HERITAGE CANNABIS HOLDINGS CORP.

(formerly Umbral Energy Corp.)

(A Development Stage Company)

MANAGEMENT DISCUSSION AND ANALYSIS

For The Year Ended October 31, 2017

This Management Discussion and Analysis for Heritage Cannabis Holdings Corp. (formerly Umbral Energy Corp.) (the "Company") provides analysis of the Company's consolidated financial results for the year ended October 31, 2017. The following information should be read in conjunction with the accompanying annual consolidated financial statements and related notes for the year ended October 31, 2017.

1.1 Date of Report

The following Management Discussion and Analysis ("**MD&A**") focuses on significant factors that have affected Heritage Cannabis Holdings Corp. (formerly Umbral Energy Corp.) (the "**Company**" or "**Heritage**") 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, 2017, 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 19, 2018.

Forward-Looking Information

This MD&A contains information and projections based on current expectations. Certain statements herein may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Heritage, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, such statements use such words as "will", "may", "could", "intends", "potential", "plans", "believes", "expects", "projects", "estimates", "anticipates", "continue", "potential", "predicts" or "should" and other similar terminology. These statements reflect expectations regarding future events and performance but speak only as of the date of this MD&A. Forward-looking statements include, among others, statements with respect to planned acquisitions, strategic partnerships or other transactions not yet concluded; plans to market, sell and distribute products; market competition; plans to retain and recruit personnel; the ability to secure funding; and the ability to obtain regulatory and other approvals are all forward-looking information. These statements should not be read as guarantees of future performance or results. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from those implied by such statements. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- Licensing risks;
- Regulatory risks;
- Change in laws, regulations and guidelines;
- Market risks;
- Expansion of facility;
- Risks inherent in an agricultural business;
- History of net losses; and
- Competition.

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

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement. In particular,

but without limiting the foregoing, as well as statements regarding the Company's objectives, plans and goals, including future operating results and economic performance may make reference to or involve forward-looking statements. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking statements. The purpose of forward-looking statements is to provide the reader with a description of management's expectations, and such forward-looking statements may not be appropriate for any other purpose. You should not place undue reliance on forward-looking statements contained in this MD&A. Heritage undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

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 the accompanying annual 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 Overall Performance

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 ("**CSE**") under the symbol "UMB.C" and delisted its common shares from the TSX Venture Exchange. On January 9, 2018, the Company changed its name to Heritage Cannabis Holdings Corp. trading under the symbol "CANN.C" with no consolidation of capital and completed a Fundamental Change of Business pursuant to CSE Policy 8 and operates as a medical marijuana issuer.

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.

Heritage is focused on developing cannabis based businesses in the emerging Canadian cannabis market. Management believes cannabis represents one of the world's most exciting emerging industries. Cannabis is consumed globally but in most countries consumption is still illegal. Recently, the United States and Canadian jurisdictions have been re-evaluating their respective cannabis policies and legislation as part of a growing trend towards the legalization of medical cannabis and, in some cases, recreational cannabis.

Heritage's primary asset is PhyeinMed Inc. ("**PhyeinMed**"). PhyeinMed submitted its application to Health Canada under the Marihuana for Medical Purposes Regulations ("**MMPR**") on December 9, 2014. The application provides for the possession, sale, delivery, destruction and production of dried marijuana. Enhanced screening and many subsequent requests for additional information were completed satisfactorily. PhyeinMed was notified by the offices of medical cannabis within Health Canada on January 22, 2016, that the security clearage stage of the application was being initiated. The Company announced on February 16, 2017, that PhyeinMed received notification from Health Canada that its Access to Cannabis for Medical

Purposes Regulations ("**ACMPR**") application has progressed through to the Review Stage (stage 5 of 7) of the application process. All key personnel submitted with the application have undergone a rigorous and thorough screening process and been approved.

The proposed growing site for growing medicinal marijuana is a 10,000 sq. ft. building within 13 acres of land located in Falkland, British Columbia (the "**Falkland Facility**"). The building, upon approval of a pre-license inspection from Health Canada, will have 10 growing rooms, a drying room, trimming room, packaging area and an appropriate and approved security level vault. An existing administration building located on the site will also house a reception area, 24/7 on site security offices, meeting rooms and offices. The master security plan, architectural drawings, survey certificate and threat assessment report were completed for both the buildings, as well as, a complete site security plan for the property perimeter was submitted with the application. In February, 2017, the Company initiated the purchase of the Falkland Facility.

PhyeinMed intends to initiate an aggressive growth strategy, planning an additional expansion on the Falkland Facility. Expansion of the Falkland Facility utilizing 100% of the land use capabilities could allow for a total of 420,000 sq. ft. of growing capacity. The expansion plan includes two buildings and four phases of construction. The first phase is a building envelope of 130,000 sq ft. The second phase is the second level completion of equal square footage bringing the total of the first building to 260,000 sq ft. The second building, first floor phase three construction, is 80,000 sq ft. The fourth and final phase construction of the second level completes the 420,000 square foot expansion plans. Once the entire project is completed and licensed it has the potential to produce over 110,000 kg of cannabis per year or over $500 million annually.

The current Falkland Facility is a 15,500 sq. ft. warehouse retrofit. With the recent events regarding changes allowed within the Health Canada application process the Company is constructing a second level of the current warehouse increasing the grow capacity by an additional 5,000 sq ft from the original application of 10,500 sq. ft. A state-of-the-art retrofit of the existing warehouse utilizing a hybrid hydroponic aeroponic grow method will increase annual production to 3,700 kg of dry cannabis or over $25 million annually. Oil extraction will commence upon issuance of a production/sale license.

In August, 2017, the Company closed the $2,622,000 Unit Financing. The proceeds from the Unit Financing was used, among other things, to pay the balance of the purchase price of the Falkland Facility and to fund the completion of phase 1 of the build-out prior to an award of a license to cultivate. On August 31, 2017, the Company completed the purchase of the Falkland Facility. The purchase price of the land and buildings were purchased for $995,000 and the Company paid an additional $23,884 in applicable taxes and selling fees. In October, 2017, PhyeinMed began the full build-out of the Falkland Facility and it expects to complete the build-out in February, 2018.

In addition to this first phase of construction, PhyeinMed has chosen to accelerate the second phase of expansion on a brand new 14,000 sq ft, two story facility which will be built simultaneously with the retrofitting of its current building. These two facilities represent over 37,000 sq ft of the planned 420,000 sq ft of cannabis production that PhyeinMed is targeting for this 13 acre location. The addition of the second phase is expected to increase the initial production of the Falkland Facility to 4,550 kg.

In August, 2017, PhyeinMed signed an agreement with Canopy Growth Corporation ("**Canopy**") to supply cannabis products via CraftGrow line on Tweed Main Street's online store. Pending receipt of a license to cultivate and sell cannabis products from Health Canada, PhyeinMed stands to substantially accelerate its speed to market through joining the CraftGrow program and leveraging their marketing and distribution network. Canopy is widely recognized as leading the way in the Canadian cannabis market, and has a global

reputation for providing top quality products and partnering with other top producers. This partnership will allow PhyeinMed to significantly reduce acquisition costs for infrastructure, while driving early revenue through Tweed Main Street's online store.

PhyeinMed does not, directly or indirectly, have any business operations in jurisdictions where cannabis is not federally legal, such as the United States.

2017 Fourth Quarter Summary:

- For the year ended October 31, 2017, the Company recorded a net income and comprehensive income of $21,534 or $0.00 earnings per share compared to a net loss and comprehensive loss of $1,029,693 or $0.02 loss per share for the year ended October 31, 2016.
- As at October 31, 2017, the Company had total assets of $8,076,345 (October 31, 2016 - $764,461) and working capital of $1,496,938 (October 31, 2016 – working capital deficiency of $211,101).
- Issued 43,700,000 units at a price of $0.06 per unit for gross proceeds of $2,622,000 through a non-brokered private placement. Each unit consists of one common share in the capital of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one additional common share at a purchase price of $0.10 until August 30, 2019. The Company paid cash commission of $90,460 and issued 1,531,653 finder's warrants in connection with the private placement. Each finder's warrant entitles the holder to purchase one common share at a price of $0.10 per share until August 30, 2019.
- Issued 7,702,951 common shares for the exercise of 7,702,951 warrants at $0.06 and $0.10 per share for total proceeds of $482,321.
- Issued 13,030,000 common shares for the exercise of 13,030,000 incentive stock options at prices ranging between$0.055 and $0.085 per share for total proceeds of $882,500 which resulted in a transfer from share-based payment reserve to share capital of $890,076.
- Completed the acquisition of an additional 25% interest in PhyeinMed Inc., a late stage Health Canada ACMRP applicant for the purpose of growing, selling and distributing medical cannabis. The Company now owns 75% of the issued and outstanding common shares of PhyeinMed.
- In consideration for the acquisition and pursuant to the terms of the Share Purchase Agreement ("**SPA**"), the Company:
    - paid a total of $120,000;
    - issued 7,000,000 common shares in the capital of the Company at a deemed value $0.095 per share or $665,000. The shares are subject to a voluntary escrow period pursuant to which 10% of the Shares were released immediately and an additional 15% of the Shares will be released every six months from the closing date;
    - will issue an additional 4,000,000 shares upon final award of an MMPR production license; and;
    - committed up to an additional $3,000,000 to fund PhyeinMed's efforts in the medical marijuana business totalling $7,000,000.
- In conjunction with the SPA but considered separate transactions, the Company granted 2,000,000 stock options to the President of PhyeinMed to acquire up to 2,000,000 common shares at an exercise price of $0.10 per common share until August 16, 2022 and awarded 2,400,000 restricted stock units ("**RSU**'s") to the President of PhyeinMed and an additional 1,600,000 RSU's to other eligible recipients. Half of the RSU's vest immediately upon the grant date while the remaining RSU's vest in 12 months from the grant date.

- Announced a RSU Plan for directors, executive officers, employees and consultants of the Company was approved by the board of directors. Ratification of the RSU Plan is subject to the approval of the Company's shareholders.
- Completed the purchase of a property in Falkland, BC for the purposes on cannabis production. The property includes 13 acres of land, structures with 10,500 sq. ft. of potential grow area and a stand-alone administrative building. The purchase price of the land was $995,000 and the Company paid an additional $23,884 in applicable taxes and selling fees.

Subsequent to October 31, 2017, the Company:

- granted 6,850,000 incentive stock options to directors, officers and consultants of the Company under the Company's Stock Option Plan exercisable at $0.14 per share expiring November 15, 2022;
- filed a Listing Statement with respect to a Fundamental Change of Business pursuant to Policy 8 of the CSE which included changing its name to Heritage Cannabis Holdings Corp. with no consolidation of capital;
- announced on January 16, 2018, that it had signed a Letter of Intent to acquire 20% of Stanley Park Digital Ltd, a blockchain developer based in Vancouver, BC for $500,000 in a combination of $250,000 cash ($125,000 paid) and 250,000 shares, share price is based on the average of the closing price of the shares between January 10, 2018 and January 23, 2018. Key terms of the LOI include the development of a Cannabis Supply Chain Management System which will be designed to track and document all aspects of production from 'seed to sale'. By utilizing a blockchain technology base to underpin an internal management process, it will provide an avenue to guarantee quality and consistency of product, as well as allow traceability and transparency for regulation oversight. Additional terms include Heritage obtaining certain Rights of First Refusal on selected projects, and first priority on future funding rounds. Development on a proprietary cannabis supply chain management system is scheduled to begin late January;
- announced on January 18, 2018, that Phase 2 construction on the two-story new build addition is scheduled to be begin the week of January 22, 2018, and has started in conjunction with the completion of Phase 1. The Company is targeting a completion date in late Spring 2018. Upon completion, PhyeinMed will have nearly 38,000 sq ft of growing space and grow rooms will be brought into production by June 2018;
- granted a total of 1,000,000 incentive stock options to directors/officers/employees and/or consultants under the Company's Stock Option Plan. The options are exercisable at $0.59 per share and will expire January 18, 2023;
- announced on February 1, 2018, that the Company's wholly owned subsidiary 1005477 BC Ltd. has completed an accepted offer to acquire over 100 acres of farmland in Clearview Township, near Collingwood, Ontario. Terms of the purchase include a total purchase price of $1.3 million with a targeted closing of June 30, 2018. The offer includes many subjects to the benefit of the buyer, including the award of a Licence to Produce Cannabis. The company advanced a deposit of 10% of the purchase price upon acceptance, with the remainder due at closing. Approval of the second site and licence permitting, construction is scheduled to begin in early 2019, with additional expansion to continue as demand grows;
- announced on February 6, 2018, that PhyeinMed has initiated the process to apply for three cannabis retail store licences in Alberta;
- Issued 21,138,769 common shares for the exercise of 21,138,769 warrants at $0.06 and $0.10 per share for total proceeds of $2,025,877;
- issued 5,120,000 common shares for the exercise of 5,120,000 options at prices ranging between $0.065 and $0.59 per share for total proceeds of $791,800 which resulted in a transfer from share-

based payment reserve to share capital of $785,954.

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:

In the 12 months following the completion of the Change of Business, the Company intends to:

(1) Complete Phase 1 of our Falkland facility build out;

(2) Obtain our license to cultivate cannabis; and

(3) Complete Phase 2 of the facility as we add customers.

Subsequent to October 31, 2017, the Company announced on January 29, 2018, the creation of a newly formed Heritage Cannabis Advisory Board. Joining this new board are Michele Cadario, Bob Simmonds, and Debra Senger.

Ms. Cadario is the former Deputy Chief of Staff for both Premier Christy Clark in British Columbia, and the Office of the Prime Minister of Canada. Currently, Ms. Cadario is the Principal of VANGAURD Strategy, a communications and public relations firm, Ms. Cadario has also held senior positions in Canuck Place Children's Hospice and the BC Liberal Party.

Mr. Simmonds is a retired RCMP Inspector, after a career which spanned over 36 years, with particular focus in Alberta, targeting illegal marijuana grow operations. He is a trained security expert surrounding marijuana cultivation, and has conducted training seminars, lectures and presentations both within and outside of the law enforcement community. Mr. Simmonds comes from a distinguished law enforcement family as his father Robert Henry Simmonds, OC was the 17th Commissioner of the Royal Canadian Mounted Police, serving from 1977 to 1987.

Milestones

The following table outlines how the Company will achieve the objectives enumerated above.

Objective	**Milestone**	**Anticipated Cost**	**Timeline from date of this MD&A**
Phase 1 build out	Two grow rooms	$800,000	February 15, 2018
License to cultivate	Health Canada award	$50,000	February 28, 2018
Grow additional crops	Develop inventory model	$650,000	January 31, 2019

Other than as described in this MD&A, there are no other particular significant events or milestones that must occur for the Company's business objectives to be accomplished. However, there is no guarantee that the Company will meet its business objectives or milestones described above within the specific time periods, within the estimated costs or at all. The Company may, for sound business reasons, reallocate its time or capital resources, or both, differently than as described above.

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 yet have positive operating cash flow, and there can be no assurances that sufficient funding, including adequate financing, will be available to develop its ACMPR business plans and to cover general and administrative expenses necessary for the maintenance of a public company. The ability of the Company to arrange additional financing in the future depends in part, on the prevailing capital market conditions, its progress on obtaining an MMPR license 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. Consideration for the properties included cash payments of $160,000 (paid) and the issuance of 3,000,000 common shares of the Company (issued). On January 26, 2017, the Company entered into an assignment agreement with Equitorial Exploration Corp. ("**Equitorial**"), an arm's length party, to assign the Company's right, title and interest of the Tule Valley and Gerlach Projects. Under the terms of the assignment agreement, Equitorial paid $150,000 plus claim staking costs of $44,611 and issued to the Company 2,000,000 common shares in the capital of Equitorial upon closing at a deemed value of $0.075 per common share (market price as at April 7, 2017, the date of closing). The Company recorded a $68,827 loss on the sale of 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 the date hereof, the Company currently holds or optioned a total of 204 hectares.

The Company is reviewing certain opportunities for the Letourneur gold project, including but not limited to a sale of the Company's interest in the property.

Business Combination

On December 9, 2014, the Company 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 owned 50% of the issued and outstanding common shares of PhyeinMed, an operating company incorporated in British Columbia which has submitted an application to Health Canada for a MMPR license. Management had determined that the 50% interest in PhyeinMed was a joint venture under IFRS 11. Consequently, the investment in the joint venture was accounted for using the equity method.

On August 18, 2017 the Company acquired an additional 25% of the issued and outstanding common shares of PhyeinMed, through its wholly owned subsidiary 1005477 BC Ltd., which resulted in the Company obtaining control of PhyeinMed. The transaction was accounted for as a business combination achieved in stages in accordance with IFRS 3. The Company is considered the acquirer and PhyeinMed the acquiree.

As consideration for the acquisition the Company paid $120,000 cash and issued 7,000,000 common shares of the Company with a fair value of $665,000 (based on the Company's closing share price on the closing date). A further 4,000,000 common shares of the Company will also be transferred contingent upon the issuance of a MMPR license, these shares have a fair value as at the acquisition date of $380,000 (based on the Company's closing share price on the closing date). The subsequent settlement of these shares will be accounted for within equity.

In connection with the acquisition, the Company also issued 2,000,000 stock options and 4,000,000 restricted stock units (RSU's) to the former owner of PhyeinMed and consultants. These awards were considered a separate transactions and therefore were excluded from the business combination transaction.

As the transaction was accounted for as a business combination achieved in stages. On acquiring control of PhyeinMed, the Company revalued its previously held equity interest in PhyeinMed at the fair value on the date of control and recognized a gain on step acquisition.

Determination of the gain was as follows:

Fair value of 50% equity interest on August 18, 2017, prior to control	$	2,329,611
Carrying value of 50% equity interest prior to control (Note 8)		118,611
Gain on step acquisition	$	2,211,000

The fair value of the net assets acquired and the liabilities assumed have been determined on a provisional basis and are based on information that is currently available to the Company. Additional information is being gathered to finalize these provisional measurements, particularly with respect to intangible assets. Accordingly, the measurement of the assets and liabilities assumed may change upon finalization of the Company's valuations and completion of the purchase allocation, both of which are expected to occur no later than one year from the acquisition date. The following table summarizes the provisional fair values of the identifiable assets and liabilities at the date of the acquisition:

Net Assets Acquired		
Cash	$	20,738
GST Receivable		20,141
Property and Equipment		6,449
Intangible asset (i)		5,067,000
Accounts Payable		(40,247)
Due to Related Parties		(414,470)
Total Purchase Price	$	4,659,611

Summary of Purchase Consideration		
Cash	$	120,000
7,000,000 common shares		665,000
4,000,000 shares issuable for MMPR License		380,000
Fair value of 50% equity interest		2,329,611
Non-controlling interest		1,165,000
	$	4,659,611

(i)Excess consideration over net assets acquired allocated to license acquisition costs.

The net cash outflow on acquisition was $99,262 ($120,000 consideration paid in cash, less $20,738 cash acquired).

PhyeinMed Inc. did not have any revenue and incurred a net loss of $83,269 from the date of the acquisition to October 31, 2017.

Investment in Joint Venture and Advances

Prior to obtaining control of PhyeinMed, management determined that the 50% interest in PhyeinMed was a joint venture under IFRS 11 as the Company's management had joint control over strategic, financial, permitting, development or operating decisions of PhyeinMed. The investment in the joint venture was accounted for using the equity method.

The continuity of the investment of the joint venture is as follows:

	Period ended August 18, 2017	Year ended October 31, 2016
Equity investment balance, beginning of the year	**$ 189,654**	$ 194,406
Equity loss on investment in joint venture	**(71,043)**	(4,752)
Equity investment balance, end of the year/period	**118,611**	189,654
Advances to joint venture	**414,470**	244,260
Elimination on acquisition of control	**(533,081)**	-
Balance, end of the year	**$ -**	$ 433,914

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

Statements of Financial Position	**As at August 18, 2017**	As at October 31, 2016
Total Assets	**$ 47,302**	$ 13,431
Current Liabilities	**40,247**	34,509
Due to related parties	**414,481**	373,759
Shareholders' Deficiency	**(407,426)**	(394,837)
Total liabilities and shareholders' deficiency	**$ 47,302**	$ 13,431

Statements of Comprehensive Loss	**Period ended August 18, 2017**	Year ended October 31, 2016
Expenses	**$ 142,087**	$ 9,502
Comprehensive loss for the period	**$ 142,087**	$ 9,502

Statements of Cash Flow	**Period ended August 18, 2017**	Year ended October 31, 2016
Comprehensive loss for the period	**$ (142,087)**	$ (9,502)
Changes in non-cash operating assets and liabilities		
GST receivable	**(6,710)**	(229)
Accounts payable and accrued liabilities	**5,738**	9,509
Cash Used in Operating Activities	**(143,059)**	(222)
Cash Used in Investing Activities	**(6,449)**	-
Cash Provided by Financing Activities	**170,246**	-
Change In Cash	**20,738**	(222)
Cash, Beginning Of Period	**-**	222
Cash, End Of Period	**$ 20,738**	$ -

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 four 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 Heritage, Fraser left to assist in guiding the PhyeinMed team. He is a partner and director of First Growth Management, 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 ACMPR 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:

Regulatory Compliance Advisor – Zena Prokosh, B.Sc. - Zena Prokosh is the CEO and founder of Zreyas Consulting Inc, offers regulatory compliance advice, application assistance, liaison to Health Canada and other related consulting services, to businesses and individuals alike within the cannabis industry, including applicants of all stages, under the ACMPR. Zena holds a B.Sc. in Biology from UBC and acquired her knowledge of medicinal plants while employed as the Curator and Germplasm PlantSMART Research Technician / Lab Manager at the UBC Charles Fipke Centre for Innovative Research, in Kelowna. She applied this experience to cannabis during her tenure as an Alternate Responsible Person In Charge (ARPIC), with THC Biomed International Ltd. During her three years as an ARPIC, she developed a fluency in MMP/ACMP Regulations which, allowed her to play an integral role in navigating the company through the MMPR/ACMPR licensing process, resulting in successfully obtaining a Production License.

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 Heritage and PhyeinMed to obtain an 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	2017 ($)	2016 ($)	2015 ($)
Net sales	N/A	N/A	N/A
General and administrative expenses	(2,045,715)	(1,024,941)	(1,023,382)
Net income/(loss) and comprehensive income/(loss) for the year	21,534	(1,029,693)	(1,123,476)
Basic and diluted loss per share	0.00	(0.02)	(0.02)
Total assets	8,076,345	764,461	502,936
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, 2017, the Company reported a net income and comprehensive income of $21,534 or $0.00 per share, as compared to a net loss and comprehensive loss of $1,029,693 or $0.02 per share for the year ended October 31, 2016. General and administrative expenses increased from $1,024,941 to $2,045,715, an increase of $1,020,774. This increase was mainly attributable to:

a) Advertising, travel and promotion increased from $68,522 for the year ended October 31, 2016 to $113,862 for the year ended October 31, 2017. This increase of $45,340 was mainly due to a digital marketing program carried out to raise investor awareness of the Company's new developments and the attendance of a number of ACMPR conferences.

b) Consulting fees increased from $129,144 for the year ended October 31, 2016 to $567,988 for the year ended October 31, 2017, an increase of $438,844. This increase in consulting fees was mainly due to

the use of technical consultants to prepare an ACMPR growing, marketing and distribution plan. Consultants also assisted the Company with the introduction of a number of financing opportunities where the Company was able to close a non-brokered private placement in the amount of $2.6 million dollars.

c) Management fees of $115,890 was recorded during the year ended October 31, 2017 as compared to $91,333 in the prior year. This increase of $24,557 was due to the requirement of management to negotiate the acquisition of the additional 25% interest in PhyeinMed, the negotiation and closing of the non-brokered private placement and the sale of its exploration properties.

d) Office expense and miscellaneous increased from $7,428 for the year ended October 31, 2016 to $35,723 for the year ended October 31, 2017, an increase of $28,295. This increase was mainly due the increase in activity involved in administering the Company during the year as compared to the prior year.

e) Professional fees increased from $66,744 for the year ended October 31, 2016 to $80,870 for the year ended October 31, 2017, an increase of $14,126. The increase in professional fees was due to the assistance of legal counsel with the completion of its controlling increase interest in PhyeinMed and the creation of its RSU Plan.

f) Shareholder communications increased from $6,665 for the year ended October 31, 2016 to $21,906 for the year ended October 31, 2017, an increase of $15,241. This increase was due to updating the Company's website and using an investor information service to update current and potential shareholders of the new developments throughout the year.

g) Stock-based compensation expense increased from $618,290 for the year ended October 31, 2016 to $1,080,207 for the year ended October 31, 2017, an increase of $461,917. 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.

Overall, the Company's general and administrative expenses increased significantly as compared to the prior year mainly due to the granting of incentive stock options that were issued to entice and retain key personnel and the increase in technical consulting fees to prepare for the Company an ACMPR growing, marketing and distribution business plan in anticipation of it receiving an ACMPR license. During the year ended October 31, 2017, the Company acquired an additional 25% interest to total a 75% controlling interest which resulted in the recognition of a gain in fair value on the step acquisition of PhyeinMed of $2,211,000. The Company also recorded a loss on the sale of its mineral properties of $68,827 as the Board of Directors determined it wanted to focus its efforts its application of an ACMPR license. 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 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Total revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net (gain)/loss and comprehensive (gain)/loss	($21,534)	$560,927	$735,484	$123,923	$179,248	$573,301	$187,069	$90,075
Basic loss per share (1)	$0.00	$0.01	$0.01	$0.01	$0.00	$0.01	$0.01	$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 2017, the Company granted 2,000,000 incentive stock options and 4,000,000 RSUs in conjunction with the acquisition of the additional 25% controlling interest in PhyeinMed. This grant resulted in the recognition of $335,235 in stock based compensation to Debra Senger, CEO and President of PhyeinMed.

During the third quarter of fiscal 2017, the Company granted 1,000,000 stock options and recognized $59,290 in stock based compensation to entice and retain key personnel.

During the second quarter of fiscal 2017, the Company granted 9,450,000 incentive stock options to its directors, officers and technical consultants of the Company which resulted in the recognition of $653,046 in stock based compensation. The Company also hired a technical consulting company to assist with an ACMPR growing, marketing and distribution plan in anticipation of its joint venture investment receiving its ACMPR license.

During the first quarter of fiscal 2017, the Company granted 830,000 incentive stock options to its directors, officers and technical consultants of the Company which resulted in the recognition of $32,636 in stock based compensation.

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.

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, 2017, the Company had a cash position of $1,647,781 and working capital of $1,496,938 compared to $85,057 cash at October 31, 2016 and working capital deficiency of $211,101.

During the year ended October 31, 2017, the Company used cash of $1,121,278 for operating activities compared to $437,109 during the year ended October 31, 2016. The material change in non-cash operating assets and liabilities was principally due to the repayment of amounts due to related parties in the amount of $102,278 during the year ended October 31, 2017 as compared to $7,812 in the prior year.

The Company invested $1,190,242 in property, plant and equipment during the year ended October 31, 2017 where there was no cash outflows in the prior year. The Company received $50,000 cash and $48,620 from the sale of marketable securities that it received from the sale of its lithium properties. The Company paid $99,262 net of cash acquired for the controlling interest in PhyeinMed. The Company spent $9,977 in acquisition and exploration costs during the year ended October 31, 2017 where in the prior year the Company spent $93,850.

The Company received total proceeds from financing activities of $3,884,862 for the issuance of share capital as a result of a non-brokered private placement, the exercise of incentive stock options and warrants during the year ended October 31, 2017 compared to proceeds of $604,210 during the year ended October 31, 2016.

Subsequent to October 31, 2017,

- Issued 21,138,769 common shares for the exercise of 21,138,769 warrants at $0.06 and $0.10 per share for total proceeds of $2,025,877;

- Issued 5,120,000 common shares for the exercise of 5,120,000 options at prices ranging between $0.065 and $0.59 per share for total proceeds of $791,800 which resulted in a transfer from share-based payment reserve to share capital of $785,954.

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. Heritage 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, 2017, the Company has cash of $1,647,781 (October 31, 2016 - $85,057). The current monthly “burn” rate for general and administrative expenses is approximately $75,000. The Company presently has no long-term debt or other financial commitments.

The Company intends to use its funds over the next 12 months as described in the table below.

Use of Available Funds	***Amount***
Constructions of two grow rooms	$800,000
Health Canada license	$50,000
Grow additional crops	$650,000
Unallocated working capital	$147,781
Total	$1,647,781

Subsequent to October 31, 2017, the Company received $2,025,877 for the exercise of 21,138,769 warrants exercised at $0.06 and $0.10 per common share and $791,800 for the exercise of 5,120,000 options at prices ranging between $0.065 and $0.59 which resulted in the transfer from share-based payment reserve to share capital of $785,954.

The Company anticipates it will require additional capital in the future to develop its ACMPR business plans and for 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, 2017, the Company incurred $115,890 (2016 - $91,333) for management fees to a company with a director in common.

b) During the year ended October 31, 2017, the Company incurred $49,910 (2016 - $4,150) for consulting fees to a director or a company with a director in common.

c) As of October 31, 2017, directors and a company with a director in common were owed a total of $nil (October 31, 2016 - $102,278).

Management compensation transactions for the year ended October 31, 2017 and 2016 are summarized as follows:

	2017	2016
Short-term management benefits	**$ 115,890**	$ 91,333
Consulting fees	**$ 49,910**	$ 4,150
Share-based payments	**$ 239,831**	$ 336,900

1.10 Fourth Quarter

Fourth quarter financial results differ significantly from prior periods due to the granting incentive stock options to directors, officers and technical consultants of the Company, the engagement of technical consultants for an ACMPR growing, marketing and distribution plan. During the fourth quarter of fiscal 2017, the Company acquired an additional 25% interest to total 75% which resulted in the recognition of a gain in fair value on the step acquisition of PhyeinMed of $2,211,000.

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 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 some of which which are described in this MD&A Section 1.2 – Subsequent Events. Management is uncertain whether any of these proposals will ultimately be completed.

1.12 Critical Accounting Estimates

The preparation of annual 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) Share-based payment transactions

The Company measures the cost of equity-settled transactions with management 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 6 of the annual consolidated financial statements.

ii) Business combinations

In a business combination, the Company may acquire assets and assume certain liabilities of an acquired entity. Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. Estimates are made as to the fair value of property and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property and equipment, intangible assets and goodwill acquired, the Company may rely on independent third-party valuators. The determination of these fair values involves a variety of assumptions, include revenue growth rates, expected operating income, discount rates, and earnings multiples.

The Company measures all the assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of this equity in the acquirer's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements.) The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquire over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

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 Risk Management

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, 2017, the Company had working capital of $1,496,938 (October 31, 2016 – working capital deficiency of $211,101). 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 property acquisition and development projects. If equity financing is required, failure to obtain financing on a timely basis may cause the Company to postpone acquisition 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, 2017		October 31, 2016	
	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Cash	1	**$ 1,647,781**	**$ 1,647,781**	$ 85,057	$ 85,057
Marketable securities	1	**$ 97,500**	**$ 97,500**	$ -	-

1.15 Other MD & A Requirements

Disclosure of Outstanding Share Capital

Authorized: Unlimited common shares without par value

	SHARE CAPITAL	
	NUMBER	AMOUNT($)
Balance, October 31, 2015	**51,966,972**	**$ 5,061,580**
Issued shares for cash:		
Share options exercised	8,085,000	846,011
Warrants exercised	1,790,174	107,410
Shares issued for acquisition	1,500,000	52,500
Balance, October 31, 2016	**63,342,146**	**6,067,501**
Issued shares for cash:		
Shares issued for non-brokered private placement	43,700,000	2,622,000
Share options exercised	13,030,000	1,772,576
Warrants exercised	7,702,951	482,321
Share issue costs	-	(301,538)
Shares issued for acquisition	7,000,000	665,000
Shares issued for mineral property	1,500,000	112,500
Balance, October 31, 2017	**136,275,097**	**11,420,360**
Issued shares for cash:		
Share options exercised	5,120,000	1,577,754
Warrants exercised	21,138,769	2,220,490
Balance, February 19, 2017	**162,533,866**	**$ 15,218,604**

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 also 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. The Company issued 1,500,000 common shares with a fair value of $52,500 measured on the date of issuance for the right to acquire an interest in the Tule Valley and Gerlach Lithium properties.

During the year ended October 31, 2017, the Company closed its non-brokered private placement of 43,700,000 units at a price of $0.06 per unit for gross proceeds of $2,622,000. The Company paid $90,459 in cash and issued a total of 1,515,443 finders' warrants exercisable at $0.10 until August 30, 2019 with a deemed value of $199,580 in finders' fees associated with the non-brokered private placement financing. The Company also paid $11,499 in legal fees associated to the non-brokered private placement. The Company received $482,321 for the exercise of 7,702,951 warrants exercised at $0.06 and $0.10 per common share. The Company received $1,772,576 for the exercise of 13,030,000 options at prices ranging between $0.05 and $0.08 per common share which resulted in the transfer from share-based payment reserve to share capital of $890,076. The Company issued 7,000,000 common shares for the acquisition of an additional 25% interest in PhyeinMed with a deemed value of $665,000 or $0.095 per share being the closing market price on the date of the agreement closed. The Company issued 1,500,000 common shares with a fair value of $112,500

measured on the date of issuance for the right to acquire an interest in the Tule Valley and Gerlach Lithium properties.

Subsequent to October 31, 2017, received $2,025,877 for the exercise of 21,138,769 warrants exercised at $0.06 and $0.10 per common share and $791,800 for the exercise of 5,120,000 options at prices ranging between $0.065 and $0.59 which resulted in the transfer from share-based payment reserve to share capital of $785,954.

Escrow Shares

7,000,000 common shares issued pursuant to the terms of the PhyeinMed SPA are subject to a voluntary escrow period pursuant to which 10% of the Shares were released immediately and an additional 15% of the Shares will be released every six months from August 18, 2017, the closing date.

Share Purchase Warrants

The following share purchase warrants were outstanding at October 31, 2017:

NUMBER OF WARRANTS	EXERCISE PRICE	EXPIRY DATE
1,115,600	$0.06	March 19, 2018
713,085	$0.10	March 19, 2018
975,989	$0.06	May 16, 2018
101	$0.10	May 16, 2018
1,337,500	$0.06	December 20, 2018
45,215,413	$0.10	August 30, 2019
49,357,688		

Subsequent to October 31, 2017, received $2,025,877 for the exercise of 21,138,769 warrants exercised at $0.06 and $0.10 per common share.

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 Canadian Stock 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, 2017:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY DATE
400,000	$0.08	May 30, 2021
800,000	$0.065	February 27, 2022
2,000,000	$0.10	August 16, 2022
3,200,000		

Subsequent to October 31, 2017, the Company granted 6,850,000 incentive stock options to directors, officers and consultants of the Company under the Company's Stock Option Plan exercisable at $0.14 per share expiring November 15, 2022. The Company also granted 1,000,000 incentive stock options to director and consultants of the Company exercisable at $0.59 per share expiring January 22, 2023. The Company issued 5,120,000 common shares for the exercise of 5,120,000 incentive stock options for total proceeds of $791,800 at prices ranging between $0.065 and $0.59 which resulted in the transfer from share-based payment reserve to share capital of $785,954.

SUBSEQUENT EVENTS

Please refer to Note 17 - Subsequent Events of the Annual Consolidated Financial Statements for the year ended October 31, 2017 for full disclosure of the subsequent events occurring subsequent to October 31, 2017.

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

The Company has begun its Phase 2 build out of a new 41,400 sq ft facility at their Falkland, BC location. This new build is 3,400 sq ft larger than originally planned, and is in addition to their existing 15,500 sq ft facility, which is scheduled for completion in mid-February. It is expected that the construction of Phase 2 will be done by late Spring 2018, with cannabis production beginning June 2018. Upon completion, the production capacity of Phase 1 and 2 will be in excess of 4,000 kg of cannabis flower.

RISKS AND UNCERTAINTIES

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.

The following are certain factors relating to the Company's business which prospective investors should carefully consider before deciding whether to purchase Common Shares in the Company's authorized capital. 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. Additional risk and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our operations. If any such risks actually occur, the business, financial condition, liquidity and results of our operations could be materially adversely affected.

Market Reaction

The market reaction to the Change of Business and the future trading prices of the Common Shares cannot be predicted. If the Change of Business is not consummated, the market price of Common Shares may decline to the extent that the current market price of Common Shares reflects a market assumption that the Change of Business will be completed.

Additional Financing

From time to time, the Company may require additional financing. The Company's ability to obtain additional financing, if and when required, will depend on investor demand, operating performance, the condition of the capital markets and other factors. If the Company raises additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of holders of Common Shares, and existing holders of such shares may experience dilution.

Facility is not Licensed under the ACMPR

PhyeinMed's ability to cultivate, store and sell medical cannabis in Canada is dependent on a license (the "**License**"), granted by Health Canada to PhyeinMed designating it as a "Licensed Producer" as such term is defined in the ACMPR. PhyeinMed has applied to Health Canada to become a Licensed Producer under ACMPR for the Falkland Facility. PhyeinMed has not yet received a license for the Falkland Facility. However, PhyeinMed is currently in the Detailed Review and Initiation of Security Clearance Process stage of the licensing process. PhyeinMed's ability to cultivate, store and sell medical cannabis at the Falkland Facility is dependent on obtaining a license from Health Canada and there can be no assurance that PhyeinMed will obtain such a license for the Falkland Facility.

Reliance on Licenses

Failure to comply with the requirements of the License, once obtained by PhyeinMed, or any failure to maintain the License would have a material adverse impact on the business, financial condition and operating results of PhyeinMed. Although PhyeinMed believes it will meet the requirements of the ACMPR to obtain the License, there can be no guarantee that Health Canada will grant the License. Should Health Canada not grant the License or should it grant the License on different terms, the business, financial condition and results of the operation of PhyeinMed would be materially and adversely affected.

Reliance on the Facility

To date, PhyeinMed's activities and resources have been primarily focused on its proposed unlicensed facility located in Falkland, British Columbia. Adverse changes or developments affecting this facility may have a

material and adverse effect on PhyeinMed's ability to produce medical cannabis, business, financial condition and prospects.

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 pharmaceutical product price volatility;
- 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 medical cannabis companies that are public 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.

Licensing Requirements Under the ACMPR

The market for cannabis (including medical marihuana) in Canada is regulated by the CDSA, the ACMPR, the NCR, and other applicable law. Health Canada is the primary regulator of the industry as a whole. The ACMPR aims to treat cannabis like any other narcotic used for medical purposes by creating conditions for a new commercial industry that is responsible for its production and distribution.

Any applicant seeking to become a Licensed Producer under the ACMPR is subject to stringent Health Canada licensing requirements. The below table provides a general overview of the licensing process as described by Health Canada.

Stage	Overview
1	**Intake and Initial Screening**: When an application is received, it undergoes a preliminary screening for completeness. If an application is not complete, it will be returned. If an application is complete, it will be assigned an application number. The assignment of an application number means that the application has completed the preliminary screening.
2 PhyeinMed application is in this stage	**Detailed Review and Initiation of Security Clearance Process**: Once an application has been assigned an application number, it will be reviewed to (i) complete the assessment of the application to ensure that it meets the requirements of the Regulations of the ACMPR; (ii) establish that the issuance of the license is not likely to create risks to public health, safety or security, including the risk of cannabis being diverted to an illicit market or use; and (iii) establish that there are no other grounds for refusing the application. It is the responsibility of the applicant to ensure that they are in compliance with all applicable provincial, territorial and municipal legislation, regulations and bylaws, including zoning restrictions. An application will be thoroughly reviewed to ensure that the level of detail included in the application is sufficient to meet the requirement of the ACMPR and to validate the information provided. Given the extensive review process, applicants are generally required to communicate with the Office of Medical Cannabis multiple times to provide clarifications with respect to the application. Physical security plans will be reviewed and assessed in detail at this stage. When an application is in the Detailed Review stage, the security clearance forms for key personnel will be sent for processing. The time required to conduct mandatory security checks varies with each application. Security clearances generally take several months at a minimum. Health Canada and the Royal Canadian Mounted Police are not able to provide updates on the status of security checks. Applications will only advance to the review stage once security clearances for all key personnel are completed. Please note that until such a time as Health Canada receives the results of the security checks, there will be no further communication from Health Canada.
3	**Issuance of License to Produce:** Once Health Canada confirms that the requirements of the ACMPR have been met, and the application successfully completes the Detailed Review and Security Clearance stage, a license to produce will be issued.
4	**Introductory Inspection (as cultivation begins):** A Licensed Producer is required to notify Health Canada as cultivation begins, and once notified, Health Canada will schedule an initial inspection to verify that the Licensed Producer is meeting the requirement of the ACMPR, including but not limited to, the physical security requirement of the site, record keeping practices and Good Production Practices (GPP) and to confirm that the activities being conducted by the Licensed Producer correspond to those indicated on their license.
5	**Pre-Sales Inspection (prior to issuance of sales license):** If a Licensed Producer would like to add the activity of sale to their existing license, an amendment application must be

Stage	Overview
	submitted to the Office of Medical Cannabis, upon which Health Canada will schedule an additional inspection to verify that the Licensed Producer is meeting the requirement of the ACMPR, including but not limited to, GPP, packaging, labeling, shipping and record keeping prior to allowing the sale or provision of the product.
6	**Issuance of License to Sell:** To complete the assessment and add the activity of sale of cannabis products to an existing license, the following information is reviewed: (i) results of the pre-sale inspection; (ii) information submitted in the amendment application to add the activity of sale to the license; and (iii) any other relevant information. When the review is completed, an amended license, including the activity of sale, is issued to the Licensed Producer subject to which the Licensed Producer may supply cannabis products to registered clients, other Licensed Producers and/or other permitted parties named under the ACMPR. Separate licenses may be issued for dried marijuana, plants and/or cannabis oil.

Holding Company Status

The Company is, at least initially upon completion of the Change of Business, 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.

Limited Operating History

PhyeinMed anticipates entering the medical cannabis business. PhyeinMed's application to become a Licensed Producer under the MMPR was submitted to Health Canada on December 9, 2014. PhyeinMed is therefore subject to many of the risks common to early-stage enterprises, including limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that PhyeinMed will be successful in achieving a return on its shareholders' investments and the likelihood of success must be considered in light of its early stage of operations.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its 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 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. In particular, 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 PhyeinMed's brand, and ultimately the Company's brand.

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 of directors of the Company and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the board of directors of the Company may deem relevant. As a result, investors may not receive any return on investment

in the Common Shares unless they sell them for a share price that is greater than that at which such investors purchased them.

Limited Market for Securities

There can be no assurance that an active and liquid market for the Common Shares will be maintained and an investor may find it difficult to resell any securities of the Company.

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.

Risks related to operating in Cannabis Industry

The Cannabis Industry is Subject to Competition

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

Because of the early stage of the industry in which PhyeinMed operates, PhyeinMed expects to face additional competition from new entrants. If the number of users of medical marijuana in Canada increases, the demand for products will increase and PhyeinMed 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, PhyeinMed will require a continued high level of investment in research and development, marketing, sales and client support. PhyeinMed 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 PhyeinMed.

Cannabis is Not an Approved Drug or Medicine

Cannabis is not an approved drug or medicine in Canada. The Government of Canada does not endorse the use of cannabis, but Canadian courts have required reasonable access to a legal source of cannabis when authorized by a healthcare practitioner.

Regulatory Risks

PhyeinMed operates 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. PhyeinMed's ability to grow, store and sell medical cannabis in Canada with respect to the Facility is dependent on obtaining the License from Health Canada and the need to maintain such License in good standing. Failure to: (i) comply with the requirements of the License; and (ii) maintain this License

would have a material adverse impact on the business, financial condition and operating results of the Company.

PhyeinMed will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of our operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to PhyeinMed'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.

Environmental Regulations and Risks

PhyeinMed'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 PhyeinMed's operations.

Government approvals and permits are currently, and may in the future, be required in connection with PhyeinMed's operations. To the extent such approvals are required and not obtained, PhyeinMed may be curtailed or prohibited from the proposed production of medical 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.

Changes in Laws, Regulations and Guidelines

PhyeinMed's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis but also including laws and regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment. To the knowledge of management, PhyeinMed is currently in compliance with all such laws. That said, any changes to such laws, regulations and guidelines are matters beyond the control of PhyeinMed that may cause adverse effects to PhyeinMed's operations and financial conditions.

On February 24, 2016, the Federal Court of Canada delivered the *Allard* decision. In this decision, the Federal Court of Canada declared the MMPR invalid as it unconstitutionally violated patients protected rights to liberty and security under the Charter. However, the Federal Court of Canada suspended the operation of the declaration of invalidity for 6 months to permit the Canadian legislature to enact a regime compliant with the Charter. The government did not choose to appeal the decision to the Federal Court of Appeal and has, instead, decided to respond to the decision by introducing legislation compliant with the Charter.

On August 24, 2016, the ACMPR replaced the MMPR. The ACMPR is Canada's response to the Federal Court of Canada's decision in *Allard*.

The ACMPR is composed of 4 main parts, which are summarized below:

- Part 1 is similar to the framework under the MMPR. It sets out a framework for commercial production by Licensed Producers responsible for the production and distribution of quality-controlled fresh or dried marihuana or cannabis oil or starting materials (i.e. marihuana seeds and plants) in secure and sanitary conditions.

- Part 2 is similar to the former MMAR regime. It sets out provisions for individuals to produce a limited amount of cannabis for their own medical purposes or to designate someone to produce it for them.

- Parts 3 and 4 include:

    - transitional provisions, which mainly relate to the continuation of MMPR activities by Licensed Producers;

    - consequential amendments to other regulations that referenced the MMPR (i.e. the NCR and the *New Classes of Practitioners Regulations* (Canada), as amended) to update definitions and broaden the scope of products beyond dried marihuana; and

    - provisions repealing the MMPR and setting out the coming into force of the ACMPR on August 24, 2016.

As of August 24, 2016, Health Canada now accepts applications from individuals who wish to register to produce a limited amount of cannabis for their own medical purposes or to designate someone to produce cannabis on their behalf. Individuals who were previously authorized to possess and produce cannabis under the MMAR remain authorized to do so by virtue of an injunction order by the Federal Court of Canada.

Under the ACMPR, Health Canada will continue to accept and process applications to become a Licensed Producer that were submitted under the MMPR. Further, all licenses and security clearances granted under the MMPR will continue under the ACMPR, which means that MMPR Licensed Producers can continue to register and supply clients with cannabis for medical purposes. New applicants must apply for licenses to produce under the ACMPR.

The risks to the business of PhyeinMed represented by this or similar actions are that they might lead to court rulings or legislative changes that allow those with existing licenses to possess and/or grow medical cannabis, perhaps allow others to opt out of the regulated supply system implemented through the ACMPR by growing their own medical cannabis, or potentially even legitimize illegal areas surrounding cannabis dispensaries. This could significantly reduce the addressable market for PhyeinMed’s products and could materially and

adversely affect the business, financial condition and results of operations for PhyeinMed, and ultimately, the Company.

In April 2017, the Government of Canada tabled two bills, *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts*, and *An Act to amend the Criminal Code (offences related to conveyances) and to make consequential amendments to other Acts*, which are expected to establish the framework for the production, sale, distribution, and possession of non-medical access to cannabis in Canada. While the retail model for distribution and sale of cannabis and cannabis products will be the result of provincial and territorial legislation and regulations, the aforementioned legislation outlines four minimum conditions that provinces and territories would need to meet, specifically, only cannabis obtained from a federally licensed producer can be sold, selling to a person younger than 19 years of age is prohibited, the province/territory would need to develop a system of distribution and retail sale, and the retail model would need to be developed with an eye to public health and public safety concerns. In addition, the tabled legislation (which has not yet passed and is not yet law) proposes to allow for mail order access to both medical uses and non-medical uses of cannabis from federally licensed producers. The current licensing regime for medical access is being deemed to be a license under the proposed legislation for non-medical access.

While the impact of any of such changes is uncertain and highly dependent on which specific laws, regulations or guidelines are changed and on the outcome of any such court actions, it is not expected that any such changes would have an effect on PhyeinMed's operations that is materially different than the effect on similar-sized companies in the same business as PhyeinMed.

In addition, 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 PhyeinMed'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 PhyeinMed's earnings and could make future capital investments or PhyeinMed's operations uneconomic.

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

Competition

On November 30, 2016, the Task Force on Marijuana Legalization and Regulation (synonymous with the Task Force on Cannabis Legalization and Regulation) as appointed by the federal government of Canada (the "**Task Force**") published its final report titled: *A Framework for the Legalization and Regulation of Cannabis in Canada*. In this report, the Task Force recommended that the federal government of Canada regulate the production of cannabis and its derivatives (e.g. edibles and concentrates), drawing on the good production practices of the current cannabis for medical purposes system. Also, the Task Force recommended that the wholesale distribution of cannabis be regulated by provinces and territories and that retail sales be regulated by the provinces and territories in close collaboration with municipalities. Further, the Task Force recommended allowing personal cultivation of cannabis for non-medical purposes with the following

conditions: (i) a limit of 4 plants per residence; (ii) a maximum height limit of 100 cm on the plants; (iii) a prohibition on dangerous manufacturing processes; (iv) reasonable security measures to prevent theft and youth access; and (v) oversight and approval by local authorities. The impact of this potential development may be negative for Company and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company will operate.

There is potential that the Company will face intense competition from other companies, some of which can be expected to have more financial resources, industry, manufacturing and marketing 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.

The government of Canada has only issued to date a limited number of licenses under the ACMPR to produce and sell medical cannabis. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. According to Health Canada there were 89 Licensed Producers as of the date of this MD&A. If the number of users of medical 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.

Risks Inherent in an Agriculture Business

PhyeinMed's business involves the growing of medical cannabis, which is an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as pests, plant diseases and similar agricultural risks. Although PhyeinMed grows its products indoors under climate controlled conditions, and carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the volume, quality and consistency of its products.

Vulnerability to Rising Energy Costs

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

Product Liability

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

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 PhyeinMed's products are recalled due to an alleged product defect or for any other reason, PhyeinMed could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. PhyeinMed may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention.

Operating Risk and Insurance Coverage

PhyeinMed has insurance to protect its assets, operations and employees. While PhyeinMed believes its insurance coverage addresses all material risks to which they are exposed and is adequate and 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 PhyeinMed 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 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 PhyeinMed's financial performance and results of operations.

Unfavourable Publicity or Consumer Perception

Management of the Company believes the medical marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marijuana produced. Consumer perception of PhyeinMed's proposed products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical marijuana 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 medical marijuana 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 PhyeinMed's proposed products and the business, results of operations, financial condition and cash flows of the PhyeinMed. The PhyeinMed'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 PhyeinMed, the demand for its proposed products, and the business, results of

operations, financial condition and cash flows of the PhyeinMed. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical marijuana in general, or the PhyeinMed's proposed products specifically, or associating the consumption of medical marijuana 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.

Trends

Legalization and Regulation of Non-Medical Use of Cannabis in Canada

The federal government of Canada is moving forward on its plan to legalize and regulate cannabis for recreational use. Key indications / milestones of progress on legalization include the following:

- In its December 2015 Speech from the Throne, the Liberal Government of Canada reaffirmed its intent to "legalize, regulate, and restrict access to marihuana".

- On April 20, 2016, the Canadian federal government announced its intention to introduce, by the spring of 2017, legislation to legalize the recreational use of marihuana in Canada.

- On June 30, 2016, Health Canada announced the creation of a Task Force on marihuana legalization and regulation. The Task Force consists of high-level experts in the fields of law enforcement, medicine, policy creation and health care administration. The Task Force's objectives are to consult with governments, industry, the public and all other relevant stakeholders in order to provide advice on the design of a new legislative and regulatory framework to the ministers.

- On August 24, 2016 the MMPR was repealed and the ACMPR came into force. Health Canada stated in the August 2016 publication titled *Understanding the New Access to Cannabis for Medical Purposes Regulations* that the ACMPR is designed to provide an immediate solution required to address the Federal Court of Canada's judgment. Moving forward, Health Canada will evaluate how a system of medical access to cannabis should function alongside the Government's commitment to legalize, strictly regulate and restrict access to marihuana.

- On November 30, 2016, the Task Force published its final report titled: *A Framework for the Legalization and Regulation of Cannabis in Canada*. In the final report, the Task Force recommended that the federal government of Canada regulate the production of cannabis and its derivatives (e.g. edibles and concentrates) at the federal level, drawing on the good production practices of the current cannabis for medical purposes system. Also, the Task Force recommended that the wholesale distribution of cannabis be regulated by provinces and territories and that retail sales be regulated by the provinces and territories in close collaboration with municipalities. Further, the Task Force recommended allowing personal cultivation of cannabis for non-medical purposes with the following conditions: (i) a limit of four plants per residence; (ii) a maximum height limit of 100 cm on the plants; (iii) a prohibition on dangerous manufacturing processes; (iv) reasonable security measures to prevent theft and youth access; and (v) oversight and approval by local authorities.

In April 2017, the Government of Canada tabled two bills, *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts*, and *An Act to amend the Criminal Code (offences related to conveyances) and to make consequential amendments to other Acts*. These bills are expected to establish the framework for the production, sale, distribution, and possession of non-medical

access to cannabis in Canada. While the retail model for distribution and sale of cannabis and cannabis products will be the result of provincial and territorial legislation and regulations, the aforementioned legislation outlines four minimum conditions that provinces and territories would need to meet, specifically, only cannabis obtained from a federally licensed producer can be sold, selling to a person younger than 19 years of age is prohibited, the province/territory would need to develop a system of distribution and retail sale, and the retail model would need to be developed with an eye to public health and public safety concerns. In addition, the tabled legislation (which has not yet passed and is not yet law) proposes to allow for mail order access to both medical uses and non-medical uses of cannabis from federally licensed producers. The current licensing regime for medical access is being deemed to be a license under the proposed legislation for non-medical access.

OTHER INFORMATION

Other information relating to the Company may be found on the Company's website located at www.heritagecann.com, the SEDAR website located at www.sedar.com and the Canadian Stock Exchange website located at www.thecse.com/en.

BY ORDER OF THE BOARD

Heritage Cannabis Holdings Corp.

"*Jagdip Bal***"**

President, CEO and Director
February 19, 2018