Canada licensed Ontario Property and BC Property, where the Company will continue to operate its best-in-class manufacturing and processing capabilities for its domestic and international business segments. Further, the lease terms include a 12-month free rent period, representing approximately \$1,389,000 of savings during the period, which commences at closing; and,



that the Company also retains an option to repurchase the Ontario Property and BC Property for a period of two years, from the BJK Purchaser, pursuant to option agreements.

The Purchase Price was used to set-off the amount owing by the Company to its lender, BJK Holdings Ltd. (“BJK”), a related entity of the BJK Purchaser, reducing the Company’s remaining term debt by approximately 57% to \$7,303,640. The remaining term financing, as amended within a Third Amending Agreement has been extended through to January 31, 2025, with interest calculated at the Royal Bank of Canada prime lending rate (“RBC Prime”) minus 1.75%. In addition, the Company retains its revolving line of credit of up to \$5,000,000 (the “LOC”) with BJK, which has also been extended until January 31, 2025.

In connection with the Third Amending Agreement, Heritage agreed to amend existing warrant certificates held by BJK dated October 8, 2021 which entitled BJK to subscribe for and purchase up to 10,000,000 common shares in the capital of Heritage at an exercise price of \$0.25 per common share, and dated September 29, 2022 which entitled BJK to subscribe for and purchase up to 50,000,000 common shares in the capital of Heritage at an exercise price of \$0.10 per common share (the “Existing Warrants”). Effective, October 31, 2023, the Company amended the Existing Warrants so that the expiry date for BJK to exercise the Existing Warrants is extended from February 28, 2025, to February 28, 2026, and so that the exercise price of the Existing Warrants shall be repriced to \$0.07 per Common Share.

### **Recreational and Med-Rec Products**

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

On September 6, 2023, the Company announced that products from its Pura Vida brand were approved for listing by Société québécoise du cannabis for retail and online distribution in the province of Québec. This is a noteworthy achievement for Heritage as it continues to expand its product offerings and increase distribution across Canada, now actively selling products in every province in the country. Québec is the fourth-largest market in Canada and while the Company’s products have been available online through partner medical platforms in the province, Heritage looks forward to directly building a strong portfolio of offerings for Québec consumers.

On October 23, 2023, the Company announced that recreational product sales in the state of New York officially commenced. Manufacturing of Heritage’s RAD branded vape and concentrate products began in the state during the summer of 2023, and the Company achieved its first commercial sale in New York – Heritage’s third state where its brands are now available.

Heritage continues to target the legal markets in the US with an asset light model, and in New York has a manufacturing and distribution agreement with a local partner that produces and sells products using Heritage’s innovative formulations and flavours that the RAD brand is known for. Heritage plans to introduce additional RAD products including live resin, rosin, and infused pre-rolls, and is expanding product offerings with additional Heritage brands.

### **Corporate Developments Subsequent to the End of the Fourth Quarter**

On November 1, 2023, the Company announced that it closed: (i) the Sale and Leaseback Transaction consisting of the sale of the BC Property and Ontario Property to the BJK Purchaser for the Purchase Price, with a two year option

to repurchase the real estate; (ii) a third amending agreement with BJK, a related entity of the BJK Purchaser, amending the existing credit facilities with BJK, which include a term loan and line of credit; and (iii) amendment of existing warrant certificates held by BJK which entitle BJK to subscribe for up to 60,000,000 Common Shares, which occurred on October 31, 2023. BJK received the Purchase Price and set-off the amount owing by the Company to \$7,303,640.

## Selected Annual Information

<i>(in \$CDN)</i>	For the years ended October 31,		
	2023	2022	2021
	\$	\$	\$
Net revenue	29,794,289	29,566,385	14,059,130
General and administrative expenses	20,144,123	20,588,796	18,474,262
Net income (loss)	(20,095,041)	(24,244,483)	(57,452,213)
Comprehensive income (loss)	(19,906,411)	(23,937,773)	(57,685,532)
Basic and diluted income (loss) per share	(0.02)	(0.03)	(0.08)
Total assets	55,852,611	78,412,192	97,788,065
Long-term financial liabilities	(10,053,309)	(20,331,417)	(33,590,572)

For the year ended October 31, 2023, net revenues increased by \$227,904 to \$29,794,289 from \$29,566,385 for the comparable period. Net revenue increased as the Company continued drive more active listings throughout all the provinces while at the same time, introducing several new brands to the market and growing white label and service revenues. Heritage exited the year with 579 listings compared to 453 in 2022.

As at October 31, 2023, total assets decreased by \$22,559,581 to \$55,852,611 from \$78,412,192 for the comparable period. The Company entered into the Sale and Leaseback to capitalize on a much higher selling price (\$9,714,475) than it may have received in the public market (approximately \$5,000,000), as well as to decrease its long-term debt (from \$16,807,261 at October 31, 2022 down to \$7,303,640 as at October 31, 2023) and interest charges associated with that debt. The Company also recognized an impairment of \$11,400,000 across its intangible categories as a result of the Company's performance of its annual impairment test on goodwill and related cash generating unit. For comparative purposes, the previous year's impairment test on goodwill and related cash generating unit resulted in an impairment of \$21,215,000.

As at October 31, 2023, long-term financial liabilities decreased by \$10,278,108 to \$10,053,309 from \$20,331,417 for the comparable period. The decrease was primarily as a result of refinancing through the Sale and Leaseback Transaction (\$9,503,536 was repaid on the debt, as well as a forgiveness of \$431,860 in interest), which decreased the balance to \$7,303,640 as at October 31, 2023 from \$16,807,261 as at October 31, 2022.

## Results of Operations

Selected financial highlights for the three -month periods and years ended October 31, 2023 and October 31, 2022 include the following:

<i>(in \$CDN)</i>	Three months ended		Years ended	
	Oct 31, 2023	Oct 31, 2022	Oct 31, 2023	Oct 31, 2022

HERITAGE CANNABIS HOLDINGS CORP.  
MANAGEMENT DISCUSSION AND ANALYSIS

	\$	\$	\$	\$
Gross revenue	11,409,434	11,148,059	42,054,936	41,996,297
Net revenue (net of excise tax)	7,977,839	8,038,105	29,794,289	29,566,385
Cost of sales	4,875,162	7,611,993	17,709,500	21,599,867
Gross margin	3,102,677	426,112	12,084,789	7,966,518
General and administrative expenses	5,803,160	5,953,751	20,144,123	20,588,796
Other Income (Expenses)	(12,520,156)	(22,718,884)	(13,262,707)	(14,297,205)
Comprehensive Income (Loss)	(14,123,548)	(26,895,045)	(19,906,411)	(23,937,773)

The Company reported gross revenue of \$11,409,434 for the three months ended October 31, 2023, an increase of \$261,373 compared to the gross revenue of \$11,148,059 for the three months ended October 31, 2022. The increase in gross revenue was primarily due to the continued success of the Adults Only brand vapes and concentrates, with vapes and concentrates seeing sales of \$8,229,739 in the three month's ending October 31, 2023, an increase of \$489,033, compared to \$7,740,706 for the three month's ending October 31, 2022. This was offset by flower revenues of \$1,745,387, a decrease of \$659,263 as compared to \$2,404,650 in the three month's ending October 31, 2022.

The Company reported gross revenue of \$42,054,936 for the year ended October 31, 2023, an increase of \$58,639 compared to gross revenue of \$41,996,297 for year ended October 31, 2022. The increase in gross revenue was primarily driven by other revenues of \$1,617,593 in the current year, an increase of \$1,111,250 as compared to \$506,343 in the previous year. This was offset by flower revenues of \$6,700,210 in the current year, a decrease of \$582,009 as compared to \$7,282,219 in the previous year, as well as tincture revenues of \$2,227,355 in the current year, a decrease of \$350,152 as compared to \$2,577,507 in the previous year and vape and concentrate revenues of \$30,116,466 in the current year, a decrease of \$136,221 as compared to \$30,252,687 in the year ending October 31, 2022.

See table below for additional details on total gross revenue.

<i>(in \$CDN)</i>	Three months ended			Years ended		
	Oct 31, 2023	Oct 31, 2022	Change	Oct 31, 2023	Oct 31, 2022	Change
	\$	\$	%	\$	\$	%
Revenue Category						
Vape and Concentrates	8,229,739	7,740,706	6%	30,116,466	30,252,687	-0%
Flower	1,745,387	2,404,650	-27%	6,700,210	7,282,219	-8%
Tincture Sales	397,137	520,733	-24%	2,227,355	2,577,507	-14%
Edibles	498,856	59,856	100+%	1,393,312	1,377,541	1%
Other	538,315	422,144	28%	1,617,593	506,343	100+%
Total Gross Revenue	11,409,434	11,148,059	2%	42,054,936	41,996,297	0%

Cost of sales for the three months ended October 31, 2023 was \$4,875,162, a decrease of \$2,736,831 compared to \$7,611,993 for the three months ended October 31, 2022. The decrease represented a 24% improvement, as a percentage of sales, in the current period. As stated in previous quarters, the Company is continuously reviewing its processes for optimization either on the manufacturing side or through material costing which continued to positively impact the results in the current quarter.

Cost of sales for the year ended October 31, 2023 was \$17,709,500, a decrease of \$3,890,367, compared to \$21,599,867 for the year ended October 31, 2022. The decrease represented a 9% improvement, as a percentage

of sales, in the current period. The improvement was a result of continued production refinements to enable more efficient production and improved inventory management strategies.

Gross margin for the three months ended October 31, 2023 was \$3,102,677 (27%) compared to gross margin of \$426,112 (4%) for the three months ended October 31, 2022. The increase in gross margin of \$2,676,565 (+23%) was primarily a result of continually improving production efficiencies, and maintaining an overall excise duty rate of under 30% of gross revenues.

Gross margin for the year ended October 31, 2023 was \$12,084,789 compared to gross margin of \$7,966,518 for the year ended October 31, 2022. The increase in gross margin of \$4,118,271 was a result of improved production efficiencies over the course of the year, maintaining a lower excise rate in the period and an improved inventory control system resulting in a decrease of inventory adjustments of \$1,752,837 from \$2,471,371 for the year ended October 31, 2022, to \$718,534 for the year ended October 31, 2023.

For the three months ended October 31, 2023, the Company recorded a comprehensive loss of \$14,123,548 or \$0.01 loss per share compared to a comprehensive loss of \$26,895,045 or \$0.03 loss per share for the three months ended October 31, 2022. The decrease in comprehensive loss of \$12,771,497 during this period was attributable to increased non-excisable sales, decreased inventory costs and production efficiencies in the period.

For the year ended October 31, 2023, the Company recorded a comprehensive loss of \$19,906,411 or \$0.02 loss per share compared to a comprehensive loss of \$23,937,773 or \$0.03 loss per share for the year ended October 31, 2022. The decrease in comprehensive loss of \$4,031,362 during the period was due to the gross margin gains noted above and the cost management in general and administrative expenses which was partially offset by the intangible asset and goodwill impairment in the period.

General and administrative expenses for the three months ended October 31, 2023 were \$5,803,160, a decrease of \$150,591 from \$5,953,751 for the comparable period in 2022. General and administrative expenses for the year ended October 31, 2023 were \$20,144,123, a decrease of \$444,673 from \$20,588,796 for the comparable period in 2022. The net changes in general and administrative expenses were attributable to the following:

- a) Advertising, travel and promotion expenses for the three months ended October 31, 2023 was \$779,797, an increase of \$590,677 from \$189,120 for the comparable period in 2022. The increase was due to trade show sponsorship costs, and increased marketing and merchandising costs for new brands. During the year ended October 31, 2023, advertising, travel and promotion was \$1,571,342, an increase of \$802,945 from \$768,397 for the comparable period in 2022. The increase in advertising, travel and promotion was due to trade show sponsorship and travel costs, and increased marketing and merchandising costs for new brands.
- b) Amortization expense for the three months ended October 31, 2023 was \$2,167,938, an increase of \$2,223,498 from \$(55,560) for the comparable period in 2022. The increase in amortization expenses was due to the impact of the intangible impairment in the fourth quarter of 2022 which decreased the overall depreciable asset base. Amortization expense for the year ended October 31, 2023 was \$3,733,185, an increase of \$692 from \$3,732,493 for the comparable period in 2022. Amortization remained relatively unchanged year over year.
- c) Management and consulting fees for the three months ended October 31, 2023 were \$191,816, an increase of \$18,223 from \$173,593 for the comparable period in 2022 as a result of increased consulting needs during year end. Management and consulting fees for the year ended October 31, 2023 were \$958,994, a decrease of \$138,630 from \$1,097,624 for the comparable period in 2022 as a result of a continued focus to reduce costs to manage its cash position.
- d) Occupancy, general and administrative expenses for the three months ended October 31, 2023 was \$(66,478),

a decrease of \$2,763,397 from \$2,696,919 for the comparable period in 2022. The decrease was primarily a result of a continued focus on cost management rightsizing the organizational spend. Occupancy, general and administrative expenses for the year ended October 31, 2023 was \$3,455,634, a decrease of \$2,249,584 from \$5,705,218 for the comparable period in 2022. The decrease was a result of recovered expenses of \$180,822, and a continued focus on its cost management, including decreased reliance on third party service providers. The Company has made a dedicated effort to develop in-house abilities in the areas of, quality, analytics, sales and marketing.

- e) Professional fees for the three months ended October 31, 2023 were \$169,789, a decrease of \$167,876 from \$337,665 for the comparable period in 2022. The decrease in professional fees was a result of a lowered attestation costs for subsequent year with providers. Professional fees for the year ended October 31, 2023 were \$767,840, a decrease of \$179,418 from \$947,258 for the comparable period in 2022. Decreased spending in the current period was a result of lowered attestation costs for the subsequent year with providers. The Company maintains a continued focus to reduce costs.
- f) Share-based payments for the three months ended October 31, 2023, were \$(25,257), a decrease of \$118,918 from \$93,661 for the comparable period in 2022. The decrease was a result of stock options forfeited during the period. Share-based payments for the year ended October 31, 2023, were \$463,852, a decrease of \$306,243 from \$770,095 for the comparable period in 2022. The decrease was a result of minimal payments across the Company in the form of Common Shares instead of cash.
- g) Salaries, wages and benefits for the three months ended October 31, 2023, were \$2,585,555, an increase of \$67,202 from \$2,518,353 for the comparable period in 2022. The increase is primarily a result of bonuses paid out in the period. Salaries, wages and benefits for the year ended October 31, 2023, were \$9,193,276, an increase of \$1,625,565 from \$7,567,711 for the comparable period in 2022. The increase is primarily a result of 53 annual increases, 19 promotions, 13 other salary adjustments due to growth and seniority in salary positions that did not exist prior to 2023 and bonuses of \$749,945.90 which were accrued at October 31, 2023.

### Other Income and Expenses

Interest and other income for the three months ended October 31, 2023 was \$83,585, an increase of \$93,145 compared to an expense of \$9,560 for the same period in 2022. The interest and other income during the three months ended October 31, 2023 is comprised primarily of \$65,220 in interest income on the notes receivable compared to \$43,936 for the same period in 2022. Interest and other income for the year ended October 31, 2023 was \$321,821, an increase of \$148,834 compared to \$172,987 for the same period in 2022. This increase was due to interest income on the notes receivable of \$285,352 compared to \$100,643 for the same period in 2022.

Interest and finance expenses for the three months ended October 31, 2023 were \$(823,399), an increase of \$490,108 compared to \$(333,291) for the same period in 2022. The increase was due to the Company carrying a higher debt balance in the three months ended October 31, 2023 compared to the three months ended October 31, 2022 as well as rising interest rates. Interest and finance expenses for the year ended October 31, 2023 were \$(1,911,382), an increase of \$766,392 compared to \$(1,144,990) for the same period in 2022. The increase was due to the Company carrying a higher debt balance in the period ending October 31, 2023 compared to the period ending October 31, 2022 as well as rising interest rates.

The share of income from investment in associate for the three months ended October 31, 2023 was \$32,690, an increase of \$72,571 compared to a loss of \$(39,881) for the same period in 2022. The share of loss from investment in associate for the year ended October 31, 2023 was \$(68,718), a decrease of \$66,493 compared to \$(135,211) for the same period in 2022. The decrease in loss was the result of the improved performance of Endocanna. The unrealized gain on other investments for the year ended October 31, 2023 was \$nil compared to \$572,774 for the same period in 2022. The decrease relates to the gain in the previous year resulting from the sale of the Company's interest in Stanley Park Digital in 2022.

During the three months ended October 31, 2023, the Company had an unrealized gain on contingent consideration payable of \$nil, a decrease of \$805,838 compared to unrealized gain of \$805,838 for the comparable period in 2022. The decrease was due to the completion or expiration of the remaining milestones related to the Heritage West, Purefarma and Premium5 acquisitions. During the year ended October 31, 2023, the Company had an unrealized gain on contingent consideration payable of \$nil, a decrease of \$9,137,267 compared to unrealized gain of \$9,137,267 for the comparable period in 2022. The decrease was due to the completion or expiration of the remaining milestones related to the Heritage West, Purefarma and Premium5 acquisitions. As at October 31, 2023, there is no remaining contingent consideration.

The unrealized loss on derivative liabilities for the three months ended October 31, 2023 was \$193,094, an increase of \$201,334 compared to a gain of \$8,240 for the same period in 2022. The decrease is mainly related to the revaluation of the promissory note and warrants issued to Merida Capital Partners III LP (“Merida Fund III”) and Merida Capital Partners IV LP (“Merida Fund IV”). The unrealized gain on derivative liabilities for the year ended October 31, 2023 was \$15,510, a decrease of \$198,813 compared to a gain of \$214,323 for the same period in 2022.

### Summary of Quarterly Results

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

	October 31, 2023 \$	July 31, 2023 \$	April 30, 2023 \$	January 31, 2023 \$
Net revenues <sup>(1)</sup>	7,977,839	8,113,995	7,379,043	6,323,412
Comprehensive (loss) income	(14,123,548)	(1,061,856)	(1,958,047)	(2,762,960)
Basic and fully diluted (loss) income per share <sup>(2)</sup>	(0.00)	(0.00)	(0.00)	(0.00)

	October 31, 2022 \$	July 31, 2022 \$	April 30, 2022 \$	January 31, 2022 \$
Net revenues <sup>(1)</sup>	8,038,105	7,495,885	7,491,184	6,541,211
Comprehensive (loss) income	(26,895,045)	(2,799,327)	(500,614)	6,257,213
Basic and fully diluted (loss) income per share <sup>(2)</sup>	(0.03)	(0.00)	(0.00)	0.01

(1) Revenues are net of excise tax.

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

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

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

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

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

goodwill.

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

During the second quarter of 2023, the Company increased its revenues from the prior quarter as a result of the launch of its new brands and further production gains improved margins and reduced the overall loss for the period.

During the third quarter of 2023, the Company increased its revenues while also reducing excise taxes through a focus on growing B2B and international sales. The Company also continued to see improved margins as a result of increased production efficiencies and cost control.

During the fourth quarter of 2023, the Company continued to increase sales through the introduction of new brands, additional product launches within existing brands, increased white label sales and service revenues, and the growing success of the Adults Only brand which was launched in Q2 2023. The Company continued to concentrate on right sizing the business to improve efficiency and reduce staff, while maximizing productivity levels.

### Outlook

Remaining true to its vision of sustainable growth, Heritage is focused on optimizing production capabilities while controlling its spending. The Company finished the 2023 year with ten fewer employees than it had on October 31, 2022, while increasing revenues and controlling costs. The Company will maintain this staffing strategy moving forward, carefully selecting the right individuals for the right job and ensuring a high level of productivity per capita.

Heritage experienced significant demand for its latest brand launches, Thrifty and Adults Only, with vape and concentrate revenues increasing by \$489,033 to \$8,229,739 during the three months ending October 31, 2023 as compared to \$7,740,706 during the three months ending October 31, 2022. The Thrifty brand has expanded availability to seven provinces, and the Adults Only brand has expanded availability to six provinces. The Company expects to see continued growth with both brands in the coming quarters. The Company has continued to increase service and B2B sales and applied a strategic focus to reducing its excise costs while growing revenues. This strategy contributed to the increase in gross margin, and the Company will continue to move in this direction, actively working to minimize excise exposure. The Company has successfully managed biomass costs resulting in stable biomass pricing throughout the year, a contributor to the improved gross margin over the period. The Company has seen an influx of old and low potency biomass in the market and is actively building relationships that ensure access to quality products within the current costing model.

Heritage brands are selling in three US states following the launch of six SKUs in New York in October 2023. Sales are expected to grow quickly, as there are plans to launch several additional SKUs in the coming months. The Missouri and West Virginia facilities saw strong growth over the period, with over \$3.5mil in sales between November 1, 2022 and October 31, 2023.

Heritage continues to look to the growing international market for new opportunities. In June the Company shipped its first order of 15,000 units to Australia. The Company has since shipped an additional 4,500 units in October, with an order of 9,000 units to be shipped in the coming months. The Company expects to see continued penetration in the international markets and continues to explore opportunities in multiple countries, including Germany the UK, New Zealand, Brazil and Panama.

### Long -Term Debt

On March 31, 2021, the Company entered into a refinance agreement with BJK (the "BJK Loan Agreement") in the amount of \$7,000,000, with an implicit interest rate of 10%. Pursuant to the BJK Loan Agreement, BJK advanced the Company \$7,000,000 on April 1, 2021. The loan was originally payable in full upon maturity of the loan, on October 1, 2022, with monthly interest only payments made based on the outstanding balance of the loan,

calculated monthly, in arrears. Monthly interest is calculated at the Royal Bank of Canada prime lending rate plus 1.25% per annum. A one-time setup fee of \$965,000 was paid to BJK on April 1, 2021. The loan may be prepaid in full at any time without penalty. The loan is secured by the following:

- (i) a promissory note in the amount of \$7,000,000;
- (ii) mortgages and assignments of rents over certain properties owned by the Company;
- (iii) an environmental indemnity agreement;
- (iv) an encumbrance and charge of all of the Company and certain material subsidiaries (collectively, the “Borrowers”) right, title and interest in the Borrowers’ present and future personal property and assets by way of a general security agreement;
- (v) an assignment of proceeds from the Borrowers’ sales;
- (vi) assignments and postponements of creditors’ claims from creditors of the Borrowers;
- (vii) joint and several unlimited guarantees inclusive of assignments and postponements of creditors’ claims from each of the guarantors, including five of the Company’s remaining subsidiaries (together the “Guarantors”);
- (viii) general security agreements from the Borrowers and certain subsidiaries guarantors of the Company inclusive of serial specific registration on certain assets;
- (ix) a pledge by the Company, each of its subsidiaries and all the investees in which the Company holds interests;
- (x) an assignment of material contracts and insurance agreements granted by the Company and each guarantor; and
- (xi) solicitors’ opinions for Borrowers.

On October 6, 2021, the Company amended the BJK Loan Agreement (the “First Amendment”) by establishing three credit facilities for a maximum amount of \$14,775,000 (collectively the “Loan”) as follows:

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

As part of the First Amendment, the Company also issued 10,000,000 warrants to the BJK. Each warrant is exercisable into one Common Share at an exercise price of \$0.25 per share and has a term of 24 months expiring on October 8, 2023. These warrants were considered exchangeable into a fixed number of Common Shares, and thus were classified as equity.

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



On September 29, 2022, the Company amended the BJK Loan Agreement for the second time (the “Second Amendment”) by establishing four credit facilities for a maximum amount of \$19,760,000 as follows:

- (i) Facility 1: \$7,175,000. The interest rate is a) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to October 31, 2023; b) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum;
- (ii) Facility 2: \$2,600,000. The interest rate is a) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to October 31, 2023; b) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum;
- (iii) Facility 3: A revolving line of credit up to a maximum of \$5,000,000. The interest rate is a) 15% per annum from October 1, 2022 to October 31, 2023; b) the greater of the Royal Bank of Canada rate plus 10% and 15% per annum from August 1, 2023 to November 30, 2024;
- (iv) Facility 4: an additional loan of \$4,985,000, inclusive of the loan amendment fee of \$985,000. The interest rate is a) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to October 31, 2023; b) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum.

The Loan due date was extended to November 30, 2024, with an option to extend to November 30, 2025. If the Company exercises its extension option, all facilities will bear an interest rate at the maximum of either the Royal Bank of Canada prime rate plus 10% or 15% per annum during the one-year extension period. As at October 31, 2022, the Company has received a total of \$16,807,261 in principal, with the remaining line of credit \$2,952,739 available for advance.

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

Based on management’s assessment, the Second Amendment of the Loan resulted in a substantial change in the carrying amount of the Loan, and therefore was accounted for as an extinguishment of the original loan and a recognition of the new Loan. The Company initially valued the Loan at its fair value at the modification date, using the effective interest rate of 12% per annum implicit in the Loan. The difference between the fair value of consideration and the original loan, as well as the transaction costs incurred as part of the Second Amendment in the amount of \$1,793,251 (2021 - \$1,361,338), including all 60,000,000 warrants issued as transaction costs with a value of \$747,260 were recognized in profit or loss at the modification date.

On October 31, 2023, the Company repaid BJK \$9,503,536 using the proceeds from the Sale and Leaseback Transaction (Note 13), BJK forgave \$431,860 of interest expense incurred, amended the loan agreement (the “Third Amendment”) by consolidating Facility 1, Facility 2 and Facility 4 and establishing two credit facilities for a maximum of \$10,256,379 as follows:

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

The Loan due date was extended to January 31, 2025, with an option to extend to January 31, 2026. If the Company exercises its extension option, all facilities will bear an interest rate at the maximum of either the Royal Bank of Canada prime rate plus 10% or 15% per annum during the one-year extension period.

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

Based on management's assessment, the Third Amendment of the Loan resulted in a substantial modification in the carrying amount of the Loan for Facility 5, and therefore was accounted for as an extinguishment of the original loan and a recognition of the new Loan. The Company initially valued the Loan at its fair value at the modification date, using the effective interest rate of 17% per annum implicit in the Loan. The difference between the fair value of consideration and the original loan, were recognized in profit or loss at the modification date.

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

## Liquidity

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

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

	October 31, 2023	October 31, 2022
	\$	\$
Current Assets	32,179,165	32,860,948
Current Liabilities	25,079,590	18,130,554
Working Capital	7,099,575	14,730,394

As at October 31, 2023, the Company had cash and short-term investments of \$4,874,713 compared to \$6,057,617 at October 31, 2022. This cash was utilized by the Company in the acquisition of PP&E, as well as strategic investments in non-domestic partnerships for international brand development.

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

	Three-month periods ended		Years ended	
	October 31, 2023	October 31, 2022	October 31, 2023	October 31, 2022
	\$	\$	\$	\$
Cash Flows Provided by (Used in):				
Operating Activities	(2,415,736)	(3,485,748)	467,642	(2,428,716)
Investing Activities	40,069	(371,645)	(1,593,676)	(2,089,462)
Financing Activities	(18,543)	3,866,321	(56,870)	5,862,218

During the three month period ended October 31, 2023, cash flows used in operating activities was \$(2,415,736) compared to cash flows used in operating activities of (\$3,485,748) for the comparable period in 2022. The outflows decreased by \$1,070,012 due to decreased spending, as the Company continued to focus on cost reductions.

During the year ended October 31, 2023, cash flows provided by operating activities was \$467,642 compared to cash flows used in operating activities of (\$2,428,716) for the comparable period in 2022. The inflows increased by \$2,896,358 as the Company continued to focus on cost reductions to manage cash position.

Included in the \$25,079,590 of current liabilities is a balance owing to Canada Revenue Agency of \$14,224,483 as compared to \$8,029,085.56 at October 31, 2022, an increase of \$6,195,397.69. These amounts consist mainly of unremitted excise taxes. The Company is making monthly debt payments to Canada Revenue Agency. Currently the debt carries an interest rate of 5% per quarter.

During the three-month period ended October 31, 2023, cash flows provided by investing activities were \$40,069 compared to cash flows used in investing activities of (\$371,645) for the three months ended October 31, 2022. The inflows increased by \$411,714 as a result of decreased capital deployed in the US ventures, and repayments received on the Notes Receivable.

During the year ended October 31, 2023, cash flows used in investing activities were \$(1,593,676) compared to cash flows used in investing activities of (\$2,089,462) for the year ended October 31, 2022. Primarily a result of decreased capital deployed in the US ventures relative to prior year, however; the Company still invested a total of \$1.7m in these strategic partnerships. Additionally, repayments of the notes began in 2023.

During the three months ended October 31, 2023, cash flows used in financing activities was \$(18,543) compared to cash flows provided by financing activities of \$3,866,321 for the three months ended October 31, 2022. The inflows decreased by \$3,884,864 primarily due to proceeds from shares released from escrow in the period ending October 31, 2022.

During the year ended October 31, 2023, cash used in financing activities was \$(56,870) compared to cash provided by financing activities of \$5,862,218 for the year ended October 31, 2022. The decrease of \$5,919,088 is a direct result of the Company not entering into any additional financing arrangements.

## Capital Resources

The combination of the current inflationary period and rising interest rate environment creates additional risks and pressures on the Company's liquidity and capital resources. The Company has \$32,179,165 of current assets, which is primarily comprised of \$4,874,713 in cash and short-term investments, \$6,760,532 in accounts receivable and \$17,259,565 in inventory with an additional \$2,952,739 of an available line of credit. If the Company assumes zero growth, the combination of the Company's usual net working capital and the funds received is sufficient to fund the Company's operations.

At the reporting date, the Company had long-term financial debts amounting to \$9,216,309 including \$7,305,367 of long-term debt (as detailed under the "Long-Term Debt" heading of this MD&A), \$1,862,825 of lease liabilities (as described more particularly under Note 14 of the audited consolidated financial statements), and \$48,117 relating to derivative liabilities issued as part of the consideration for the acquisition of Opticann and issued to Merida Fund III (as described more particularly under Note 17 of the audited consolidated financial statements).

## Outstanding Share Capital

The Company has the following shares outstanding as of February 26, 2024:

	Number of shares outstanding
<b>Balance, October 31, 2019</b>	<b>473,718,024</b>

HERITAGE CANNABIS HOLDINGS CORP.  
MANAGEMENT DISCUSSION AND ANALYSIS

Shares issued for acquisition – Opticann	21,918,698
Shares issued for acquisition – Pura Vida brand	500,000
<b>Balance, October 31, 2020</b>	<b>496,136,722</b>
Shares issued for acquisition – Premium 5 Ltd.	150,000,000
Exercise of stock options	2,549,644
Shares issued for RSU's	5,076,628
<b>Balance, January 31, 2021</b>	<b>653,762,994</b>
Shares issued for public offering	98,900,000
Shares issued for acquisition (net working capital) – Premium 5 Ltd.	30,156,643
Shares issued for BJK facility – broker fee	170,000
<b>Balance, April 30, 2021</b>	<b>782,989,637</b>
Shares issued for advisory services – Merida Capital	495,049
<b>Balance, October 31, 2021</b>	<b>783,484,686</b>
Shares issued for marketing services – Zoomer Media Ltd.	1,250,000
Shares issued for Merida loan – commitment fee	1,393,884
<b>Balance, October 31, 2021</b>	<b>786,125,570</b>
Shares issued for warrant exercise	29,809
Shares issued for Premium 5 milestone	107,142,857
<b>Balance, January 31, 2022</b>	<b>893,301,236</b>
	-
<b>Balance, April 30, 2022</b>	<b>893,301,236</b>
Indemnity Share Cancellation – Opticann	(933,333)
Shares issued for management performance	7,109,090
<b>Balance, October 31, 2022</b>	<b>899,476,993</b>
Shares issued for Heritage East and Purefarma settlements	16,728,762
<b>Balance, October 31, 2022</b>	<b>916,205,755</b>
Shares issued for corporate bonuses	7,253,985
Issuance of compensation shares	11,699,143
<b>Balance, January 31, 2023</b>	<b>935,158,883</b>
	-
<b>Balance, April 30, 2023</b>	<b>935,158,883</b>
Shares released from escrow	7,850,347
<b>Balance, July 31, 2023</b>	<b>943,009,230</b>
Shares released from escrow	1,856,502
<b>Balance, October 31, 2023</b>	<b>944,865,732</b>
Warrants	60,000,000
Outstanding Options	11,012,476
<b>Balance including unexercised warrants and options, February 26, 2024</b>	<b>1,015,878,208</b>

Pursuant to the terms of the equity line of credit agreement (the “Agreement”) between the Company and Obsidian Global Partners, LLC, as announced on November 2, 2022, there were 79,030,611 Common Shares advanced in escrow. These shares are subject to statutory lock up and the contractual escrow terms per the equity line of credit. On May 3, 2023, the Company released 1,209,428 Common Shares from escrow in exchange for cash consideration of \$17,200. On May 12, 2023, the Company released 2,432,118 Common Shares from escrow in exchange for cash consideration of \$23,319. On July 10, 2023, the Company released 4,208,801 Common Shares from escrow in

exchange for cash consideration of \$69,990. On September 26, 2023, the Company released 1,856,502 Common Shares from escrow in exchange for cash consideration of \$65,757. As at October 31, 2023, 69,323,762 shares remained in escrow. The Company incurred share issuance costs of \$33,071.

## Off-Balance Sheet Arrangements

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

## Transactions with Related Parties

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

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

	Three months ended		Years ended	
	October 31, 2023	October 31, 2022	October 31, 2023	October 31, 2022
	\$	\$	\$	\$
Management fees	39,750	15,000	84,750	50,000
Consulting fees	5,186	67,250	207,228	269,000
	44,936	82,250	291,978	319,000
Key Management Compensation				
Salary and short-term benefits	207,225	98,763	502,139	395,053
Share-based payments	(19,273)	25,411	17,627	323,383
	187,952	124,174	519,766	718,436

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

As at October 31, 2023 the Company was owed \$nil (October 31, 2022 - \$nil) from related parties and owed \$45,249 (October 31, 2022 - \$198,350) to related parties.

## Critical Accounting Estimates

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

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

### (i) Share-based payment transactions

Certain equity-settled transactions are measured by reference to the fair value of the equity instruments granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation

model, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the share option or warrant, volatility, and dividend yield.

(ii) Business combinations

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

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

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

(iv) Impairment of property, plant and equipment, right-of-use asset and intangible assets other than goodwill

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

(v) Impairment of goodwill

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

(vi) Determination of CGUs

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

(vii) Valuation of financial instruments

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

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

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

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

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

(ix) Inventory

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

(x) Expected credit losses on financial assets

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

(xi) Going concern

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

(xii) Provisions

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

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

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

included in the lease term only if management is reasonably certain it will renew the lease. Changes in the assumptions used may have a significant effect on the unaudited condensed consolidated financial statements.

## Changes in Accounting Policies Including Initial Adoption

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

### (a) Amendment to IAS 1, Presentation of Financial Statements

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

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

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

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

### (c) Amendments to IAS 12, Income Taxes

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

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

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

### (e) Amendments to IFRS 16, Leases

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be



applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted.

## Financial Instruments and Risk Management

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

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them since October 31, 2022, unless otherwise stated.

### (a) Credit risk

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

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

	October 31, 2023	October 31, 2022
	\$	\$
Trade accounts receivable from customers	6,960,969	7,798,057
Expected credit losses	(201,164)	(353,420)
Net trade receivables	6,759,805	7,444,637
Interest and other receivables	727	43,480
Total	6,760,532	7,488,117

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

As at October 31, 2023, the Company has assessed that there is a concentration of credit risk, as 53% of the Company's trade accounts receivable is due from three customers (as at October 31, 2022 - 68% of the balance due from three customers).

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

	October 31, 2023	October 31, 2022
	\$	\$
Current (30 days or less)	3,425,372	4,371,452
31-60 days	1,219,468	1,152,874
61-90 days	275,532	57,804

HERITAGE CANNABIS HOLDINGS CORP.  
MANAGEMENT DISCUSSION AND ANALYSIS

Greater than 90 days	1,839,433	1,862,507
	6,759,805	7,444,637

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the financial obligations associated with its financial liabilities as they come due. The Company manages liquidity risk through the management of its capital structure. As at October 31, 2023, the Company had working capital of \$7,099,575 (as at October 31, 2022 – \$14,730,394). The Company may be dependent upon the issuance of new equity and/or debt to advance its production efforts and meet its financial obligations. If equity or debt financing is required, failure to obtain such financing on a timely basis may cause the Company to postpone, reduce or terminate its production plans. The Company has the following undiscounted contractual obligations subject to liquidity risk, in addition to those relating to lease liabilities disclosed in Note 14:

	<1 year \$	2-5years \$	> 5 years \$
Accounts payable and accrued liabilities	20,338,063	-	-
Long-term debt	7,023	7,305,396	-
Derivative liabilities with cash settlement option	2,068,374	-	-
Total	23,413,460	7,305,396	-

(c) Market Risk

(i) Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign Currencies will affect the Company's operations and financial results. The Company is exposed to this risk on its investment in EndoCanna, an associate that bears the U.S. dollar as its functional currency. The Company is required to translate the financial position and operating results of EndoCanna into Canadian dollars and to recognize its share of the resulting translation gain or loss in other comprehensive loss. The Company is further exposed to the risk through Opticann, a wholly owned subsidiary operating in United States and through its derivative liabilities denominated in USD. As at October 31, 2023 and October 31, 2022, the Company has not entered into any hedging agreements to mitigate foreign currency risk. As such, the Company's financial position and financial results may be adversely affected by the unfavorable fluctuations in currency exchange rates.

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

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

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by \$61,284 for the year ended October 31, 2023 (for the year ended October 31, 2022 - \$90,492). A 10% weakening of the Canadian dollar against the foreign currencies listed above would result in an equal, but opposite effect.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company’s short-term investments, convertible promissory note receivable and notes receivable earn fixed rates of interest in the range from 0.7% to 1.05% per annum, 10% per annum and 24% per annum respectively. The Company is exposed to this risk on its long-term debt, part of which bears variable interests as detailed in Note 15. As at October 31, 2023 and October 31, 2022, the Company had no hedging agreements in place.

(iii) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. As at October 31, 2023 and October 31, 2022, the Company is exposed to this risk on the derivative liabilities payable in Common Shares (Note 17(b)).

### Fair Value of Financial Instruments

Assets recorded at fair value in the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

<b>Financial Instruments measured at fair value</b>	
Notes receivable	Market value (Level 3)
Derivative liabilities	Market value (Level 3) or Black-Scholes model (Level 3)
<b>Financial instruments measured at amortized cost</b>	
Cash; Short-term investments; Accounts receivable; Accounts payable and accrued liabilities	Carrying amount (approximates fair value due to short-term nature)
Long-term debt	Carrying value at the effective interest rate which approximates fair value

During the year ended October 31, 2023 and 2022, there were no transfers of amounts between levels.

### Conflicts of Interest

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

## Subsequent Events

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

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

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

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

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

## United States Operations and Regulatory Framework

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

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

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

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

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

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

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

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

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

#### Regulatory Cannabis Framework in Missouri

Missouri initially permitted medical cannabis with the passage of "Amendment 2" in 2018, which allowed qualifying

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

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

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

#### Regulatory Medical Cannabis Framework in West Virginia

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

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

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

There is current legislation pending in the West Virginia State House that proposes to amend and expand the state’s medical cannabis program including permitting medical cannabis to be dispensed in edible form and medical patients to be permitted to smoke their medicine. There is another bill pending which would strike the list of qualifying serious medical conditions and otherwise grant authority to attending physicians to use their professional judgment to certify whether a patient’s serious medical condition would benefit from the use of medical cannabis. (See House Bills 2219, 2267, and 2318).

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

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

## Risks and Uncertainties

The following are certain factors relating to the Company’s business which prospective investors should carefully

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

#### *Excise Tax Obligations and Reliance on Licenses*

*The Company has substantial exposure in connection with its excise tax obligations to Canada Revenue Agency. Canada Revenue Agency and Health Canada have continued to renew the Company's Health Canada licenses under the Cannabis Regulations, but there is a significant risk associated with Canada Revenue Agency and Health Canada's discretion not to renew the Health Canada licenses in light of the Company's excise tax obligations. Failure to comply with the Health Canada licensing requirements, pursuant to the Cannabis Act and Cannabis Act Regulations, including any failure to obtain renewals for the requisite licenses from Health Canada and maintain the Company's existing licenses would have a material, adverse impact on the business, financial condition and operating results of the Company as a whole, including all subsidiaries, whether or not the subsidiaries are license holders.*

#### *Additional Financing*

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

#### *Reliance on Facilities*

The Company's existing facilities in Falkland, British Columbia and Fort Erie, Ontario are integral to the Company's operations. Any adverse changes or developments affecting either facility, including the Company's ability to pay rent and other leasehold expenses, may impact the Company's ability to produce cannabis and cannabis products, its business, its financial condition, and the results of its operations.

#### *Volatile Market Price for Common Shares*

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

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Company operates;
- addition or departure of the Company's executive officers and other key personnel;
- release or expiration of transfer restrictions on outstanding Common Shares;
- sales or perceived sales of additional Common Shares;
- operating and financial performance that vary from the expectations of management, securities analysts, and investors;
- regulatory changes affecting the Company's industry generally and its business and operations;
- announcements of developments and other material events by the Company or its competitors;
- fluctuations to the costs of vital production materials and services;

- changes in global financial markets and global economies and general market conditions, such as interest rates and price volatility of CBD and THC as active product ingredients;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

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

#### *Limited Market for Securities*

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

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

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

#### *Holding Company Status*

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



subsidiaries before any assets are made available for distribution to the Company.

#### *Management of Growth*

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

#### *Reliance on Management*

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

#### *Conflicts of Interest*

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

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

#### *Litigation*

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

#### *Dividends*

The Company's policy is to retain earnings to finance the development and enhancement of its products and to

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

#### *Liquidity Risk*

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

#### *Cyber Security*

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

#### *Intellectual Property Risk*

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

#### *Third Party Transportation*

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

### Risks related to operating in the Cannabis Industry

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

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

adversely affect the business, financial condition and results of operations of the Company.

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

#### *Consumer perception*

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

#### *Regulatory Risks*

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

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

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

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

The Company’s operations are subject to various laws, regulations and guidelines relating to the manufacture, management, packaging/labelling, advertising, sale, transportation, storage and disposal of cannabis but also including laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations

and the protection of the environment. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects business, financial condition and results of operations of the Company. The Company endeavors to comply with all relevant laws, regulations and guidelines. To the best of the Company's knowledge, the Company is in compliance or in the process of being assessed for compliance with all such laws, regulations and guidelines.

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

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

#### *Environmental Regulations and Risks*

The Company's operations are subject to environmental regulation. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

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

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

#### *Vulnerability to Rising Energy Costs*

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

#### *Restrictions on Sales Activities*

The industry is in its early development stage and restrictions on sales and marketing activities imposed by Health Canada, various medical associations, other governmental or quasi-governmental bodies or voluntary industry

associations may adversely affect the Company's ability to conduct sales and marketing activities and could have a material adverse effect on the Company's respective businesses, operating results and financial conditions.

#### *Product Liability*

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

#### *Product Recalls*

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

#### *Operating Risk and Insurance Coverage*

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

#### *Unfavourable Publicity or Consumer Perception*

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

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's proposed products and the business, results of

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

#### Overview of United States Regulations of Cannabis

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

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

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. It has been reported by certain publications in Canada that The Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS, refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. Neither CDS nor its parent company have issued any public statement with regard to these reports. However, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Company, it would have a material adverse effect on the ability of holders of securities of the Company to make trades. In particular, the securities of the Company would become highly illiquid, as investors would have no ability to effect a trade of the securities through the facilities of a stock exchange.

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

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

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

*United States Federal Regulation of Hemp*

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

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

For example, on August 21, 2020, the DEA issued a DEA IFR concerning implementation of the 2018 Farm Bill. Even though the 2018 Farm Bill removed Hemp and THCs in Hemp from scheduling under the U.S. CSA, the DEA IFR purports to clarify that material that exceeds 0.3% THC remains controlled in Schedule I of the U.S. CSA. Additionally, the DEA IFR states that the 2018 Farm Bill does not impact the control status of synthetically derived THCs, for which the DEA claims that the amount of THC is not a determining factor in whether the material is a controlled substance. “Synthetically derived” is not defined in the DEA IFR. It is worth noting that many States have defined “synthetically derived” to include Delta-8.

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

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

However, the FDA’s enforcement actions to date have been limited to warning letters. Moreover, the FDA’s warning letters citing FDA’s prohibition on the sale or marketing of dietary supplements or foods containing CBD have primarily been sent to CBD companies who manufacture or sell CBD products that create severe health and safety risks by making egregious disease claims (i.e., claims suggesting that a product is intended to treat, cure, or prevent

diseases and ailments and/or affect the structure or function of the body) or structure/function claims (i.e., intended to affect the structure or any function of the body), such as a product's purported ability to treat or cure serious diseases and conditions like COVID-19, cancer, or diabetes. By contrast, the FDA has not generally enforced against CBD companies with respect to companies whose CBD products are devoid of such claims. The FDA has sent similar letters to companies for selling products containing Delta-8.

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

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

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

#### *Sessions Memorandum*

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

On January 4, 2018, then U.S. Attorney General Jeff Sessions issued a memorandum for all U.S. Attorneys (the "Sessions Memo") rescinding certain past U.S. Department of Justice ("DOJ") memoranda on cannabis law enforcement, including the Memorandum by former Deputy Attorney General James Michael Cole (the "Cole Memo") issued on August 29, 2013, under the Obama administration. Describing the criminal enforcement of



federal cannabis prohibitions against those complying with state cannabis regulatory systems as an inefficient use of federal investigative and prosecutorial resources, the Cole Memo gave federal prosecutors discretion not to prosecute state law compliant cannabis companies in states that were regulating cannabis, unless one or more of eight federal priorities were implicated, including use of cannabis by minors, violence, or the use of federal lands for cultivation. The Sessions Memo, which remains in effect, states that each U.S. Attorney's Office should follow established principles that govern all federal prosecutions when deciding which cannabis activities to prosecute. As a result, federal prosecutors could and still can use their prosecutorial discretion to decide to prosecute even state-legal cannabis activities. Since the Sessions Memo was issued over three years ago, U.S. Attorneys have generally not prioritized the targeting of state law compliant entities.

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

As such, there is no assurance that each U.S. Attorney's Office in each judicial district will not choose to strictly enforce federal laws governing cannabis sales in the event the Company commences any cannabis activities in the United States. The Company believes that the basis for the U.S. federal government's lack of recent enforcement with respect to the cannabis industry extends beyond the strong public sentiment and ongoing prosecutorial discretion. Since 2014, versions of the U.S. omnibus spending bill have included a provision prohibiting the DOJ, which includes the Drug Enforcement Administration, from using appropriated funds to prevent states from implementing their medical-use cannabis laws. In *USA vs. McIntosh*, the U.S. Court of Appeals for the Ninth Circuit held that the provision prohibits the DOJ from spending funds to prosecute individuals who engage in conduct permitted by state medical-use cannabis laws and who strictly comply with such laws. The court noted that, if the spending bill provision were not continued, prosecutors could enforce against conduct occurring during the statute of limitations even while the provision was previously in force. The provision, which must be renewed annually, has been extended to September 30, 2023. Other courts that have considered the issue have ruled similarly, although courts disagree about which party bears the burden of proof of showing compliance or noncompliance with state law. Consequently, it is feasible that in the future that Company may directly or indirectly sell adult-use cannabis, if permitted by such state and local laws now or in the future, and therefore may be outside any protections extended to medical-use cannabis under the spending bill provision. This could subject us to greater and/or different federal legal and other risks as compared to businesses where cannabis is sold exclusively for medical use, which could in turn materially adversely affect our business. Furthermore, any change in the federal government's enforcement posture with respect to state-licensed cannabis sales, including the enforcement postures of individual federal prosecutors in judicial districts where the Company may operate, would result in our inability to execute our then business plan, and we would likely suffer significant losses with respect to client base, which would adversely affect our operations, cash flow and financial condition.

While President Biden's position on cannabis falls short of full legalization, he campaigned on a platform of relaxing

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

Although the U.S. Attorney General could issue policy guidance to federal prosecutors that they should not interfere with cannabis businesses operating in compliance with states' laws, any such guidance would not have the force of law, and could not be enforced by the courts. The President alone cannot legalize medical cannabis, and as states have demonstrated, legalizing medical cannabis can take many different forms. While rescheduling cannabis to the CSA's Schedule II would ease certain research restrictions, it would not make the state medical or adult-use programs federally legal. Recent steps taken by the Biden Administration and Congress have spurred some hope of drug policy change. Notably, President Biden appointed known medical cannabis advocate Dr. Rahul Gupta as the director of the Office of National Drug Control Policy. Further, on July 14, 2021, United States Senators Cory Booker, Ron Wyden and Chuck Schumer, released a draft of their long-awaited comprehensive cannabis reform legislation, the Cannabis Administration and Opportunity Act, which would effectively decriminalize cannabis in the United States by removing it from the CSA and which would empower states to implement their own cannabis laws ("Senate Cannabis Act"). However, while industry observers are hopeful that the Senate Cannabis Act will spur helpful discussions related to decriminalization, strong Republican opposition makes it difficult for any assurances to be made regarding its passage. Accordingly, we cannot predict the timing of any change in federal law or possible changes in federal enforcement. In the unlikely event that the federal government were to reverse its long-standing hands-off approach to the state legal cannabis markets and start more broadly enforcing federal law regarding cannabis, this may hinder potential expansion opportunities of the Company into the United States.

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

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

challenges presented by the unavailability of traditional banking and financial services.

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

In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while there are no current intentions to declare or pay dividends in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

## Additional Information

Additional information relating to the Company, including the Company's annual information form, may be found on the Company's website at [www.heritagecann.com](http://www.heritagecann.com), the SEDAR+ website located at [www.sedarplus.com](http://www.sedarplus.com) or the Canadian Stock Exchange website located at [www.thecse.com/en](http://www.thecse.com/en).

BY ORDER OF THE BOARD

Heritage Cannabis Holdings Corp.

"David Schwede"

CEO and Director

February 26, 2024

**HERITAGE CANNABIS HOLDINGS CORP.**

Consolidated Financial Statements

Years Ended October 31, 2023 and 2022

(Stated in Canadian Dollars)



---

# HERITAGE CANNABIS HOLDINGS CORP.

## Consolidated Financial Statements

Years Ended October 31, 2023 and 2022

---

	<b>Page</b>
Independent Auditor's Report	1
Consolidated Statements of Financial Position	4
Consolidated Statements of Operations and Comprehensive Loss	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

**INDEPENDENT AUDITOR'S REPORT**

To the shareholders of

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

We have audited the consolidated financial statements of Heritage Cannabis Holdings Corp. (the Company), which comprise the consolidated statements of financial position as at October 31, 2023 and October 31, 2022, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at October 31, 2023 and October 31, 2022 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

*Basis for Opinion*

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

*Material Uncertainty Related to Going Concern*

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of \$20,095,041 during the year ended October 31, 2023 and, as of that date, the Company's accumulated deficit was \$134,903,308. As stated in Note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

*Key Audit Matters*

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

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

## *Impairment of goodwill and intangible assets*

### Description of matter

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

### Why the matter is a key audit matter

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

### How the matter was addressed in the audit

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

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

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

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

### *Other Information*

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Chartered Professional Accountants  
Licensed Public Accountants

Ottawa, Ontario  
February 20, 2024.



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

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

Going Concern (Note 1(a))  
Commitments (Note 23)  
Subsequent Events (Note 30)

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

Approved on behalf of the Board of Directors:

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

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

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

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

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

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Condensed Consolidated Statements of Changes in Equity**  
**Years Ended October 31, 2023 and 2022**  
(Stated in Canadian Dollars)

	Notes	Number of Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Non-controlling Interest	Total
<b>Balance at October 31, 2021</b>		786,128,570	\$ 140,482,057	\$ 5,779,474	\$ (197,307)	\$ (91,538,667)	\$ 694,882	\$ 55,220,439
Share-based payments - vesting of options	19(b)	-	-	389,895	-	-	-	389,895
Share-based payments - issuance of restricted shares	18(b)	7,109,090	355,455	-	-	-	-	355,455
Shares cancelled as consideration for debt assumed	18(b)	(933,333)	(126,000)	(14,000)	-	-	-	(140,000)
Shares issued as contingent consideration for Premium 5 acquisition	16(d),18(b)	107,142,857	6,428,571	-	-	-	-	6,428,571
Shares issued as contingent consideration for PureFarma acquisition	16(a)(d),18(b)	14,728,762	515,507	-	-	-	-	515,507
Shares issued for the acquisition of non-controlling interest in Heritage West	16(c),18(b),20	2,000,000	70,000	-	-	1,875,040	(1,595,039)	350,001
Warrants issued as consideration for loan amendment	15(b),19(a)	-	-	747,260	-	-	-	747,260
Exercise of warrants	18(b),19(a)	29,809	20,866	-	-	-	-	20,866
Comprehensive loss for the year	20	-	-	-	306,710	(25,144,640)	900,157	(23,937,773)
<b>Balance at October 31, 2022</b>		916,205,755	\$ 147,746,456	\$ 6,902,629	\$ 109,403	\$ (114,808,267)	\$ -	\$ 39,950,221
<b>Balance at October 31, 2022</b>		916,205,755	\$ 147,746,456	\$ 6,902,629	\$ 109,403	\$ (114,808,267)	\$ -	\$ 39,950,221
Share-based payments - vesting of options	19	-	-	80,177	-	-	-	80,177
Share-based payments - issuance of shares	18(b)	7,253,985	217,619	-	-	-	-	217,619
Share-based payments - issuance of shares	18(b)	11,699,143	408,420	-	-	-	-	408,420
Shares released from Escrow	18(b)	9,706,849	135,757	-	-	-	-	135,757
Share issuance cost	18(b)	-	(33,071)	-	-	-	-	(33,071)
Comprehensive loss for the year		-	-	-	188,630	(20,095,041)	-	(19,906,411)
<b>Balance at October 31, 2023</b>		944,865,732	\$ 148,475,181	\$ 6,982,806	\$ 298,033	\$ (134,903,308)	\$ -	\$ 20,852,712

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

**HERITAGE CANNABIS HOLDINGS CORP.**  
**Consolidated Statements of Cash Flows**  
**Years Ended October 31, 2023 and 2022**  
(Stated in Canadian Dollars)

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

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

**Supplementary information**

Interest received		\$ 25,794	\$ 3,836
Interest paid	15	\$ 1,061,475	\$ 788,513
Shares issued for Premium 5 acquisition	16(d),18(b)	\$ -	\$ 6,428,571
Shares issued for Purefarma acquisition	16(a)(d),18(b)	\$ -	\$ 515,057
Other receivable settled as contingent consideration payment for Purefarma acquisition	16(a)(b)	\$ -	\$ 48,831
Shares issued for the acquisition of non-controlling interest	18(b), 20	\$ -	\$ 70,000
Shares cancelled as consideration for debt assumed	19(b)	\$ -	\$ 140,000
Release of accrual for share-based payments	18	\$ (242,364)	\$ -
Share-based payments in accrued liabilities for shares to be issued		\$ -	\$ 24,745
Capitalized depreciation expense during the period	4	\$ -	\$ 1,288,859
Right-of-use asset additions	12,14	\$ 3,515,698	\$ -
Debt repaid from proceeds on sale-and-leaseback transaction	13	\$ 9,503,536	\$ -

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

---

**Nature of business**

Heritage Cannabis Holdings Corp. (the “Company”) is a public company whose common shares trade on the Canadian Securities Exchange under the symbol “CANN”. The Company was incorporated on October 25, 2007 in British Columbia, Canada, under the Business Corporations Act and commenced operations on November 1, 2007. On January 9, 2018, the Company changed its name to Heritage Cannabis Holdings Corp. The head office and principal address of the Company is 1450 St. Paul Street, Kelowna, British Columbia, Canada, V1Y 2E6 and the registered office of the Company is located at Suite 300-20 Holly Street, Toronto, Ontario, Canada, M4S 3B1 c/o Owens Wright.

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

**1. Basis of presentation**

(a) Going concern

Although the Company was awarded licenses and has invested resources into its business, the Company must rely, in part, on equity and debt financing to fund operations. To date, the Company’s main source of funding has been the issuance of equity securities for cash through private placements to sophisticated investors, public offerings to institutional investors, and issuances of long-term debt.

These Consolidated Financial Statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes that the Company will operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company incurred net loss of \$20,095,041 for the year ended October 31, 2023 (2022 - \$24,244,483), and had an accumulated deficit of \$134,903,308 as at October 31, 2023 (2022 - \$114,808,267). The Company’s ability to arrange additional financing in the future depends, in part, on the prevailing capital market conditions. These factors indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern.

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

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

---

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

(b) Statement of compliance

For the years ended October 31, 2023 and 2022, the Consolidated Financial Statements have been prepared using accounting policies in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) applicable to the preparation of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Board of Directors on February 20, 2024.

(c) Basis of measurement

These Consolidated Financial Statements have been prepared on the going concern basis, under the historical cost convention except for notes receivable and derivative liabilities which are measured at fair value. These Consolidated Financial Statements have been prepared on an accrual basis except for cash flow information.

(d) Functional and presentation currency

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

(e) Basis of consolidation

These Consolidated Financial Statements include the accounts of the Company and its subsidiaries, with intercompany balances and transactions eliminated on consolidation. Subsidiaries are those entities over which the Company has control, which exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. As of October 31, 2023, subsidiaries over which the Company has control are listed below.

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

---

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

(e) Basis of consolidation (continued)

Subsidiaries	Ownership Percentage	Jurisdiction of Incorporation
1005477 B.C. Ltd.	100%	British Columbia, Canada
333 Jarvis Realty Inc.	100%	Ontario, Canada
5450 Realty Inc.	100%	British Columbia, Canada
Heritage Cannabis East Corp. (formerly CannaCure Corp.)	100%	Ontario, Canada
Heritage Cannabis West Corp. (Note 20) (formerly Voyage Cannabis Corp.)	100%	British Columbia, Canada
Heritage Cannabis Exchange Corp.	100%	Ontario, Canada
Heritage (US) Cali Corp.	100%	California, United States
Heritage (US) Colorado Corp.	100%	Delaware, United States
Heritage US Holdings Corp.	100%	Delaware, United States
Heritage (US) Oregon Corp.	100%	Oregon, United States
Mainstrain Market Ltd. (Note 20)	100%	British Columbia, Canada
Opticann, Inc.	100%	Colorado, United States
Premium 5 Ltd.	100%	Alberta, Canada
Purefarma Solutions Inc. (formed by amalgamation between Purefarma Solutions Inc. and CALYX Life Sciences Inc.)	100%	British Columbia, Canada

Certain subsidiaries are controlled, indirectly, through other subsidiaries.

(f) Estimates and critical judgements made by management

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

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

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

---

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

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

(i) Share-based payment transactions

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

(ii) Business combinations

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

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

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

(iv) Impairment of property, plant and equipment, right-of-use assets and intangible assets other than goodwill

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

(v) Impairment of goodwill

The impairment test for cash generating units ("CGUs") to which goodwill is allocated is based on the higher of VIU and FVLCD of the CGU, determined in accordance with the expected cash flow approach. The calculation is based on assumptions including, but not limited to, the cash flow growth rate and the discount rate. See Note 11.

(vi) Determination of CGUs

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



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

---

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

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

(vii) Valuation of financial instruments

The Company makes estimates and assumptions relating to the fair value measurement and disclosure of its notes receivable and derivative liabilities. The fair values are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, management's judgment is required to establish fair values.

(viii) Control, joint control or significant influence

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

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

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

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

(x) Inventory

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

(xi) Expected credit losses on financial assets

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

(xii) Going concern

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

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

---

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

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

(xiii) Provisions

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

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

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

**2. Significant accounting policies**

(a) Business combination

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

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

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

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

---

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

(a) Business combination (continued)

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

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

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

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

(b) Cash and cash equivalents

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

(c) Inventories

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

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

---

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

(d) Intangible assets

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

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

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

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

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

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

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

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

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

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

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

---

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

(f) Impairment of long-lived assets

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

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

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

(g) Financial instruments

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

(i) Amortized cost

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

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

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

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

---

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

(g) Financial instruments (continued)

(ii) Fair value through profit or loss (“FVTPL”)

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

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

Financial assets and liabilities in this category include notes receivable and derivative liabilities.

(iii) Fair value through other comprehensive income (“FVOCI”)

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

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

The Company did not have any financial instruments in this category as at October 31, 2023 and 2022.

(h) Impairment of financial assets at amortized cost

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

(i) De-recognition of financial instruments

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

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

---

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

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

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

(j) Investments in associates

Significant influence is the power to participate in the financial and operating policy decisions of the associate without control or joint control over those policies. Significant influence is presumed to exist if the Company holds between 20% and 50% of the voting rights, unless evidence exists to the contrary. The Company has assessed that it has significant influence over Endocanna (Note 10). Associates in which the Company has significant influence are accounted for using the equity method. The Company's interest is initially recorded at cost, including transaction costs, and is subsequently adjusted for the Company's share of the associate's profit or loss and other comprehensive income, less any impairment in the value of individual investments, less any dividends received. Where the Company transacts with an associate, profits and losses are eliminated to the extent of the Company's interest in the associate. If the Company's share of losses equals or exceeds its interest in the associate, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

(k) Leases

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

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

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

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

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

---

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

(l) Income taxes

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

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

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

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

(m) Share capital

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

(n) Share-based payments

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

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

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

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



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

---

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

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

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

(p) Share purchase warrants

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

(q) Revenue recognition

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

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

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

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

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

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

---

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

(q) Revenue recognition (continued)

(i) Remaining performance obligations

The Company's outstanding performance obligations in relation to customer contracts as at October 31, 2023 will be completed upon transfer of ownership (or deemed transfer) of extracts and as services are rendered. The Company's payment terms require payment without penalty to be made within 30 days after the customer accepts transfer of ownership or a notice of completion.

The outstanding performance obligations at year end require the Company to either (i) deliver crude cannabis extracts, and/or (ii) provide post extraction refinement, formulation, and packaging services. Revenue in the amount of \$502,044 (2022 - \$681,548 to be earned in the 2023 fiscal year) is expected to be earned in the 2024 fiscal year from contracts and orders in place as at October 31, 2023.

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

(r) Foreign exchange translation

(i) Translation of foreign currency transactions

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

(ii) Translation of foreign operations

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

(s) Government grants

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

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

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

---

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

(t) Provisions

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

**3. New accounting standards and pronouncements**

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

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

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

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

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

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

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

(c) Amendments to IAS 12, Income Taxes

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

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

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

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

---

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

(e) Amendments to IFRS 16, Leases

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

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

**4. Short-term investments**

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

**5. Inventories**

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

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

**6. Prepaid expenses and deposits**

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

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

**7. Convertible promissory note receivable**

In December 2019, the Company negotiated a promissory note from Empower Healthcare Assets Inc. ("Empower Health") for \$250,000, bearing interest at 2% per annum on the outstanding principal. The promissory note was due on demand and matured on December 31, 2021. The promissory note was guaranteed by Empower Health and Empower Clinics Inc. ("Empower Clinics"), an affiliated company of Empower Health. At the Company's option, the promissory note was convertible into the common shares of Empower Clinics based on the value of the common shares at the closing price the day before the conversion, or into the equity interest in the joint venture to be formed between the Company and Empower Health.

The convertible promissory note receivable was classified and measured at FVTPL. As at October 31, 2022, the convertible promissory note receivable was fully repaid in cash.

**8. Notes receivable**

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

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

On May 3, 2021, the Company entered into an agreement ("Missouri Agreement"), pursuant to which the Company agreed to provide an aggregate principal amount of up to \$1,000,000 USD ("Operating Loan") plus possible additional advances, if necessary. The Operating Loan bears an interest rate of 10% per annum and is payable over five years. Monthly payments are determined based on the gross margin collected and are due to begin once sales activities commence. As at October 31, 2023, the Company has disbursed \$2,523,823 CDN (equivalent to \$1,871,415 USD) in total (2022 - \$1,613,877 CDN (equivalent to \$1,182,488 USD)).

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

(b) Heritage (US) Oregon Corp.

On September 9, 2021, Heritage (US) Oregon Corp. entered into an equipment purchase and service agreement with another company, with the same terms as those of the Missouri Agreement. As at October 31, 2023, the Company has disbursed \$982,003 CDN (equivalent to \$728,155 USD) in total (2022 - \$299,954 CDN (equivalent to \$219,776 USD)).

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

**8. Notes receivable (continued)**

The notes receivable are classified and measured at FVTPL. The Company applied a probability-weighted average valuation methodology, resulting in the notes receivable being valued at the present value of future payments discounted at the market rate of interest of 10%. No unrealized gain or loss was recognized as a result of changes in fair value of the notes receivable during the year ended October 31, 2023 (2022 - \$Nil).

During 2023, the borrowers commenced sales and \$758,106 in repayments have been made (\$nil - October 31, 2022). Future undiscounted principal payments for the notes receivable, excluding variable service fees which are excluded from notes receivable, are as follows:

	<1 year	2-5 years	> 5 years	Total
Contractual cash flows	\$ 677,250	\$ 2,198,176	\$ -	\$ 2,875,426
Add: Interest income	77,199	308,796	-	385,995
<b>Total</b>	<b>\$ 754,449</b>	<b>\$ 2,506,972</b>	<b>\$ -</b>	<b>\$ 3,261,421</b>

**9. Other investments and deposits**

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

- (i) On February 16, 2018, Heritage East entered into an agreement with its municipality to conduct land development where its production facility is located. As part of this agreement, Heritage East deposited with the municipality a \$106,104 refundable letter of credit to guarantee the completion of these land development costs. As at October 31, 2022, management determined that the project was no longer viable and therefore wrote off the deposit in full.
- (ii) On April 30, 2020, the Company acquired 18% interest in SPD for total consideration of \$340,000. As at October 31, 2021, management determined the fair value of the investment in SPD as \$nil, given the investment was not in line with the Company's core business and therefore provided negligible value to the Company. On March 30, 2022, the Company sold its interest in SPD for total cash proceeds of \$608,649. Immediately preceding such sale, the investment was revalued to \$608,649, with the full amount recognized as an unrealized gain in profit or loss.
- (iii) On June 15, 2020, the Company received 76,923 common shares of 118366 B.C. Ltd. at a price of \$0.61 per share as settlement of \$46,914 accounts receivable for storage and other services provided. As a result, the Company acquired 5% interest in 118366 B.C. Ltd. As at October 31, 2023, the fair value of the investment was determined to be \$nil (2022 - \$nil) based on management's best estimates, with an unrealized loss of \$nil recognized in profit or loss (2022 - \$35,875).
- (iv) As at October 31, 2023, the long-term deposits were comprised of an excise duty deposit of \$875,000 (2022 - \$710,000) and security deposits of \$220,000 (2022 - \$89,812).

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

---

**10. Investment in associate**

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

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

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

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

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

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

**11. Intangible assets and goodwill**

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

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



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

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

The details of individually material intangible assets are as follows:

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

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

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

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

As at October 31, 2022, the full goodwill balance was allocated to the Canadian extraction CGU. The Company assesses whether there are events or changes in circumstances that would more likely than not reduce the fair value of its CGU to below its carrying value and, therefore, require goodwill to be tested for impairment at the end of each reporting period. The Company performed its annual impairment test on the goodwill based on the higher of VIU and FVLCD of the CGU, determined in accordance with the expected cash flow approach, a level 3 valuation technique. The recoverable amount was determined to be the FVLCD, in the amount of \$44,340,000. The key assumptions used in the calculation of the recoverable amount relate to five-year future cash flows, weighted average cost of capital, and five-year average growth rate. These key assumptions were based on historical data from internal sources as well as industry and market trends. The discount rate used was 18.2% representing the weighted average cost of capital (after-tax) determined based on mid-year discounting, and the five-year average growth rate in gross revenue was estimated as 24%.

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

As at October 31, 2023, the Company determined there were indicators of impairment for its definite life intangibles, and therefore, performed an impairment test based on the higher of VIU and FVLCD of the CGU, determined in accordance with the expected cash flow approach, a level 3 valuation technique. The recoverable amount was determined to be the FVLCD, in the amount of \$22,600,000. The key assumptions used in the calculation of the recoverable amount relate to five-year future cash flows, weighted average cost of capital, and five-year average growth rate. These key assumptions were based on historical data from internal sources as well as industry and market trends. The discount rate used was 17.55% representing the weighted average cost of capital (after-tax) determined based on mid-year discounting, and the five-year average growth rate in gross revenue was estimated as 8%.

As the recoverable amount was below the carrying value by \$11,400,000 as at October 31, 2023, an impairment loss was recognized and allocated to intangible assets based on their relative carrying amounts. Management has determined that the impairment was primarily due to shifting market dynamics.

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

**12. Property, plant and equipment**

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

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

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

---

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

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

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

Below is a reconciliation of changes in the right-of-use assets, which are included in the buildings and improvements balance based on the nature of the underlying assets:

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

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

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

---

**13. Sale-and-Leaseback**

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

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

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

**14. Lease liabilities**

The Company has an office lease, with an escalating monthly lease payment of \$7,123 to \$7,700 until April 22, 2031. In March 2021, the Company entered into another lease for office space with an escalating monthly lease payment of \$5,811 to \$6,423 until April 30, 2026, the end of the initial term, with a subsequent renewal through April 30, 2031. The Company applied a discount rate of 10% in the calculation of lease liabilities.

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

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

**14. Lease liabilities (continued)**

The following is a continuity of lease liabilities:

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

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

	<1 year	2-5 years	> 5 years
Contractual cash flows	\$ 285,311	\$ 1,935,977	\$ 223,300

During the year ended October 31, 2023, the Company has recognized rent expenses of \$218,218 in profit or loss in relation to the short-term leases, low-value leases and variable lease payments which were excluded from the measurement of lease liabilities (2022 - \$195,402).

**15. Long-term debt**

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

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

(b) The Company, along with its subsidiaries Heritage East, 333 Jarvis Realty Inc., Heritage West and 5450 Realty Inc., (together the “Borrowers”) have entered into an 18-month loan agreement for \$7,000,000. The effective interest rate implicit in the term loan is 10%.

The term loan is secured by the following:

- (i) A promissory note in the amount of \$7,000,000;
- (ii) mortgages and assignments of rents over certain properties owned by the Company;
- (iii) an environmental indemnity agreement;
- (iv) an encumbrance and charge of all of the Borrowers’ right, title and interest in the Borrowers’ present and future personal property and assets by way of a general security agreement;
- (v) an assignment of proceeds from the Borrowers’ sales;

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

---

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

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

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

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

As part of the First Amendment, the Company also issued 10,000,000 warrants to the lender. Each warrant is exercisable into one Heritage Common Share at an exercise price of \$0.25 per share and has a term of 24 months expiring on October 8, 2023. See Note 19(a). These warrants were considered exchangeable into a fixed number of Heritage Common Shares, and thus were classified as equity.

Based on management's assessment, the modification of the loan resulted in a substantial change in the carrying amount of the loan, and therefore was accounted for as an extinguishment of the original loan and a recognition of the new loan. The Company initially valued the Loan at its fair value at the modification date, using the effective interest rate of 5.08% implicit in the Loan, with \$nil residual value to the warrants. The difference between the fair value of the Loan and the original loan, as well as the transaction costs incurred as part of modification in the amount of \$1,361,338 were recognized in profit or loss at the modification date during the year ended October 31, 2021.

On September 29, 2022, the Company amended the loan agreement for the 2nd time (the "Second Amendment") by establishing four credit facilities for a maximum amount of \$19,760,000 (collectively the "Loan") as follows:

- (i) Facility 1: \$7,175,000. The interest rate is a) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to July 31, 2023; b) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum;
- (ii) Facility 2: \$2,600,000. The interest rate is a) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to July 31, 2023; b) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum;
- (iii) Facility 3: A revolving line of credit up to a maximum of \$5,000,000. The interest rate is a) 15% per annum from October 1, 2022 to July 31, 2023; b) the greater of the Royal Bank of Canada rate plus 10% and 15% per annum from August 1, 2023 to November 30, 2024;

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

---

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

- (iv) Facility 4: an additional loan of \$4,985,000, inclusive of the loan amendment fee of \$985,000. The interest rate is a) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to July 31, 2023; b) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum.

The Loan due date was extended to November 30, 2024, with an option to extend to November 30, 2025. If the Company exercises its extension option, all facilities will bear an interest rate at the maximum of either the Royal Bank of Canada prime rate plus 10% or 15% per annum during the one-year extension period. As at October 31, 2022, the Company had received a total of \$16,807,261 in principal, with the remaining line of credit \$2,952,739 available for advance.

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

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

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

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

The Loan due date was extended to January 31, 2025, with an option to extend to January 31, 2026. If the Company exercises its extension option, all facilities will bear an interest rate at the maximum of either the Royal Bank of Canada prime rate plus 10% or 15% per annum during the one-year extension period.

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

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

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

Based on management's assessment, the Third Amendment of the Loan resulted in a substantial modification in the carrying amount of the Loan for Facility 5, and therefore was accounted for as an extinguishment of the original loan and a recognition of the new loan. The Company initially valued the Loan at its fair value at the modification date, using the effective interest rate of 17% per annum implicit in the Loan. The difference between the fair value of consideration and the original loan, were recognized in profit or loss at the modification date.

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

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

<b>Balance as at October 31, 2021</b>	\$	10,822,261
Advances, net of cash-settled transaction costs		1,000,000
Interest expense		741,420
Interest payments		(741,420)
<b>Balance as at September 29, 2022, the modification date</b>	\$	11,822,261
Advances, net of cash-settled transaction costs		3,939,009
Loss on debt extinguishment from changes in carrying amount and cash-settled transaction costs as a result of modification <sup>(i)</sup>		1,045,991
Interest expense		47,093
Interest payments		(47,093)
<b>Balance as at October 31, 2022</b>	\$	16,807,261
Interest expense		1,493,250
Interest payments		(1,061,475)
Forgiveness of debt		(431,860)
Repayment of debt (Note 13)		(9,503,536)
<b>Balance as at October 31, 2023</b>	\$	7,303,640

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

**16. Contingent Consideration Payable**

<b>Balance as at October 31, 2021</b>	\$	16,530,176
Payment made through issuance of common shares on contingent consideration issued in Premium 5 acquisition		(6,428,571)
Payment made through issuance of common shares on contingent consideration issued in Purefarma acquisition and settlement of other receivable (Note 16(b) and Note 18(b))		(564,338)
Settlement of contingent consideration payable issued in Heritage West acquisition as a result of purchase of non-controlling interest in Heritage West (Note 20)		(400,000)
(Gain) from remeasurement		(9,137,267)
<b>Balance as at October 31, 2022 and 2023</b>	\$	-



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

---

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

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

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

Upon Purefarma achieving a cumulative gross margin of \$25,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company would issue 2,500,000 common shares to the former shareholders of Purefarma. Upon Purefarma achieving a cumulative gross margin of \$50,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company would issue 3,500,000 common shares to the former shareholders of Purefarma. Upon Purefarma achieving a cumulative gross margin of \$75,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company would issue 4,500,000 common shares to the former shareholders of Purefarma. Upon Purefarma achieving a cumulative gross margin of \$100,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company would issue 5,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of \$100,000,000 before December 31, 2022, an additional 1,100,000 common shares would be issued to the former shareholders of Purefarma.

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

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

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

As at October 31, 2022, Heritage issued 14,728,762 shares to former shareholders of Purefarma and applied the aforementioned \$48,831 receivable against the contingent consideration payable, as intended, to settle all the outstanding equity-settled and cash-settled contingent consideration payable issued in Purefarma acquisition. The 14,728,762 shares were measured at a fair value of \$515,507 determined based on the quoted market price on the date of issuance (Note 18(b)). Immediately prior to the Settlement, the Company revalued the contingent consideration payable to \$564,338, representing the sum of the fair value of common shares to be issued and the other receivable settled described above, with a recognition of loss from remeasurement of \$319,162 in profit or loss.

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

---

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

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

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

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

As at October 31, 2022, management settled all the contingent consideration payable issued in Heritage West acquisition as part of Heritage’s purchase of additional non-controlling interest in Heritage West (the “NCI purchase”) (Note 20). Immediately prior to the NCI purchase in Heritage West, management recognized the fair value of the contingent consideration payable in an amount of \$400,000, reflecting a high probability of meeting the remaining EBITDA milestones. At the NCI purchase date, the difference between the fair value of Heritage West contingent consideration payable settled, the fair value of the consideration paid and the carrying amount of the non-controlling interest was transferred into the retained earnings of the Company (Note 20).

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

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

As at October 31, 2021, the Company recognized the fair value of the First Performance Milestone payment in an amount of \$15,000,000, which represented the maximum pay-out for such milestone given the Company has exceeded the milestone expectations by January 25, 2022. As at October 31, 2022, the Company issued 107,142,857 Heritage Common Shares as full payment for First Performance Milestone, with a fair value of \$6,428,571 determined based on the quoted market price on the date of issuance (see Note 18(b)). Immediately prior to such settlement, the Company revalued the First Performance Milestone to \$6,428,571, representing the fair value of common shares to be issued described above, with a recognition of gain from remeasurement of \$8,571,429 in profit or loss. The number of common shares issued reflected the intended maximum pay-out amount of \$15,000,000 divided by the deemed value of \$0.14 per share.

As at October 31, 2022, the Company re-valued the fair value of Second Performance Milestone payment to \$nil, and recorded a gain from remeasurement of \$940,000 in profit or loss, based on the probability of meeting gross margin targets across all recreational products by January 25, 2023. As at October 31, 2023, the second performance milestone payment expired at a value of \$nil.

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

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

The following is a continuity of contingent consideration payable:

	Purefarma	Heritage West	Premium 5	Total
<b>Balance as at October 31, 2021</b>	\$ 245,176	\$ 345,000	\$ 15,940,000	\$ 16,530,176
First Performance Milestone payment for Premium 5 acquisition	-	-	(6,428,571)	(6,428,571)
Settlement as part of NCI purchase in Heritage West	-	(400,000)	-	(400,000)
Purefarma contingent consideration payment through share issuance and other receivable settled	(564,338)	-	-	(564,338)
Unrealized loss (gain) from changes in fair value	319,162	55,000	(9,511,429)	(9,137,267)
<b>Balance as at October 31, 2022 and 2023</b>	\$ -	\$ -	\$ -	\$ -

**17. Derivative liabilities**

	Heritage Cannabis Exchange Corp. (a)	Heritage Cannabis Holdings Corp. (b)	Total
<b>Balance as at October 31, 2021</b>	\$ 293,209	\$ 1,185,260	\$ 1,478,469
Addition	-	1,037,770	1,037,770
Interest expense	-	280,380	280,380
Unrealized loss (gain) from changes in fair value	(282,390)	68,067	(214,323)
<b>Balance as at October 31, 2022</b>	\$ 10,819	\$ 2,571,477	\$ 2,582,296
Addition	-	-	-
Interest expense	-	298,699	298,699
Unrealized loss from changes in fair value	(10,819)	(4,691)	(15,510)
<b>Balance as at October 31, 2023</b>	\$ -	\$ 2,865,485	\$ 2,865,485
Less: current portion	-	(2,817,368)	(2,817,368)
<b>Long-term portion</b>	\$ -	\$ 48,117	\$ 48,117

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

**17. Derivative liabilities (continued)**

(a) Heritage Cannabis Exchange Corp.

On October 6, 2020, the Company, through its wholly owned subsidiary Heritage Cannabis Exchange Corp. (“Purchaser Sub”), acquired all of the issued and outstanding shares of Opticann Inc. (“Opticann”).

As part of the consideration for the acquisition of Opticann, Heritage Cannabis Exchange Corp. issued 7,919,493 warrants (“Class 1 Warrants”), exercisable for its Class A exchangeable shares at a price of \$0.20 per warrant for a period of 24 months from October 6, 2020, and 3,511,110 warrants (“Class 2 Warrants”), exercisable for its Class A exchangeable shares at a price of \$0.30 per warrant for a period of 36 months from October 6, 2020. The Class A exchangeable shares of the Purchaser Sub are redeemable and retractable into Heritage common shares on a 1:1 basis at the fair market value of a Heritage common share on the last business day prior to the redemption or retraction date at the option of the exchangeable shareholders (“Redemption/Retraction Price”). These warrants were considered to be exchangeable into a variable number of Heritage Common Shares and were therefore classified as financial liabilities measured at FVTPL. As at October 31, 2022, the Class 1 Warrants expired unexercised and were revalued immediately prior to expiry. As at October 31, 2023, the Class 2 Warrants expired unexercised and were revalued immediately prior to expiry.

As at October 31, 2023, the Company re-valued the warrant derivative liabilities using a level 3 valuation technique, as detailed in Note 26 with the following inputs, assumptions and results, respectively:

<b>At October 31, 2022</b>	Class 1 Warrants (immediately prior to expiry)	Class 2 Warrants
Number of warrants issued	7,919,493	3,511,110
Risk-free interest rate	3.92%	3.92%
Expected life (years)	0.00	0.93
Expected annualized volatility	0.00%	142%
Expected annual dividend yield	0.00%	0.00%
Exercise price	\$0.20	\$0.30
Share price	\$0.030	\$0.035
Calculated fair value per warrant at the earlier of the expiry date or year-end	\$0.000	\$0.003

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

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

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

**17. Derivative liabilities (continued)**

(a) Heritage Cannabis Exchange Corp (continued)

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

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

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

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

The Notes mature in 24 months from the effective date and bear an interest rate of 15% per annum, which shall be paid in common shares of the Company (“Heritage Common Shares”) (such shares issuable as interest payment, the “Interest Shares”). The price per Interest Share shall be the greater of: (i) 90% of the volume weighted average price per Heritage Common Share for the five consecutive trading days preceding such issuance, and (ii) the minimum price per Heritage Common Share permitted pursuant to applicable securities laws and the requirements of the Canadian Securities Exchange (“CSE”). The Interest Shares shall be issued on a quarterly basis, beginning on January 18, 2022. The principal amount is due and payable upon maturity in cash or Heritage Common Shares (the “Conversion Shares”) at the option of Notes holders. The conversion price per Conversion Share shall be the greater of: (i) the closing market share price of the Heritage Common Shares on the trading day prior to a news release or the posting of notice to the CSE website, and (ii) \$0.07 CDN. As at October 31, 2023 and 2022, no Interest Shares have yet been issued.

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

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

As at October 31, 2022, the Company received all tranches of \$1,500,000 USD (equivalent to \$1,855,270 CDN) in total principal, and issued a Note and Warrant upon the cash receipt per tranche. At initial recognition of each tranche, the Company allocated the proceeds received to the Note and the Warrant based on their relative fair value at the issuance date. The standalone fair value of the Note was calculated using the effective interest rate of 15% implicit in the Note. The standalone fair value of the Warrant was calculated using a level 3 valuation technique as detailed in Note 26. As at October 31, 2023, the Company revalued all the Notes at fair value, calculated as the greater of the amount payable in equity and the amount payable in cash if no conversion right is exercised. The Warrants were re-valued at fair value using the same valuation technique as that used for initial recognition with the following inputs, assumptions and results:

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

**17. Derivative liabilities (continued)**

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

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

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

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

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

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

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

**17. Derivative liabilities (continued)**

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

Expected annualized volatility was estimated using the Company's average historical volatility for a time period equal to the Warrants' remaining terms at valuation dates.

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

	Notes	Warrants	Total
<b>Balance as at October 31, 2021</b>	\$ 821,623	\$ 363,637	\$ 1,185,260
Additions	822,150	215,620	1,037,770
Interest expense	280,380	-	280,380
Unrealized (gain) loss from changes in fair value	435,685	(367,618)	68,067
<b>Balance as at October 31, 2022</b>	\$ 2,359,838	\$ 211,639	\$ 2,571,477
Additions	-	-	-
Interest expense	298,699	-	298,699
Unrealized (gain) loss from changes in fair value	54,107	(58,798)	(4,691)
<b>Balance as at October 31, 2023</b>	\$ 2,712,644	\$ 152,841	\$ 2,865,485

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

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

**18. Share capital**

(a) Authorized share capital

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

(b) Issued share capital

During the year ended October 31, 2023, the following share issuances took place:

(i) Equity line of credit

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

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

---

**18. Share capital (continued)**

(b) Issued share capital (continued)

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

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

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

(ii) Shares issued as compensation

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

(iii) Shares in escrow

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

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

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

On January 25, 2022, the Company issued 107,142,857 common shares to Premium 5 former shareholders as its First Performance Milestone payment in full (See Note 16(d)). The fair value of the common shares was measured at \$6,428,571, determined based on the quoted share price at the issuance date.



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

---

**18. Share capital (continued)**

(b) Issued share capital (continued)

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

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

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

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

**19. Contributed surplus**

(a) Warrants

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

	Number of warrants	Weighted average exercise price
<b>Balance as at October 31, 2021</b>	134,438,700	\$ 0.27
Issued as part of loan amendment (Note 15(b))	50,000,000	0.10
Exercised (Note 18(b))	(29,809)	0.70
Expired	(18,585,891)	0.68
<b>Balance as at October 31, 2022</b>	165,823,000	0.18
Expired	(105,823,000)	0.21
Modified (Note 15(b))		(0.06)
<b>Balance as at October 31, 2023</b>	60,000,000	\$ 0.07

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

**19. Contributed surplus (continued)**

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

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

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

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

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

(b) Stock options

(i) Stock option plan details

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

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

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

**19. Contributed surplus (continued)**

(b) Stock options (continued)

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

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

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

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

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

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

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

(i) Amounts arising from share-based payment transactions

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

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

---

**20. Non-controlling interest**

On September 15, 2022, the Company paid \$50,000 in cash and issued 2,000,000 Heritage Common Shares measured at \$70,000 as detailed in Note 18(b) as total consideration for its purchase of 500 common shares and 400,000 preferred shares in Heritage West from the non-controlling shareholder. As a result of the NCI purchase, the entire contingent consideration payable issued in Heritage West acquisition was settled (Note 16(c)), and the Company increased its interest in Heritage West and Mainstrain Market Ltd. ("Mainstrain") from 75% to 100%.

At the NCI purchase date, the difference of \$1,875,040 between the carrying amount of the non-controlling interest (the "NCI") at \$1,595,040, the fair value of contingent consideration payable settled at \$400,000 in Heritage West (Note 16(c)) and the fair value of the consideration paid at \$120,000 was transferred into the retained earnings of the Company.

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

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

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

	Heritage West	Mainstrain	Total
<b>Balance as at October 31, 2021</b>	\$ 682,337	\$ 12,545	\$ 694,882
Share of income (loss)	955,794	(282)	955,512
Share of amortization of Heritage West licenses acquired through business combination (Note 11)	(55,355)	-	(55,355)
Decrease in NCI	(1,582,776)	(12,263)	(1,595,039)
<b>Balance as at October 31, 2022 and 2023</b>	\$ -	\$ -	\$ -

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

**21. Income taxes**

The Company's combined Canadian federal and provincial statutory income tax rate is 26.5% for the year ended October 31, 2023 and 2022. The Company's provision for income taxes for the years ended October 31, 2023 and 2022 differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates to the net and comprehensive loss as a result of the following:

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

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

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

The tax effects of temporary timing differences that give rise to significant components of the Company's deferred tax assets and liabilities for the years ended October 31, 2023 and 2022 were as follows:

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

The Company has accumulated non-capital losses for Canadian tax purposes of approximately \$66,352,000 which may be carried forward and used to reduce taxable income in future years. The accumulated non-capital losses expire as follows:

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

---

**21. Income taxes (continued)**

Year of Expiry	Amount
2028	\$ 81,000
2029	148,000
2030	247,000
2031	267,000
2032	187,000
2033	422,000
2034	711,000
2035	486,000
2036	492,000
2037	2,093,000
2038	5,725,000
2039	9,807,000
2040	7,322,000
2041	15,560,000
2042	14,652,000
2043	8,152,000
	\$ 66,352,000

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

**22. Related party transactions and balances**

All amounts either due to or from related parties, unless disclosed otherwise, are non-interest bearing, unsecured and due on demand. Transactions undertaken with related parties during the years ended October 31, 2023 and 2022 are as follows:

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

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

(b) Key management compensation

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

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

---

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

(c) Related party balances

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

**23. Commitments**

As detailed in Note 17(a), the Company acquired Opticann on October 6, 2020. The remaining purchase consideration payable for the acquisition includes:

- (a) 100,000,000 Class B exchangeable shares of Purchaser Sub, which were issued upon acquisition and are redeemable and retractable, subject to conditions including Opticann’s ability to meet certain cumulative gross margin targets within required time periods and to enter into distribution, supply, or collaboration agreements (or similar) with certain vendors, into Heritage Common Shares on a 1:1 basis at the Redemption/Retraction Price at the option of the exchangeable shareholders.
- (b) Contingent performance payments, payable in Heritage Common Shares, partly based on a fixed percentage of the funds invested in the Company in cash or assets up to certain amounts by certain vendors, partly upon the Company’s ability to achieve certain cumulative sales or gross margin targets, and partly upon the acquisition of a supplier.

The acquisition was accounted for as an asset acquisition, given Opticann did not meet the definition of business at the acquisition date in accordance with IFRS 3. As at October 31, 2023 and 2022, no provision was recognized in relation to the above Class B exchangeable shares or contingent performance payments, given none of their payment milestones were met.

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

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

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

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

**24. Loss per share**

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

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

---

**25. Financial instruments**

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

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them since October 31, 2022, unless otherwise stated.

(a) Credit risk

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

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

	As at October 31, 2023	As at October 31, 2022
Trade accounts receivable from customers	\$ 6,960,969	\$ 7,798,057
Expected credit losses	(201,164)	(353,420)
Net trade receivables	6,759,805	7,444,637
Interest and other receivables	727	43,480
	<b>\$ 6,760,532</b>	<b>\$ 7,488,117</b>

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

The Company has assessed that there is a concentration of credit risk, as 53% of the Company's net trade accounts receivable is due from three customers as at October 31, 2023 (as at October 31, 2022 - 68% of the balance due from three customers).



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

**25. Financial instruments (continued)**

(a) Credit risk (continued)

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

	As at October 31, 2023	As at October 31, 2022
Current (30 days or less)	\$ 3,425,372	\$ 4,371,452
31-60 days	1,219,468	1,152,874
61-90 days	275,532	57,804
Greater than 90 days	1,839,433	1,862,507
	<u>\$ 6,759,805</u>	<u>\$ 7,444,637</u>

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the financial obligations associated with its financial liabilities as they come due. The Company manages liquidity risk through the management of its capital structure. As at October 31, 2023, the Company had working capital of \$7,099,575 (as at October 31, 2022 – \$14,730,394). The Company may be dependent upon the issuance of new equity and/or debt to advance its production efforts and meet its financial obligations. If equity or debt financing is required, failure to obtain such financing on a timely basis may cause the Company to postpone, reduce or terminate its production plans.

The Company has the following undiscounted contractual obligations subject to liquidity risk, in addition to those relating to lease liabilities disclosed in Note 14:

	<1 year	2-5years	> 5 years
Accounts payable and accrued liabilities	\$ 20,338,063	\$ -	\$ -
Long-term debt	7,023	7,305,396	-
Derivative liabilities with cash settlement option (Note 17(b))	2,068,374	-	-
<b>Total</b>	<u>\$ 23,413,460</u>	<u>\$ 7,305,396</u>	<u>\$ -</u>

(c) Market risk

(i) Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. The Company is exposed to this risk on its investment in Endocanna (Note 10), an associate that bears the U.S. dollar as its functional currency. The Company is required to translate the financial position and operating results of Endocanna into Canadian dollars and to recognize its share of the resulting translation gain or loss in other comprehensive income or loss. The Company is further exposed to the foreign currency risk through Opticann, a wholly owned subsidiary operating in United States (Note 1(e)), and through its derivative liabilities denominated in USD (Note 17(b)). As at October 31, 2023 and October 31, 2022, the Company has not entered into any hedging agreements to mitigate foreign currency risk. As such, the Company's financial position and financial results may be adversely affected by the unfavorable fluctuations in foreign currency exchange rates.

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

---

**25. Financial instruments (continued)**

(c) Market risk (continued)

(i) Foreign currency risk (continued)

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

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

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

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's short-term investments, convertible promissory note receivable and notes receivable earn fixed rates of interest in the range from 0.7% to 1.05% per annum, 10% per annum and 24% per annum respectively. The Company is exposed to this risk on its long-term debt, part of which bears variable interests as detailed in Note 15. As at October 31, 2023 and 2022, the Company had no hedging agreements in place.

(iii) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. As at October 31, 2023 and 2022, the Company is exposed to this risk on the derivative liabilities payable in Heritage Common Shares (Note 17(b)).

**26. Fair value of financial instruments**

Assets recorded at fair value in the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

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

During the year ended October 31, 2023 and 2022, there were no transfers of amounts between levels.

**27. Entity-wide disclosures**

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

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

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

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

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

**28. Operating segment information**

During the years ended October 31, 2023 and 2022, the Company identified a single reportable operating segment.

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

---

**29. Capital management**

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

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

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

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

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

**30. Subsequent events**

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

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

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

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

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