UMBRAL ENERGY CORP.

(An Exploration and Development Stage Company)

MANAGEMENT DISCUSSION AND ANALYSIS

For The Year Ended October 31, 2016

This Management Discussion and Analysis for Umbral Energy Corp. (the "Company") provides analysis of the Company's consolidated financial results for the year ended October 31, 2016. The following information should be read in conjunction with the accompanying annual consolidated financial statements and related notes for the year ended October 31, 2016.

1.1 <u>Date of Report</u>

The following Management Discussion and Analysis ("MD&A") focuses on significant factors that have affected Umbral Energy Corp. (the "Company" or "Umbral") performance and such factors that may affect its future performance. This MD&A should be read in conjunction with the Company's annual consolidated financial statements and related notes for the year ended October 31, 2016, 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 24, 2017.

Forward-Looking Information

This MD&A contains certain information that may be deemed "forward-looking information". All information in this MD&A, other than information of historical fact, that address exploration drilling, exploitation activities and events or developments that the Company expects to occur, are forward looking information. Forward looking information is information that is not historical fact and is generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential" and similar expressions, or that events or conditions "will", "would", "may", "could" or "should" occur. Information inferred from the interpretation of drilling results and information concerning mineral resource estimates may also be deemed to be forward looking information, as it constitutes a prediction of what might be found to be present when and if a project is actually developed. The Company believes the expectations expressed in such forward-looking information are based on reasonable assumptions, limited to a period for which the information can be reasonably estimated and pursuant to the accounting policies. Such information is not a guarantee of future performance and actual results may differ materially from those in the forward-looking information. Forward-looking information is based upon current metal prices, availability of financing and general market conditions. Factors that could cause the actual results to differ materially from those in forward-looking information include market prices, exploitation and exploration successes, and continued availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such information is not a guarantee of future performance and actual results or developments may differ materially from those projected in the forward-looking information.

Management's Responsibility for Financial Statements

The information provided in this MD&A, including the annual consolidated financial statements, are the responsibility of management. In the preparation of these consolidated financial statements, 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 properly reflected in the accompanying annual consolidated financial statements.

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.

1.2 <u>Overall Performance</u>

Nature of Business and Overall Performance

The Company was incorporated on October 25, 2007 under the *Business Corporations Act* of British Columbia. 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 shares of the Company commenced trading on the Canadian Securities Exchange under the symbol "UMB.C" and delisted its common shares from the TSX Venture Exchange.

The Company's head office is located at 929 Mainland Street, Vancouver, B.C. V6B 1S3 and its registered and records office is care of McMillan LLP, Suite 1500 – 1055 West Georgia St., Vancouver, B.C. V6E 4N7.

2016 Fiscal Summary:

- For the year ended October 31, 2016, the Company recorded a net loss and comprehensive loss of $1,029,693 or $0.02 loss per share compared to a net loss and comprehensive loss of $1,123,476 or $0.02 loss per share for the year ended October 31, 2015.
- As at October 31, 2016, the Company had total assets of $764,461 (October 31, 2015 - $502,936) and a working capital deficiency of $211,101 (October 31, 2015 – $314,810).
- Issued 8,085,000 common shares for the exercise of 8,085,000 incentive stock options at prices between $0.05 and $.08 per share for total proceeds of $440,050 which resulted in the transfer from share-based payment reserve to share capital of $405,961.
- Issued 1,790,174 common shares for the exercise of 1,790,174 warrants at $0.06 per share for total proceeds of $107,410.
- Issued 1,500,000 common shares with a deemed value of $52,500 in accordance with the terms of the Gerlach/Tule Lithium property purchase agreement.
- Conducted a reconnaissance survey which included soil sampling on its 100% interest in the Tule Valley, Utah Lithium Project. Please refer to the Company's News Release dated August 4, 2016 for the geochemical results of this program.

Subsequent to October 31, 2016, the Company:

- Granted 830,000 incentive stock options to directors, officers and consultants of the Company under the Company's Stock Option Plan exercisable at $0.05 per share expiring November 24, 2021.
- Granted 3,450,000 incentive stock options to directors, officers and consultants of the Company under the Company's Stock Option Plan exercisable at $0.07 per share expiring February 10, 2022.
- Granted 2,200,000 incentive stock options to directors, officers and consultants of the Company under the Company's Stock Option Plan exercisable at $0.09 per share expiring February 17, 2022.
- Issued 830,000 common shares for the exercise of 830,000 options at $0.05 per share for total proceeds of $41,500 which resulted in a transfer from share-based payment reserve to share capital of $32,636.
- Issued 3,350,000 common shares for the exercise of 3,350,000 options at $0.07 per share for total proceeds of $234,500 which resulted in a transfer from share-based payment reserve to share capital of $231,371.
- Issued 1,850,000 common shares for the exercise of 1,850,000 options at $0.08 per share for total proceeds of $148,000 which resulted in a transfer from share-based payment reserve to share capital of $145,148.
- Issued 1,026,000 common shares for the exercise of 1,026,000 warrants at $0.06 and $0.10 per share for total proceeds of $69,951.
- Entered into an Assignment Agreement with Equitorial Exploration Corp. for them to acquire 100% interests in both the Tule Valley Project and the Gerlach Project. Equitorial shall pay Umbral the sum of $50,000 on execution of this agreement (received) and shall issue to the Umbral 2,000,000 common shares upon regulatory acceptance. In consideration for the assignment of the underlying agreement, Equitorial will assume a final payment of $100,000 to the underlying owner and Umbral will issue 1,500,000 shares for 100% interest in the properties. There is a 2% NSR in favour of the underlying owner.

As the Company does not yet have cash flow from operations, it must rely on equity financing to fund operations. To date, the Company's main source of funding has been the issuance of equity securities for cash, through private placements to sophisticated investors and through the exercise of warrants and incentive stock options. The Company has historically raised operating capital from the sale of equity, and will continue to do so.

The Company's corporate objectives are to identify, acquire and develop projects of merit that will generate cash-flow in the short-term and create long-term value to its current and future shareholders.

The annual consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes the Company will operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred operating losses since inception, does not have positive operating cash flow, and there can be no assurances that sufficient funding, including adequate financing, will be available to explore its mineral properties, advance to its joint venture and to cover general and administrative expenses necessary for the maintenance of a public company. The ability of the Company to arrange additional financing in the future depends in part, on the prevailing capital market conditions and mineral property exploration success and to generate income or cash flows from operations from product and sale of medical marijuana. These factors may cast significant doubt on the Company's ability to continue as a going concern. Accordingly, the annual 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 the annual consolidated financial statements.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in the annual consolidated financial statements.

Exploration and Evaluation Assets

Lithium Projects, Nevada and Utah

Pursuant to a property purchase agreement dated April 20, 2016, the Company was granted the right to acquire an undivided 100% interest in 26 contiguous mineral claims totaling 4,800 acres located in Millard County, Utah known as the Tule Valley Project and a further 89 contiguous mineral claims totaling 1,780 acres located in Washoe County, Nevada known as the Gerlach Project.

As consideration for the properties, the Company is required to make the following cash payments and issue the following shares:

	CASH PAYMENTS	COMMON SHARES
On signing of option agreement		
April 20, 2016 (cash paid and shares issued)	$ 10,000	1,500,000
On or before June 20, 2016 (paid)	20,000	Nil
On or before July 20, 2016 (paid)	30,000	Nil
On or before April 20, 2017	100,000	1,500,000
	$ 160,000	3,000,000

The properties are subject to a net smelter return royalty of 2%. The Company has an option to purchase 1% of the 2% net smelter return royalty for $1,000,000 at any time.

The Company has begun its initial exploration program of identifying anomalous zones and geological mapping, to determine the presence and composition of lithium on the Tule Valley property. Please refer to the Company's News Release dated August 4, 2016 for the geochemical results of this program.

Subsequent to October 31, 2016, the Company entered into an Assignment Agreement with Equitorial Exploration Corp. for them to acquire 100% interests in both the Tule Valley Project and the Gerlach Project. Equitorial shall pay Umbral the sum of $50,000 on execution of this agreement (received) and shall issue to the Umbral 2,000,000 common shares upon regulatory acceptance. In consideration for the assignment of the underlying agreement, Equitorial will assume a final payment of $100,000 to the underlying owner and Umbral will issue 1,500,000 shares for 100% interest in the properties.

The Letourneur Gold Project, Quebec

Pursuant to an option agreement dated April 20, 2010, the Company was granted an option to acquire an undivided 75% interest in the Letourneur gold property by making cash payments in the amount of $35,000(paid) to the vendor and by spending $250,000 (incurred) on the property over two years. The Company had the right of first refusal to meet any offer on the remaining 25% interest. The original agreement consisted of mineral claims covering approximately 658 hectares located in the Abitibi greenstone belt in northwestern Quebec. Additional claims contiguous to the Property were staked during the years ended October 31, 2010, 2011 and 2016. On September 8, 2011, the Company acquired the remaining 25% interest in the Letourneur gold project in consideration for granting the vendor a net smelter royalty ("NSR") of 2%. The Company was given the right repurchase up to half (1%) of the NSR for $1,000,000. During the year ended October 31, 2014, the Company allowed certain claims to lapse and recognized $845,976 for the impairment of its mineral property. As at October 31, 2016 and the date of this report, the Company currently holds or optioned a total of 204 hectares

Investment in Joint Venture and Advances

a) Investment in Joint Venture

On December 9, 2014, Umbral Energy Corp. entered into a share exchange agreement for the acquisition of all the issued and outstanding shares of 1005477 B.C. Ltd., a holding company which owns 50% of the common shares of PhyeinMed Inc. ("PhyeinMed"), an operating company which has submitted an application to Health Canada for a Marihuana for Medical Purposes Regulations license. Management determined the 50% interest in PhyeinMed is a joint venture under IFRS 11 as Umbral management has no control over strategic, financial, permitting, development or operating decisions of PhyeinMed. Consequently, the investment in the joint venture is accounted for using the equity method. The consideration paid for the shares was as follows:

i. 3,000,000 common shares of the Company with an estimated fair value of $165,000 measured on the date of issuance;
ii. $129,500 of verifiable expenses reimbursed to the vendor.

In connection with the transaction, the Company issued 500,000 common shares of the Company for finders' fees. The fair value of these shares was $27,500 measured on the date of issuance and has been recorded as finder's fees in the statement of comprehensive loss in the year ended October 31, 2015.

Investment in Joint Venture and Advances (Continued)

		2016		2015
Investment in joint venture	$	**189,654**	$	194,406
Advances to joint venture		**244,260**		244,260
	$	**433,914**	$	438,666

The continuity of this investment is as follows:

	2016	2015
Balance, beginning of the year	**194,406**	-
Acquisition costs - Cash	**-**	129,500
Acquisition costs - Shares	**-**	165,000
Subtotal	**194,406**	294,500
Equity loss on investment in joint venture	**(4,752)**	(100,094)
Balance, end of the year	**189,654**	194,406

Summary financial information of the investment of the joint venture is as follows:

Statements of Financial Position		2016		2015
Total Assets	**$**	**13,431**	$	13,424
Current Liabilities		**34,509**		25,000
Advances from Joint Venture Partner		**373,759**		373,759
Shareholders' Deficiency		**(394,837)**		(385,335)
Total liabilities and shareholders' deficiency	**$**	**13,431**	$	13,424

Statements of Comprehensive Loss		2016		2015
Expenses	**$**	**9,502**	$	200,189
Comprehensive loss for the year	**$**	**9,502**	$	200,189

Statements of Cash Flow		2016		2015
Comprehensive loss for the period	**$**	**(9,502)**	$	(200,189)
Changes in non-cash operating assets and liabilities				
GST receivable		**(229)**		(7,221)
Accounts payable and accrued liabilities		**9,509**		(38,160)
Cash Used in Operating Activities		**(222)**		(245,570)
Cash Used in Investing Activities		**-**		-
Cash Provided by Financing Activities		**-**		244,260
Change In Cash		**(222)**		(1,310)
Cash, Beginning Of Year		**222**		1,532
Cash, End Of Year	**$**	**-**	$	222

<u>Investment in Joint Venture and Advances</u> (Continued)

b) <u>Advances</u>

During the year ended October 31, 2015 the Company entered into a loan agreement whereby the Company will advance up to $2,000,000 to PhyeinMed for working capital purposes. The advances are unsecured and are due within 36 months from the date of the advance. The first $550,000 advanced does not accrue interest prior to 36 months from the date of the advance after which interest shall be accrued at prime plus 2%. All advances subsequent to the initial $550,000 will accrue interest at prime plus 2% from the date of the advance. PhyeinMed can only repay the initial $550,000 advanced as follows:

a) $25,000 once an application for a medical marihuana growing operation is awarded to PhyeinMed by Health Canada;
b) $150,000 once the final ACMPR license is awarded to PhyeinMed by Health Canada;
c) $150,000 once PhyeinMed has achieved an accumulated EBITDA of $1,000,000; and
d) $225,000 once PhyeinMed has achieved an accumulated EBITDA of $2,000,000

As at October 31, 2016, $244,260 has been advanced to PhyeinMed. Subsequent to October 31, 2016, a further $31,000 has been advanced.

The PhyeinMed Management Team is comprised of:

CEO - Debra Senger - Prior to joining PhyeinMed, Debra worked for 22 years in senior executive positions throughout her private and public company career. She directed and orchestrated major business development opportunities, strategic partnerships and several substantial financing initiatives. Debra has held several positions include CFO, Vice President, President and Director of companies which operated in Canada, and around the world. She is experienced in bid processes, and working in partnerships with Government organizations. Debra has spent the last three years in the medical marijuana industry, having a vested interest in several medical marijuana facilities. She has a passionate desire to get the message to patients who need this product to alleviate or eliminate symptoms of disease and pain.

CFO - Fraser Campbell – A former director of Umbral, Fraser left to assist in guiding the PhyeinMed team. He is a partner and director of First Growth Management ("FGM"), a private equity company which invests both capital and varied management resources in small to mid-sized businesses with attractive growth potential. Mr. Campbell is Chairman of the Board for Pacific Safety Products and Chairman of the Board of the Kelowna Community Food Bank. Mr. Campbell has held a number of executive positions in FGM investee companies including as President of Modu-Loc Fence Rentals Ltd., IFCO Systems Canada and PalEx Canada.

Quality Assurance – Gary Whitaker - Gary has over 30 years of experience in pharmaceutical manufacturing, with his main function working in a management/leadership role in packaging with the responsibility for meeting Health Canada and US FDA regulatory compliance. Gary is well tested on the challenges that come with this role, including meeting stringent requirements surrounding Standard Operating Procedures in all operations, environmental monitoring, planned and unplanned deviations and corrective and preventative actions. In addition to this, he has overseen all documentation requirements, investigations into irregularities, and participated in regulatory audits pertaining to manufacturing and warehousing. Gary has received formal training in Pharmaceutical Chemistry – Seneca College, Toronto 2008, Pharmaceutical Water System Microbiology – Seneca College, Toronto 2008, Validation with an Engineering Perspective - Pharmaceutical Sciences Group PSG, Toronto 2003 and Cleaning Validation – Pharmaceutical Sciences Group PSG, Toronto 2002.

Operations Manager - Phil Senger - Phil has over 30 years of extensive experience working with large venue projectors, sound systems, lighting rigs and networking equipment and computers including installation set up and dismantling. He has experience working with security cameras, security systems and networks, including switches/ hubs and routers. Phil has acquired mechanical skills over the years, including framing, plumbing and electrical, including working with single phase (110/ 220 volt) as well as three phase (110/208 volt) electrical systems. Phil has overseen, designed, planned and installed irrigation systems for small and large landscape installations.

Master Grower – Greg Kedward - In 1993 Greg started his own company, specializing in indoor garden ventilation. He has designed and built over three hundred indoor gardens from simple two light home gardens to over four hundred light large commercial operations. He wrote a self-published book on the subject that sold over ten thousand copies in Canada. Since the inception of the MMAR program, Greg has assisted many patients to not only to build their gardens, but also help them grow their medication using the knowledge gained from a large number of industry contacts and advocates. In 2007 Greg released his first documentary, 'Trip: The "BC Bud" Chronicles. A Tour of All Things Marihuana in British Columbia'. It has been viewed over 2.7 million times on Netflix, Amazon and several other sites and is now free to view on YouTube. In 2013, a second film was released on the medical cannabis industry across Canada called, 'Still Trippin', The Trans-Canada Highway'. This can currently be viewed on Hulu and Amazon.

The PhyeinMed Advisory Team is made up of:

Legal Advisor – Jennifer Thorne, B.A (Hons), LL.B. - Jennifer is a Kelowna lawyer who specializes in criminal defense and medical marijuana licensing (ACMPRACMPR) consulting, and advises to PhyeinMed Corporation on all matters relating to the process of the license application and marijuana law. Jennifer obtained a Bachelor of Arts Degree, with Honours (B.A., Hons.) from the University of Calgary. She then received her Law Degree (LL.B.), with distinction, from the University of Alberta in 2007. Jennifer was called to the British Columbia Bar in 2008 and worked as a prosecutor for the Federal Department of Justice's Public Prosecutions Service. In addition to her criminal defense practice, she also assists clients in applying for licenses to produce medical marijuana under the Marihuana for Medical Purposes Regulations. Jennifer is a member of the Canadian National Medical Marihuana Association and has been a feature speaker at several industry- related conferences.

Senior Security Advisor – David Hyde, M.Sc, CPC - David Hyde is a security and risk management specialist with a range of professional distinctions. He is an industry-recognized leader, respected senior advisor, and life-long learner and educator. Over his 26-year career he has owned and operated an award-winning business, guided security at some of Canada's most iconic landmarks and led the enterprise security program for a $17 billion global corporation. As a corporate security executive with commercial real estate company, Cadillac Fairview, David built the national security strategy and set company policy for security and crisis management across 83 site locations. He assembled a well-respected team of five regional directors, forty site security managers and 550 front-line security staff. David holds a M.Sc (with Distinction) in Security & Risk Management from the University of Leicester and a Certificate in Security Management from the University of Calgary. He has completed The Wharton School's Development Program for Security Executives and is a Certified Advanced Level CPTED Practitioner. He is also certified to perform Threat Risk Assessments through the International Security Management and Crime Prevention Institute (ISMCPI) and holds the Certified Professional Coach designation.

Senior Horticultural Advisor – Greg Salloum, M.Sc. - Greg received his B. Sc. (Agr.) from McGill in 1982 and then his M. Sc. from UBC in 1987. His undergrad was in Plant Science with a specialty in Horticulture. His Masters' degree thesis was a cross disciplinary effort in Entomology and Plant

Biochemistry. He focused on screening indigenous petroleum ether and ethanol plant extracts for insect anti-feedant activity. While he was finishing his Masters he began working with Safer Ltd. in Victoria, BC developing formulations of botanical insecticides with his research team. They developed a number of patented products with pyrethrum and neem oil in combination with salts of fatty acids. Since 2010, Greg began his most current project: an organic farm. The farm is now supplying some of the vegetables to their leased restaurant at the Best Western Plus Hotel and Suites. He continues to research new organic horticultural methods for his future endeavors including utilizing humic and fulvic acid, as well as beneficial microorganisms

While it is the intention of Umbral and PhyeinMed to obtain a ACMPR Licence, there can be no assurances that it will receive the necessary permits to operate. Any MMPR applicant, including PhyeinMed, will not be able to legally grow or sell medical marijuana without a licence from Health Canada.

1.3 Selected Annual Information

Fiscal year ended	2016 ($)	2015 ($)	2014 ($)
Net sales	N/A	N/A	N/A
Loss before other items and income taxes	1,024,941	1,023,382	675,301
Basic and diluted loss per share	0.02	0.02	0.05
Net loss and comprehensive loss	1,029,693	1,123,476	1,869,292
Total assets	764,461	502,936	284,468
Long term financial liabilities	Nil	Nil	Nil
Cash dividends declared	N/A	N/A	N/A

1.4 Results of Operations

During the year ended October 31, 2016, the Company reported a loss and comprehensive loss of $1,029,693 or $0.02 per share, as compared to a loss and comprehensive loss of $1,123,476 or $0.02 per share for the year ended October 31, 2015. General and administrative expenses increased from $1,023,382 to $1,024,941, an increase of $1,559. This increase was mainly attributable to:

a) Business investigation expense increased from $nil for the year ended October 31, 2015 to $13,215 for the year ended October 31, 2016. This was due to the costs to perform due diligence on the acquisition of Green Venture Corporation which was terminated in 2016.

b) Consulting fees decreased from $225,865 for the year ended October 31, 2015 to $129,144 for the year ended October 31, 2016, a decrease of $96,721. The decrease in consulting fees was due to the use of technical consultants in the prior year to assist the Company in performing due diligence for the acquisition of 1005477 BC Ltd. During the year ended October 31, 2016, consultants provided assistance in the identification and acquisition of the Company’s lithium projects located in Nevada and Utah.

c) Finders’ fees of $27,500 was recorded during the year ended October 31, 2015 in connection with the acquisition of 1005477 BC Ltd. The Company issued 500,000 common shares with a fair value of $27,500 measured on the date of issuance. This was a non-cash expense.

d) Professional fees decreased from $118,134 for the year ended October 31, 2015 to $66,744 for the year ended October 31, 2016, an increase of $51,390. The decrease in professional fees was due to the assistance of legal counsel with the acquisition of its joint venture partner PhyeinMed during the year ended October 31, 2015.

e) Stock-based compensation expense increased from $550,669 for the year ended October 31, 2015 to $618,290 for the year ended October 31, 2016, an increase of $67,621. This is a non-cash expense which was attributable to the number of options granted and vested during the year and the assumptions used for the Black-Scholes option pricing model.

f) Travel and promotion increased from $2,000 for the year ended October 31, 2015 to $68,522 for the year ended October 31, 2016, an increase of $66,522. This increase was due to the use of a 12 month digital marketing program to raise awareness of the Company's projects which commenced in June 2016.

Overall, the Company's general and administrative expenses increased marginally as compared to the prior year mainly due to the granting of incentive stock options that were issued to entice and retain key personnel. Net loss and comprehensive loss for the year decreased significantly due to the reduction of its equity loss on the investment in PhyeinMed, an operating company which has submitted an application to Health Canada for a MMPR license. PhyeinMed has been basically inactive during the year ended October 31, 2016 as it waits for the review of its ACMPR application. Subsequent to October 31, 2016, the Company was notified by Health Canada that its application has progressed to the Review Stage 5 of 7 stages (Please refer to the Company's news release dated February 16, 2017 for details). There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in the annual consolidated financial statements.

1.5 Summary of Quarterly Results

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015(2)	Q1 2015
Total revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net loss	$179,248	$573,301	$187,069	$90,075	311,697	$413,692	$184,519	$90,130
Basic loss per share (1)	$0.00	$0.01	$0.01	$0.00	0.01	$0.01	$0.00	$0.00

(1) Loss per share on a diluted basis is not disclosed as it is anti-dilutive due to losses incurred.

During the fourth quarter of fiscal 2016, the Company granted 750,000 incentive stock options to its directors, officers and technical consultants of the Company which resulted in the recognition of $29,456 in stock based compensation

During the third quarter of 2016, the Company granted 6,050,000 incentive stock options to its directors, officers and technical consultants of the Company which resulted in the recognition of $466,293 in stock based compensation.

During the second quarter of 2016, the Company granted 2,500,000 incentive stock options to its directors, officers and technical consultants of the Company which resulted in the recognition of $122,543 in stock based compensation.

During the fourth quarter of 2015, the Company granted 5,100,000 incentive stock options to its directors, officers and technical consultants of the Company which resulted in the recognition of $262,369 in stock based compensation. The Company included in its net loss and comprehensive loss $100,094 related to the equity loss on investment in PhyeinMed.

During the third quarter of 2015, the Company granted 2,600,000 incentive stock options to its directors, officers and technical consultants of the Company which resulted in the recognition of $124,315 in stock based compensation.

During the second quarter of 2015, the Company granted 3,400,000 incentive stock options to its directors, officers and technical consultants of the Company which resulted in the recognition of $116,340 in stock based compensation.

During the first quarter of 2015, the Company granted 1,000,000 incentive stock options to directors, officers and a technical consultant of the Company which resulted in the recognition of $47,645 in stock based compensation..

The expenses incurred by the Company are those typical of junior exploration and development stage companies that have not established mineral reserves or advanced its projects to a positive cash flow stage. In some quarters more expenses are incurred than in others as a result of non-recurring activities or events.

1.6 Liquidity

On October 31, 2016, the Company had a cash position of $85,057 and a working capital deficiency of $211,101 compared to $11,806 cash at October 31, 2015 and working capital deficiency of $314,810.

During the year ended October 31, 2016, the Company used cash of $437,109 for operating activities compared to $371,688 during the year ended October 31, 2015. The major difference in changes in non-cash operating assets and liabilities was principally due to the reduction of loss on investment in PhyeinMed due to its inactivity while it awaits approval of its ACMPR license and the payments to related parties in the amount of $7,812 this year where in the previous year amounts due to related parties increased by $64,594. The Company invested $93,850 in its lithium project during the year ended October 31, 2016 while during the year ended October 31, 2015 it invested $129,500 in PhyeinMed and advanced $244,260 to PhyeinMed. The Company received proceeds from financing activities of $604,210 for the issuance of share capital as a result of the exercise of incentive stock options and warrants during the year ended October 31, 2016 compared to proceeds of $489,841 during the year ended October 31, 2015.

Subsequent to October 31, 2016, the Company received $424,000 for the exercise of 6,030,000 options exercised at prices ranging between $0.05 and $0.08. The Company also received a total of $69,951 for the exercise of 1,026,000 warrants exercised at $0.06 and $0.10 per share.

The Company anticipates it will require additional capital in the future to advance our projects to a positive cash flow stage and general and administrative expenses, such capital to be derived from the exercise of outstanding incentive stock options and warrants and/or the completion of private placements. The Company may also seek short-term loans from directors of the Company or others. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms to the Company.

1.7 Capital Resources

The Company does not generate any revenues and no revenues are anticipated until we advance our projects to a positive cash flow stage. Accordingly, the Company must raise cash continuously from sources. Umbral has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms to the Company.

As at October 31, 2016, the Company has cash of $85,057 (October 31, 2015 - $11,806). The current monthly "burn" rate for general and administrative expenses is approximately $30,000. The Company presently has no long-term debt or other financial commitments.

Subsequent to October 31, 2016, the Company received $424,000 for the exercise of 6,030,000 options at prices ranging between $0.05 and $0.08. The Company also received a total of $69,951 for the exercise of 1,026,000 warrants at $0.06 and $0.10 per share.

The Company anticipates it will need additional capital in the future to finance ongoing exploration of its resource properties and general and administrative expenses, such capital to be derived from the exercise of outstanding incentive stock options and warrants and/or the completion of private placements. The Company may also seek short-term loans from directors of the Company or others.

1.8 Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

1.9 Transactions with Related Parties

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All amounts either due from or due to related parties other than specifically disclosed are non-interest bearing, unsecured and have no fixed terms of repayments.

a) During the year ended October 31, 2016, the Company incurred $91,333 (2015 - $60,000) for management fees to its directors.

b) During the year ended October 31, 2016, the Company incurred $4,150 (2015 - $nil) for technical consulting fees to a director.

c) As of October 31, 2016, directors and a company with a director in common were owed a total of $102,278 (October 31, 2015 - $110,090).

Management compensation transactions for the year ended October 31, 2016 and 2015 are summarized as follows:

	2016	2015
Short-term management benefits	**$ 95,483**	$ 60,000
Share-based payments	**$ 336,900**	$ 220,888

1.10 Fourth Quarter

Fourth quarter financial results differ significantly from prior periods due to granting of incentive stock options to directors, officers and technical consultants of the Company and to the reduced activity of the Company's joint venture investment, PhyeinMed Inc., as it is awaiting approval of its application to Health Canada for a Marihuana for Medical Purposes Regulations license.

1.11 Proposed Transactions

In the normal course of business, the Company evaluates property and business development acquisition transactions and, in some cases, makes proposals to acquire such prospects. These proposals, which are usually subject to Board, regulatory and, sometimes, shareholder approvals, may involve future payments, share issuances and property work commitments and/or financial obligations. These future obligations are usually contingent in nature and generally the Company is only required to incur the obligation if it wishes to continue with the transaction. As of this date, the Company has a number of possible transactions that it is examining. Management is uncertain whether any of these proposals will ultimately be completed.

1.12 Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the annual consolidated financial statements and the reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. 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.

Information about critical accounting judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

i) Exploration and Evaluation Assets

Management is required to assess impairment in respect of intangible exploration and evaluation assets. The triggering events for exploration and evaluation assets are defined in IFRS 6 *Exploration for and Evaluation of Mineral Properties* and are as follows:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Management's assessment of recoverability is based on, among other things, the Company's estimate of current mineral reserves and resources which are supported by geological estimates, estimated commodity prices, and the procurement of all necessary regulatory permits and approvals. These assumptions and estimates could change in the future and this could materially affect the carrying value and the ultimate recoverability of the amounts recorded for exploration and evaluation assets.
Information about critical accounting estimates in applying accounting policies that have the most significant risk of causing material adjustments to the consolidated financial statements within the next financial year are discussed below:

ii) Share-based payment transactions

The Company measures the cost of equity-settled transactions with managment by reference to the fair value of the equity instruments at the date at which they are 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 estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 7.

iii) Flow-through Share Provision

Flow-through share provisions are comprised of the Company's various tax penalties and indemnification liabilities relating to the deficiencies in incurring the required amount of qualifying exploration expenditures related to past flow-through share issuances on a timely basis. The Company may also be required to indemnify the holders of such shares for any tax and other costs payable by them in the event the Company has not made exploration expenditures. Flow-through share provisions have been created based on internal estimates of the maximum penalties and indemnification liabilities the Company could be subject to. Assumptions, based on the current tax regulations, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management.

1.13 Changes in Accounting Policies including Initial Adoption

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date.

IFRS 9 Financial Instruments

IFRS 9, Financial instruments ("IFRS 9"), amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in Other Comprehensive Income ("OCI"), and guidance on financial liabilities and de-recognition of financial instruments. In July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9. IFRS 9 is applicable for periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

1.14 Financial Instruments and Other Risks

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these annual consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and process for managing those risks or the methods used to measure them from previous years unless otherwise stated in this note.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices and are comprised of foreign currency risk and interest rate risk.

b) Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. The Company does not have significant exposure to foreign exchange rate fluctuation.

c) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash equivalents is limited because of the short-term nature of the investments.

d) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consists primarily of cash and cash equivalents. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed upon demand. The Company considers this risk to be minimal.

e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating year.

As at October 31, 2016, the Company had a working capital deficiency of $211,101 (October 31, 2015 – $314,810). The Company does not currently operate any positive cash flow projects and as such, may be dependent upon issuance of new equity to advance its exploration and development projects. If equity financing is required, failure to obtain financing on a timely basis may cause the Company to postpone exploration and/or development plans, reduce or terminate its operations.

Determination of Fair Value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The financial position carrying amounts for cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and promissory notes payable approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.
Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

- Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

- Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The Company's financial instruments are classified into the following categories:

		October 31, 2016		October 31, 2015	
	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Cash	1	**$ 85,057**	**$ 85,057**	$ 11,806	$ 11,806

1.15 <u>Other MD & A Requirements</u>

Disclosure of Outstanding Share Capital

Authorized: Unlimited common shares without par value

	SHARE CAPITAL	
	NUMBER	AMOUNT($)
Balance, October 31, 2014	**37,902,972**	**3,860,082**
Issued shares for cash:		
Share options exercised	10,458,000	1,002,638
Warrants issued	106,000	6,360
Shares issued for subsidiary	3,000,000	165,000
Shares issued for finders fees	500,000	27,500
Balance, October 31, 2015	**51,966,972**	**5,061,580**
Issued shares for cash:		
Share options exercised	8,085,000	846,011
Warrants exercised	1,790,174	107,410
Balance, October 31, 2016	**63,342,146**	**6,067,501**
Issued shares for cash:		
Share options exercised	6,030,000	833,166
Warrants exercised	1,026,000	69,951
Balance, February 24, 2017	**70,398,146**	**6,970,618**

During the year ended October 31, 2015, the Company issued 10,458,000 common shares for the exercise of 10,458,000 incentive stock options at prices of $0.05 to $0.06 per share for total proceeds of $540,231 which resulted in a transfer from share-based payment reserve to share capital of $462,407. The Company issued 106,000 common shares for the exercise of 106,000 warrants at $0.06 per share for total proceeds of $6,360.

The Company issued 3,000,000 common shares with an estimated fair value of $165,000 measured on the date of issuance in accordance with the share exchange agreement dated December 9, 2014 included in the acquisition costs for all the issued and outstanding shares of 1005477 B.C. Ltd. The Company also issued 500,000 common shares with a fair value of $27,500 measured on the date of issuance which has been recorded as finders' fees in the statement of comprehensive loss in the year ended October 31, 2015.

During the year ended October 31, 2016, the Company issued 8,085,000 common shares for the exercise of 8,085,000 incentive stock options at prices ranging between $0.05 and $0.08 per share for total proceeds of $440,050 which resulted in the transfer of 405,961 from share-based payment reserve to share capital. The Company issued 1,790,174 common shares for the exercise of 1,790,174 warrants at $0.06 per share for total proceeds of $107,410.

Subsequent to October 31, 2016, the Company issued 6,030,000 common shares for the exercise of 6,030,000 incentive stock options at prices ranging between $0.05 and $0.08 per share for total proceeds of $424,000 which resulted in the transfer from share-based payment reserve to share capital of $409,166.

Escrow Shares

There are no shares held in escrow.

Share Purchase Warrants

The following share purchase warrants were outstanding at October 31, 2016:

NUMBER OF WARRANTS	EXERCISE PRICE	EXPIRY DATE
7,489,962	$0.06	March 19, 2018
922,966	$0.10	March 19, 2018
975,989	$0.06	May 16, 2018
293,809	$0.10	May 16, 2018
2,162,500	$0.06	December 20, 2018
11,845,226		

Subsequent to October 31, 2016, the Company issued 1,026,000 common shares for the exercise of 1,026,000 warrants at $0.06 and $0.10 per share for total proceeds of $69,951.

Incentive Stock Options

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 TSX Venture Exchange requirements, grant to directors, officers 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 granted will be exercisable for a term to be determined by the board of Directors, but not exceeding 10 years.
The following incentive stock options were outstanding at October 31, 2016:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY DATE
3,265,000	$0.08	May 30, 2021
1,500,000	$0.085	June 2, 2021
4,765,000		

Subsequent to October 31, 2016, the Company granted 830,000 incentive stock options to directors, officers and consultants of the Company under the Company's Stock Option Plan exercisable at $0.05 per share expiring November 24, 2021 which were exercised and issued for total proceeds of $41,500 which resulted in the transfer from share-based payment reserve to share capital of $32,636. The Company granted 3,450,000 incentive stock options to directors, officers and consultants of the Company under the Company's Stock Option Plan exercisable at $0.07 per share expiring February 10, 2022. A total of 3,350,000 of those options were exercised and issued for total proceeds of $234,500 which resulted in the transfer from share-based payment reserve to share capital of $231,371. The Company granted 2,200,000 incentive stock options to directors, officers and consultants of the Company under the Company's Stock Option Plan exercisable at $0.09 per share expiring February 17, 2022. A further 1,850,000 incentive stock options were exercised and issued at $0.08 per share for total proceeds of $148,000 which resulted in the transfer from share-based payment reserve to share capital of $145,158. At the date of this report there are 3,400,000 options outstanding at prices ranging between $0.07 and $0.09 per share.

SUBSEQUENT EVENTS

There are no significant subsequent events which have not been previously disclosed in this MD&A.

DIRECTORS AND OFFICERS

The directors and officers of the Company are:

Jagdip Bal, President, CEO and Director
Brad Culver, Director
Clint Sharples, Director and Chairman
Kristina Khersonski, Secretary and CFO

CONFLICTS OF INTEREST

Certain officers and directors of the Company are officers and/or directors of, or are associated with other natural resource companies that acquire interests in mineral properties. 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.

OUTLOOK

All current projects are in review and new projects are being considered. The Company continues to monitor its spending and may amend its plans based on business opportunities that may arise in the future.

RISKS AND UNCERTAINTIES

External financing may be required to fund the Company's activities primarily through the issuance of common shares. There can be no assurance that the Corporation will be able to obtain adequate financing. The securities of the Corporation should be considered a highly speculative investment. The following risk factors should be given special consideration when evaluating an investment in any of the Corporation's securities.

The Corporation has no meaningful revenues, in the event that the Corporation generates any meaningful revenues in the future, the Corporation intends to retain its earnings in order to finance further growth.

Furthermore, the Corporation has not paid any dividends in the past and does not expect to pay any dividends in the foreseeable future.

OTHER INFORMATION

Other information relating to the Company may be found on the SEDAR website www.sedar.com and the Canadian Stock Exchange website located at www.cnsx.ca/CNSX/Home.aspx

BY ORDER OF THE BOARD

Umbral Energy Corp.

"*Jagdip Bal*"

President, CEO and Director
February 24, 2017