HERITAGE CANNABIS HOLDINGS CORP.

(formerly Umbral Energy Corp.)

(A Development Stage Company)

MANAGEMENT DISCUSSION AND ANALYSIS

For The Year Ended October 31, 2018

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, 2018. The following information should be read in conjunction with the accompanying annual consolidated financial statements and related notes for the year ended October 31, 2018.

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, 2018, 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 27, 2019.

Forward-Looking Information

This MD&A contains forward-looking statements that relate to the Company's current expectations and views of future events. In some cases, these forward-looking statements can be identified by words or phrases such as "may", "might", "will", "expect", "anticipate", "estimate", "intend", "plan", "indicate", "seek", "believe", "predict" or "likely", or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- the Company's expectations regarding its revenue, expenses and research and development operations;
- the Company's anticipated cash needs and its needs for additional financing;
- the Company's intention to grow the business and its operations;
- expectations with respect to future production costs and capacity;
- expectations regarding our growth rates and growth plans and strategies;
- expectations with respect to the approval of the Company's licenses;
- expectations with respect to the future growth of its medical and recreational cannabis products;
- the medical benefits, safety, efficacy, dosing and social acceptance of cannabis;
- the Company's competitive position and the regulatory environment in which the Company operates;
- the Company's expected business objectives for the next twelve months;
- the Company's plans with respect to the payment of dividends;
- the Company's ability to obtain additional funds through the sale of equity or debt commitments;
- the future growth of the cannabis industry;
- the ability of the Company's products to access consumer markets;
- the Company's ability to expand into international markets;
- the Company's relationship with its distribution partners;
- CBD oil processing efficiency and sales;
- the ability of the Company to access sufficient power for generation of greenhouses
- the efficiency of mechanical processing for hemp; and
- the variability of hemp farming.

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate and are subject to risks and uncertainties. In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to (i) that regulatory requirements will be maintained; (ii) general business and economic conditions; (iii) the Company's ability to successfully execute its plans and intentions; (iv) the availability of financing on reasonable terms; (v) the Company's ability to attract and retain skilled staff; (vi) market competition; (vii) the products and technology offered by the Company's competitors; and (vii) that the Company's current good relationships with its suppliers, service providers and other third parties will be maintained. Although the Company believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and the Company cannot assure that actual results will be consistent with these forward-looking statements. Given these risks, uncertainties and assumptions, investors should not place undue reliance on these forward-looking statements. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including those listed under "Risk Factors", which include:

- the Company is a development stage company with little operating history, a history of losses and the Company cannot assure profitability;
- the Company is reliant on government-issued sales and processing licenses to produce and sell cannabis products in Canada without constraint;
- the Company is subject to changes in Canadian laws regulations and guidelines which could adversely affect the Company's future business and financial performance;
- the Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business;
- the Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations and financial condition;
- the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates;
- the Company faces competition from other companies where it will conduct business and those companies may have a higher capitalization, more experienced management or may be more mature as a business;
- the Company is reliant on management. If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the cannabis market;
- there is no assurance that the Company will obtain and retain any relevant licenses and its business is dependent upon such licenses;
- the Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition;
- the Company expects to sell additional equity securities or secure debt facilities for cash to fund operations, capital expansion, mergers and acquisitions. If funds are raised through the issuance of equity or convertible debt securities, existing shareholders could suffer dilution and any new equity securities could have rights, preferences and privileges superior to those of the holdings of the Common Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may impede the Company's ability to obtain additional capital and to pursue business opportunities.
- the Company currently has certain insurance coverage; however, because the Company operates within the cannabis industry, there are additional difficulties and complexities associated with such insurance coverage;
- the cultivation of cannabis and hemp includes risks inherent in an agricultural business including the risk of crop loss, sudden changes in environmental conditions, equipment failure, product recalls and others;
- the expansion of the medical cannabis industry may require new clinical research into effective medical therapies;
- under current and proposed Canadian regulations, as a licensed producer ("**Licensed Producer**") of cannabis, the Company may have restrictions on the type and form of marketing it can undertake which could materially impact sales performance;
- the Company's officers and directors may be engaged in a range of business activities resulting in conflicts of interest;
- in certain circumstances, the Company's reputation could be damaged;

- the Company is operating at a regulatory frontier. The cannabis industry is relatively new and is evolving and it is an industry that may not succeed;
- the Company is vulnerable to rising energy costs and access to energy;
- the Company may not be able to obtain all necessary licenses, authorizations and permits or complete construction of its facilities on a timely basis, which could, among other things, delay or prevent the Company from becoming profitable;
- regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital;
- the Company cannot make assurances that a market will continue to develop or exist for the Common Shares and or what the market price of the Common Shares will be;
- 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;
- the Company does not anticipate paying cash dividends;
- future sales of Common Shares by existing shareholders could reduce the market price of the Company's shares;
- the Company is subject to certain construction related risks;
- licencing risks related to expansion of operations;
- the United States may impose travel and entry bans on Company directors, officers and employees and investors in the Company's securities; and
- no guarantee on the use of available funds by the Company.

If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in those forward-looking statements. The assumptions referred to above and described in greater detail under "Risk Factors" should be considered carefully by readers.

The Company's forward-looking statements are based on the reasonable beliefs, expectations and opinions of management on the date of this MD&A (or as of the date they are otherwise stated to be made). Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There is no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. We do not undertake to update or revise any forward-looking statements, except as, and to the extent required by, applicable securities laws in Canada.

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 a seed to sale, vertically integrated cannabis based business 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. On October 17, recreational cannabis was legalized by the federal government of Canada. More recently, in December 2018, the United States passed the 2018 Farm Bill (Agriculture Improvement Act of 2018) which legalized the commercial production of hemp. These legislative changes in both Canada and the United States reflect a growing trend towards the legalization of medical cannabis and, in some cases, recreational cannabis.

Heritage's subsidiary, PhyeinMed Inc. ("**PhyeinMed**"), submitted its application to Health Canada under the MMPR on December 9, 2014. The application provided for the possession, sale, delivery, destruction and production of dried marijuana. Enhanced screening and many subsequent requests for additional information were completed satisfactorily. On January 22, 2016, PhyeinMed was notified by the offices of medical cannabis within Health Canada that the security clearage stage of the application was being initiated. On November 8, 2017, PhyeinMed was notified by the offices of medical cannabis within Health Canada that its ACMPR application had progressed through to the "Detailed Review and Initiation of Security Clearance Process" stage (stage 2 of 6) of the application process. All key personnel submitted with the application have undergone a rigorous and thorough screening process and been approved. The Company announced on February 16, 2017 that PhyeinMed received notification from Health Canada that its ACMPR application had progressed through to the Review Stage (stage 5 of 7) of the application process. PhyeinMed received its ACMPR License and approval to cultivate cannabis at their location in Falkland, British Columbia on July 20, 2018. On November 13, 2018, the Company announced that PhyeinMed received an updated PhyeinMed License in accordance with the Cannabis Act and Cannabis Regulations. With a standard cultivation license, a company is permitted to sell wholesale to either a provincial distribution channel or dried flower to a company with a Processor License - Micro or Standard. In accordance with subsection 11(5) of the Cannabis Regulations, the updated PhyeinMed License authorizes PhyeinMed to sell cannabis to other qualified license holders under the Cannabis Act and Cannabis Regulations, as well as allowing for:

- the sale and distribution of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds to any qualified license holders;
- the sale and distribution of cannabis plants and cannabis plant seeds to a holder of a license for a nursery; and
- the sale and distribution of cannabis plants and cannabis plant seeds that are cannabis products to a holder of a license for sale, or a person authorized to sell cannabis.

Purchased by the Company in 2017, PhyeinMed currently operates out of a 15,500 sq ft. processing building located on 13 acres of land in Falkland, British Columbia; the Falkland Facility. The processing building, is expected to have, 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.

PhyeinMed intends to solidify its plan and then initiate a phase-wise growth strategy for the expansion of the Falkland Facility. Expansion of the Falkland Facility, via the acquisition of additional greenhouses, expanding the capacity to approximately 95,000 sq ft. The expansion plan will be executed in multiple phases of construction allowing Management the opportunity to continuously evaluate future requirements and developments in greenhouse technologies. Upon completion of the project and licensing, the Company is planning for the Falkland Facility to have the potential to grow 76,000 plants per cycle and produce over 3,000 kg of cannabis annually. Harvested cannabis will be utilized for both extraction and potential dried flower sales depending on market demands.

Supply Agreement with Canopy

In August, 2017, PhyeinMed signed an agreement with Canopy to supply cannabis products via CraftGrow line on Tweed Main Street's online store. Pending the receipt of a license to cultivate and sell cannabis products from Health Canada, 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.

CannaCure Corporation

CannaCure Corporation ("**CannaCure**") was incorporated on December 12, 2013 under the *Business Corporations Act* (Ontario) and acquired by Heritage on November 5, 2018. The head office of the company is located at 333 Jarvis Street, Fort Erie ON L2A 2S9.

It received its Health Canada license on October 12, 2018 under the *Cannabis* Regulations, formerly the ACMPR. On November 15, 2018, the Company announced that CannaCure received an updated CannaCure License in accordance with the Cannabis Act and Cannabis Regulations. The updated CannaCure License permits CannaCure to sell seeds and clones wholesale to either a provincial distribution channel or dried flower to a company with a Cultivation/Processing License - Micro or Standard. In accordance with subsection 11(5) of the Cannabis Regulations, the updated CannaCure License authorizes CannaCure to sell cannabis to other qualified license holders under the Cannabis Act and Cannabis Regulations, as well as allowing for:

- the sale and distribution of dried cannabis, fresh cannabis, cannabis plants and cannabis plant seeds to any qualified license holders;
- the sale and distribution of cannabis plants and cannabis plant seeds to a holder of a license for a nursery; and
- the sale and distribution of cannabis plants and cannabis plant seeds that are cannabis products to a holder of a license for sale, or a person authorized to sell cannabis.

CannaCure's current operations will take place in the 122,000 sq. ft. licensed facility located at 333 Jarvis Street, Fort Erie, ON, of which 24,000 sq. ft. has been retrofitted for Cannabis activities. CannaCure commenced cultivation operations late November 2018, and had its first harvest in January 2019. Further expansion throughout the facility is under consideration.

CannaCure entered into a three year option to purchase the 333 Jarvis Street facility on October 21, 2016 which was amended on July 19, 2018. As per the amended and restated option agreement, the purchase price for the facility is $2.2 million. CannaCure also has an option to purchase a 3.4 million sq. ft. greenhouse facility for $66 million, which expires August 30, 2019. To date both CannaCure options are in good standing.

The Company announced on November 14, 2018 that CannaCure executed a supply and purchase agreement with CannTrust for cannabis genetics to be delivered for a one-year term. Under the terms of the agreement, CannaCure will purchase one of CannTrust's popular strains at market rates, with CannTrust having a right of first refusal to purchase all bulk dried cannabis grown with these genetics, at a pre-determined range of pricing. The agreement allows for CannaCure, at its discretion, to request an increase in the number of clones it receives.

Heritage announced on January 29, 2019, CannaCure commenced its first cannabis harvest.

Purefarma Solutions Inc.

In December 17, 2018, the Company completed the acquisition (the "**Acquisition**") of all of the issued and outstanding shares of Purefarma Solutions Inc. (**"Purefarma"**), a private British Columbia company, pursuant to the terms of definitive agreements dated December 7, 2018 (together, the "**Definitive Agreement**").

Pursuant to the Definitive Agreement and in consideration for the Acquisition, as of the date hereof Heritage issued an aggregate of 33,333,333 common shares of the Company (the "**Payment Shares**") at a deemed price of $0.195 per Payment Share.

In addition, pursuant to the terms of the Definitive Agreement, Heritage will issue additional common shares of the Company (the "**Earn Out Shares**") to certain former shareholders of Purefarma subject to Purefarma obtaining certain cumulative gross margin targets over the next four calendar years (beginning in 2019). Based on these gross margin targets, the company will calculate the amount of Earn Out Shares owed on an annual basis, being awarded within 120 days of the year end, in conjunction with the annual audit being completed. If fully achieved, a maximum of 21,100,000 Earn Out Shares will be issued, which would require Purefarma to earn $100 million in cumulative gross margin by December 31, 2023.

Finally, pursuant to the Definitive Agreement and in exchange for a future royalty stream over the next four years (beginning in 2019), Heritage will pay an annual royalty based on that fiscal year's gross margin. The royalty is set at 12% for the first year, diminishing to 9%, 6% and 3% each year following.

In connection with the Acquisition, the Company also issued 1,200,000 common shares to an arm's length third party at a deemed price of $0.195 per common share as an advisory fee. These shares are subject to a statutory hold period ending on April 15, 2019. Purefarma, based in Kelowna, BC, is a manufacturer and wholesale processor of premium CBD oils. The Company expects this acquisition to provide a pathway into the Canadian retail and wholesale markets, as well as overseas markets. Purefarma has an experienced extraction team, which is a key part of the overall vision for the Company to provide significant market access for both PhyeinMed and CannaCure. With revenues last year of approximately $2 million, and EBITDA of $500,000, the Company anticipates that this foundation can lead to expanded revenue. Purefarma has an existing supply agreement for 1,600 acres of hemp available through partner farmers, which will be harvested this season and available for the 2019 consumer market.

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

2018 Fourth Quarter Summary:

- For the year ended October 31, 2018, the Company recorded a net loss and comprehensive loss of $6,671,374 or $0.04 loss per share compared to a net income and comprehensive income of $21,534 or $0.00 income per share for the year ended October 31, 2017;
- as at October 31, 2018, the Company had total assets of $12,699,236 (October 31, 2017 - $8,076,345) and working capital of $1,080,886 (October 31, 2017 – $1,496,938);
- issued 18,780,667 common shares for the exercise of 18,780,667 warrants at $0.10 per share for total proceeds of $1,878,067;
- issued 2,000,000 common shares for the exercise of 2,000,000 incentive stock options at prices ranging between $0.14 and $0.54 per share for total proceeds of $391,500 which resulted in a transfer from share-based payment reserve to share capital of $386,741;
- issued 6,000,000 common shares at prices of $0.095 and $0.60 as specified under the terms of the RSU plan that was ratified and approved by shareholders at the Company's AGM held August 10, 2018;
- announced the resignation of Jag Bal as CEO and director whereby Clint Sharples was appointed interim CEO and the appointment of Debra Senger as director of the Company;
- announced the qualification of the Company to trade on the OTC Markets Group (previously known as the "Pink Sheets");
- announced the appointment of Michael Tkautz to the position of Vice President – Business Development;
- announced that the Company has entered into a binding letter of intent to acquire all the issued and outstanding shares of Purefarma Solutions Inc. as per the terms described in the Purefarma summary above;
- announced that its proposed acquisition target CannaCure Corp, has been granted by Health Canada a license to cultivate cannabis, pursuant to the Access to Cannabis for Medical Purposes Regulations (ACMPR), now the *Cannabis Regulations*;
- announced the appointment of Dr. Chris Spooner to the position of Chief Science Officer;
- announced the Company had entered into an agreement with Cormark Securities Inc. ("Cormark"), pursuant to which Cormark has agreed, on a best efforts private placement basis, to offer for sale up to 30,000,000 special warrants (the "Special Warrants") of the Company at a price of $0.25 per Special Warrant for aggregate gross proceeds of up to approximately $7.5 million (the "Offering")(see below for details for the closing of the financing);
- announced that it has executed a Definitive Agreement to acquire CannaCure Corporation (see below for details for the closing of the financing);
- announced the addition of two new key members of management for the grow team, Greg Salloum to the position of Master Grower and Ajaypal Singh to the position of Quality Assurance Associate;
- announced that its targeted subsidiary Purefarma Solutions Inc. provided an update that its Saskatchewan based joint venture partner, has completed harvesting over 1,000 acres of hemp and is on schedule for the full 1,600 acres planned for this year. Once the full harvest and quality checks are complete, Purefarma expects to take delivery of 1,100 acres of x-59, and 500 acres of Canda strains.

Subsequent to October 31, 2018, the Company:

- announced November 2, 2018, that it appointed Hybrid Financial Ltd. (**"Hybrid"**) as Investor Relations Consultant. The 12-month agreement has Hybrid being compensated $14,000 per month, in addition to an option to purchase up to 1,000,000 shares of the company, to be awarded in two installments. The options will be exercisable at market price when awarded, and have a 5-year expiry;
- announced November 5, 2018, that it completed the acquisition of CannaCure pursuant to the terms of the amalgamation agreement dated October 18, 2018, as amended. In accordance with the

amalgamation agreement, the Company completed its previously announced business combination by way of a three cornered amalgamation, pursuant to which CannaCure and 2659938 Ontario Limited, a newly incorporated and wholly owned subsidiary of the Company, amalgamated under the name "CannaCure Corporation". In consideration for the acquisition, the Company issued 133,333,326 Common Shares to the holders of CannaCure shares at a deemed value of $0.30 per share. In connection with the acquisition of CannaCure, the Company also issued 4,000,000 Common Shares to an arm's length third party at a deemed price of $0.30 per share as an advisory fee;

- announced November 7, 2018 the completion of a best efforts private placement of 30,000,000 special warrants (the "**Special Warrants**") at the price of $0.25 per Special Warrant for aggregate gross proceeds of $7,500,000. The offering was conducted by a syndicate of agents led by Cormark Securities Inc., and including Canaccord Genuity Corp. Each Special Warrant entitles the holder thereof to receive, upon exercise or deemed exercise and without payment of additional consideration, one unit of the Company (each a "**Unit**"), subject to a penalty clause. All unexercised Special Warrants shall be deemed exercised on behalf of, and without any required action on the part of, the holders on the earlier of: (i) March 8, 2019 and (2) the third business day after the date on which a receipt for a final short form prospectus qualifying the Units underlying the Special Warrants is issued by the British Columbia Securities Commission, on behalf of the applicable securities commissions. Each Unit is comprised of one common share of the Company (the "**Common Shares**") and one common share purchase warrant (a "**Warrant**"). Each Warrant entitles the holder to purchase one Common Share at an exercise price of $0.35 on a date that is the earlier of (i) May 7, 2021 and (ii) the date specified in any warrant acceleration notice. In consideration for their services, the Agents received cash commission of $387,825 and an aggregate of 1,551,300 broker special warrants (the "Broker Special Warrants"). Each Broker Special Warrant will be automatically exercised without payment of additional consideration into one broker warrant (each, a "**Broker Warrant**"). Each Broker Warrant is exercisable for one Unit at an exercise price of $0.25 for a period of 30 months from the date hereof. The Company has agreed to use reasonable commercial efforts to file and receive the Final Receipt to qualify the Units issuable upon exercise or deemed exercise of the Special Warrants on or before 5:00 p.m. (Toronto time) on January 6, 2019, being 60 days after the Closing Date (the "**Qualification Deadline**"). Since the Final Receipt has not been received on or before the Qualification Deadline, each holder of a Special Warrant is entitled to receive, without payment of additional consideration, 1.10 Units per Special Warrant (in lieu of 1.0 Unit per Special Warrant) (the "**Penalty Provision**") upon the exercise or deemed exercise of the Special Warrants (the additional 0.10 of a Unit to be issued upon the deemed exercise of each Special Warrant after the Qualification Deadline are collectively referred to as the "**Additional Units**").
- announced November 13, 2018 that its subsidiary, PhyeinMed has received its updated license in accordance with Health Canada's Cannabis Act and Cannabis Regulations (as discussed in PhyeinMed overview above)
- announced November 14, 2018 that its subsidiary CannaCure executed a 'Supply and Purchase' agreement with CannTrust Inc. (TSX:TRST) (**"CannTrust"**) for cannabis genetics to be delivered as soon as possible. Under the terms of the one-year agreement, CannaCure will purchase one of CannTrust's most popular strains at market rates, with CannTrust having a right of first refusal to purchase all bulk dried cannabis grown with these genetics, at a pre-determined range of pricing;
- announced November 15, 2018 that its other subsidiary and Licensed Producer, CannaCure Corp. received its updated license in accordance with Health Canada's Cannabis Act and Cannabis Regulations;
- announced December 17, 2018 that the Company has completed the acquisition of all of the issued and outstanding shares of Purefarma Solutions Inc. as previously detailed above;
- announced December 18, 2018 the appointment of Graeme Staley to the board of directors of Heritage. Mr. Staley is the CEO of Purefarma Solutions Inc. He began extracting over 5 years ago via his personal license, where he designed extraction and formulation processes. The Company

also announced that Bradley Culver resigned from the board of directors;

- announced on January 29, 2019, the commencement of its first cannabis harvest at the Fort Erie location of its subsidiary CannaCure;
- announced that the Company filed a final short form prospectus dated January 30, 2019 (the “Prospectus”) and obtained a receipt (the “Receipt’) from the securities regulatory authorities in the provinces of British Columbia, Alberta, Ontario and Nova Scotia to qualify the distribution of 33,000,000 units of the Company issuable upon the deemed exercise of special warrants (the “Special Warrants”) issued by the Company on November 7, 2018. As a result of obtaining the Receipt the Special Warrants will be deemed exercised no later than February 6, 2019;
- announced the appointment of Donald Ziraldo as Chairman of the Board of Directors and the appointment of Clint Sharples as CEO;
- announced on February 5, 2019 the expansion of its extraction capacity with the order of three new Vitalis extraction systems, expected to be delivered before the end of February 2019. This order will see two new units to be delivered to CannaCure in Fort Erie, ON, and one new unit to be installed in addition to the Company’s existing extraction unit at Falkland, BC in the PhyeinMed location. Once installation of all four systems are completed, and the necessary licenses from Health Canada are obtained, Heritage will become one of the largest processing companies in Canada in terms of extraction capacity;
- announced on February 7, 2018 the appointment of Erin Prohaska, CPA, CA to the executive position of Chief Financial Officer;
- announced February 8, 2019 that it has granted a total of 5,500,000 incentive stock options to directors/officers/employees and/or consultants under the Company’s Stock Option Plan. The options are exercisable at $0.34 per share and will expire February 8, 2024.
- announced on February 11, 2019 the appointments of Ms. Céline Arsenault, CPA, CA to the Board of Directors and as the Chair of the Audit Committee, Mr. Daniel Phaure, CPA, CA joining the Executive Management Team as the Chief Operating Officer, and Ms. Elizabeth Thomas as Corporate Secretary. Following Ms. Arsenault’s appointment, the Heritage board will be comprised of five members;
- announced on February 12, 2019 that Heritage has updated its corporate presentation for investors on its website www.heritagecann.com. This presentation reflects the Company’s current position and near term objectives;
- announced on February 20, 2019 that the first two Vitalis Q90 extraction systems have been successfully installed in the PhyeinMed facility in Falkland, British Columbia and are now ready for testing and certification by the manufacturer;
- announced on February 21, 2019 the arrival of the first two Vitalis Q90 extraction systems at the CannaCure facility in Fort Erie, Ontario;
- announced on February 25, 2019 the addition of BriteLife Sciences Ltd. (“BriteLife”), a newly formed wholly owned subsidiary dedicated to furthering the Company’s footprint in the medical cannabis market. This new subsidiary will look to introduce various medical related propriety branded products and partnerships with other recognized industry leaders. Dr. Chris Spooner, Heritage’s Chief Science Officer, will oversee the strategic direction while Cyndi McLean will take the role as Vice President of Business Development for BriteLife, responsible for sales and client relationship management.

As the Company does not yet have positive 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 12 month corporate objectives are:

The Company received gross proceeds of $7,500,000 from the sale of the Special Warrants. The net proceeds to the Company from the Offering is approximately $6,812,175 after deducting the Agents' Fee and expenses in connection with the Offering and the estimated expenses of the Company in connection with the qualification for distribution of the Units. The Company intends to use the net proceeds from the Offering as set out in the table below:

Purchase three oil extraction machines (one for the Falkland Facility and two for the Fort Erie Facility), prepare building sites for installation including installation of cooling and related equipment	$2,000,000
Expansion of cannabis oil extraction and processing capabilities at the Fort Erie Facility, including completion of grow rooms, installation of security equipment, HVAC, purchasing equipment and clones	$1,000,000
Retrofit a portion of the cultivation and processing facilities at the Falkland Facility in order to commence growing operations	$500,000
Explore international opportunities in hemp and cannabis oil supply and distribution	$1,000,000
Purchase hemp feedstock for each of the Fort Erie Facility and the Falkland Facility	$500,000
General and administrative expenses	$1,500,000
Working Capital	$312,175
Total	$6,812,175

Although the Company intends to use the proceeds from the Offering as set forth above, the actual allocation of the net proceeds may vary depending on future developments or unforeseen events. See "Risk Factors – The Company has discretion in the use of net proceeds".

Plans for international expansion are first subject to completing the Company's Canadian expansion strategy. To the extent that the Canadian expansion strategy experiences unexpected cost over runs, funds for the international expansion will be repurposed. The Company does not have the funds for full scale entrance into any international market. The Company's intent with the funds available, once the Canadian expansion strategy is complete, is to identify a project that will create significant growth opportunities and shareholder value in which it can be a participant. As at the date of the Prospectus, no single international investment has been identified. Approximately $250,000 has been allocated initially to conducting due diligence (including travel) to identify potential opportunities.

Pending the use of proceeds outlined above, the Company intends to invest the net proceeds of the Offering in investment grade, short-term, interest bearing securities with preservation of capital and short-term liquidity being important investment parameters. The Chief Financial Officer is responsible for executing the Company's investment policies.

Milestones

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

Objective	**Milestone**	**Anticipated Cost**	**Estimated time to completion**
Oil Extraction Machines	Acquisition and installation	$2,000,000	Late March/April 2019
Fort Erie Facility Expansion		$1,000,000	Q2-Q3 2019
Falkland Facility Retrofit		$500,000	Complete

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 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.

1.3 Selected Annual Information

Fiscal year ended	2018 ($)	2017 ($)	2016 ($)
Net sales	N/A	N/A	N/A
General and administrative expenses	(6,834,262)	(2,045,715)	(1,024,941)
Net income/(loss) and comprehensive income/(loss) for the year	(6,671,374)	21,534	(1,029,693)
Basic and diluted loss per share	(0.04)	0.00	(0.02)
Total assets	12,699,236	8,076,345	764,461
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, 2018, the Company reported a net loss and comprehensive loss of $6,671,374 or $0.04 per share, as compared to a net income and comprehensive income of $21,534 or $0.00 per share for the year ended October 31, 2017. General and administrative expenses increased from $2,045,715 to $6,834,262, an increase of $4,788,547. This increase was mainly attributable to:

a) Advertising, travel and promotion decreased from $113,862 for the year ended October 31, 2017 to $83,495 for the year ended October 31, 2018. This decrease of $30,367 was mainly due to a digital marketing program carried out to raise investor awareness of the Company's new developments during the year ended October 31, 2017 that was not continued during the current year.

b) Consulting fees increased from $567,988 for the year ended October 31, 2017 to $1,165,856 for the year ended October 31, 2018, an increase of $597,868. This increase in consulting fees was mainly due to the use of consultants to identify, carry out due diligence and negotiate the acquisition terms for CannaCure Corporation and Purefarma Solutions Inc. and to engage Stanley Park Digital for the development and integration of a proprietary cannabis supply chain management system.

c) Management fees of $200,000 was recorded during the year ended October 31, 2018 as compared to $115,890 in the prior year. This increase of $84,110 was due to an increase in monthly management fees caused by the increased activity required to administer and manage the Company as it evolves from a development to operating company.

d) Office expense and miscellaneous increased from $35,723 for the year ended October 31, 2018 to $215,544 for the year ended October 31, 2018, an increase of $179,821. This increase was mainly due to the increased infrastructure required to manage the Company's 75% interest in PhyeinMed office administration in preparation of becoming an operating company.

e) Professional fees increased from $80,870 for the year ended October 31, 2017 to $310,132 for the year ended October 31, 2018, an increase of $229,262. This increase was significantly due to the assistance of legal and accounting professionals with the preparation, completion and filing of its Change of Business filing statement and the preparation of the LOI to subsequently acquire CannaCure.

f) Regulatory fees increased from $10,393 for the year ended October 31, 2017 to $26,064 for the current year, an increase of $15,671. This increase was primarily due to filing the Company's fundamental change of business in fiscal Q1 - 2018 with the CSE.

g) Shareholder communications increased from $21,906 for the year ended October 31, 2017 to $59,377 for the year ended October 31, 2018, an increase of $37,471. 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.

h) Stock-based compensation expense increased from $1,080,207 for the year ended October 31, 2017 to $4,652,116 for the year ended October 31, 2018, an increase of $3,571,909. A total of 11,050,000 incentive stock options were granted during the year to entice and retain key personnel with a deemed value of $2,976,922. A total of $1,675,194 stock-based compensation related to the 6,000,000 Restricted Share Units granted to entice and retain key personnel vested during the year. This is a non-cash expense which was attributable to the number of options/RSU's granted and vested during the year and the assumptions used for the Black-Scholes option pricing model.

i) Transfer agent and shareholder information increased from $17,681 for the year ended October 31, 2107 to $34,906 for the year ended October 31, 2018, an increase of $17,225. This increase is due to the number of shares issued for the exercise of warrants and options and the increase in Annual General Meeting mailout costs due to the increase in the number of shareholders of the Company.

j) Wages and salaries increased from $nil for the year ended October 31, 2017 to $77,211 for the year. This is due to the addition of 3 fulltime employees to PhyeinMed's team during the year to advance the Falkland Facility to become ready for operations for fiscal 2019.

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 advance the Falkland Facility in preparation of becoming an operating company. 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 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Total revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net (gain)/loss and comprehensive (gain)/loss	$1,285,948	$1,742,714	$1,797,436	$1,845,276	($1,441,868)	$560,927	$735,484	$123,923
Basic loss per share (1)	$0.01	$0.01	$0.01	$0.01	$0.00	$0.01	$0.01	$0.01

(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 2018, the Company recorded a gain of $109,238 on the write-off of accounts payable mainly due to the re-estimation of the provision for flow-through liability of $69,927.

During the third quarter of 2018, the Company recorded $740,112 in stock-based compensation for the portion of 6,000,000 RSU's vested during the current three month period. This is a non-cash expense. The Company also hired technical consultants to assist in the development and expansion of its MMPR business projects.

During the second quarter of 2018, the Company granted 3,200,000 incentive stock options to its directors, officers and technical consultants of the Company which resulted in the recognition of $1,446,342 in stock based compensation.

During the first quarter of fiscal 2018, the Company granted 7,850,000 incentive stock options and recognized $1,530,577 in stock based compensation to entice and retain key personnel.

During the fourth quarter of fiscal 2017, the Company acquired an additional 25% interest in PhyeinMed which resulted in a gain on step acquisition of $2,211,000 of its initial 50% interest.

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.

The expenses incurred by the Company are those typical of development stage companies that does not yet have cash flows from operations. In some quarters more expenses are incurred than in others as a result of non-recurring activities or events. The Company has incurred operating losses since inception, does not have positive operating cash flow, and there can be no assurances that sufficient funding, including adequate financing, will be available to develop its business plans and to cover general and administrative expenses necessary for the maintenance of a public company. The ability of the Company to arrange additional financing in the future depends in part, on the prevailing capital market conditions. These factors may cast significant doubt on the Company's ability to continue as a going concern. Accordingly, the consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments other than in the normal course of business and at amounts different from those in these consolidated financial statements.

1.6 Liquidity

On October 31, 2018, the Company had a cash position of $1,174,600 and working capital of $1,080,886 compared to $1,647,781 cash at October 31, 2017 and working capital of 1,496,938.

During the year ended October 31, 2018, the Company used cash of $2,217,976 for operating activities compared to $1,121,278 during the year ended October 31, 2017. The material change in non-cash operating assets and liabilities was principally due to the increase in GST receivable in the amount of $242,997 during the year ended October 31, 2018 as compared to $17,576 in the prior year and the increase in accounts payable of $368,034 during the current year as compared to a decrease in the prior year of $24,234.

The Company invested $4,484,250 in property, plant and equipment during the year ended October 31, 2018 as compared to cash outflows of $1,190,242 for property, plant and equipment in the prior year. The Company received $151,150 in proceeds from the sale of marketable securities as compared to $48,620 in the prior year. The Company advanced $250,000 for a 20% interest in Stanley Park Digital, a blockchain developer working on a Cannabis Supply Chain Management System which will be designed to track and document all aspects of production from 'seed to sale'.

The Company received total proceeds from financing activities of $6,272,895 for the issuance of share capital as a result of the exercise of incentive stock options and warrants during the year ended October 31, 2018 compared to proceeds of $3,884,862 during the year ended October 31, 2017 which included a non-brokered private placement for gross proceeds of $2,622,000.

Subsequent to October 31, 2018,

- The Company received gross proceeds of $7,500,000 from the sale of the 33,000,000 Special Warrants. The net proceeds to the Company from the Offering is approximately $6,812,175 after deducting the Agents' Fee and expenses in connection with the Offering and the estimated expenses of the Company in connection with the qualification for distribution of the Units.

The Company anticipates it will require additional capital in the future to advance the buildout of its plans and general and administrative expenses, such capital to be derived equity raises and/or debt placements. 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, 2018, the Company has cash of $1,174,600 (October 31, 2017 - $1,647,781). The Company presently has no long-term debt or other financial commitments.

The Company intends to use its funds as described in the table below.

Purchase three oil extraction machines (one for the Falkland Facility and two for the Fort Erie Facility), prepare building sites for installation including installation of cooling and related equipment	$2,000,000
Expansion of cannabis oil extraction and processing capabilities at the Fort Erie Facility, including completion of grow rooms, installation of security equipment, HVAC, purchasing equipment and clones	$1,000,000
Retrofit a portion of the cultivation and processing facilities at the Falkland Facility in order to commence growing operations	$500,000
Explore international opportunities in hemp and cannabis oil supply and distribution	$1,000,000
Purchase hemp feedstock for each of the Fort Erie Facility and the Falkland Facility	$500,000
General and administrative expenses	$1,500,000
Working Capital	$1,486,775
Total	$7,986,775

Subsequent to October 31, 2018, the Company received gross proceeds of $7,500,000 from the sale of the 33,000,000 Special Warrants. The net proceeds to the Company from the Offering is approximately $6,812,175 after deducting the Agents' Fee and expenses in connection with the Offering and the estimated expenses of the Company in connection with the qualification for distribution of the Units.

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, 2018, the Company incurred $170,000 (2017 - $115,890) for management fees to a company controlled by Jag Bal, a former director. The Company also incurred $30,000 (2017 - $nil) for management fees to a company controlled by Clint Sharples, a director and CEO of the Company.

b) During the year ended October 31, 2018, the Company incurred $60,000 (2017 - $49,910) for consulting fees to Clint Sharples or a company controlled by Clint Sharples. The Company also incurred $2,000 (2017 - $nil) for consulting fees to a company controlled by Jag Bal, a former director of the Company. The Company also incurred $114,286 (2017 - $nil) for consulting fees to a company controlled by Debra Senger, a director of the Company.

c) As of October 31, 2018, Clint Sharples and a company controlled by Clint Sharples were owed $44,808 (October 31, 2017 - $nil) and Debra Senger, a director of the Company was owed $10,650 (October 31, 2017 - $nil).

Management compensation transactions for the year ended October 31, 2018 and 2017 are summarized as follows:

	2018	2017
Short-term management benefits	**$ 200,000**	$ 115,890
Consulting fees	**$ 176,286**	$ 49,910
Share-based payments	**$ 1,977,577**	$ 239,831

1.10 Fourth Quarter

Fourth quarter financials do not differ significantly from prior periods but have increased due the infrastructure required to manage the Company's 75% interest in PhyeinMed office administration in preparation of becoming an operating company with its subsequent acquisitions of CannaCure and Purefarma.

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 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 12 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.

iv) Estimated useful lives and depreciation of property, buildings and equipment and intangible assets

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives and when the asset is available for use, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

v) Impairment of property, buildings and equipment and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that the carrying amount is not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When an individual asset does not generate independent cash flows, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

1.13 <u>Changes in Accounting Policies including Initial Adoption</u>

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 determined the impact the standard will have on the Company's financial statements

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, 2018, the Company had working capital of $1,080,886 (October 31, 2017 – $1,496,938). 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, 2018		October 31, 2017	
	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Cash	1	**$ 1,174,600**	**$ 1,174,600**	$ 1,647,781	$ 1,647,781
Marketable securities	1	**$ -**	**$ -**	$ 97,500	-

1.15 Other MD & A Requirements

Disclosure of Outstanding Share Capital

Authorized: Unlimited common shares without par value

	SHARE CAPITAL NUMBER	AMOUNT($)
Balance, October 31, 2016	**63,342,146**	**6,067,501**
Issued shares for cash:		
Shares issued for non-brokered private placement	43,700,000	2,622,000
Share options exercised	13,030,000	1,772,576
Warrants exercised	7,702,951	482,321
Share issue costs	-	(301,538)
Shares issued for acquisition	7,000,000	665,000
Shares issued for mineral property	1,500,000	112,500
Balance, October 31, 2017	**136,275,097**	**11,420,360**
Issued shares for cash:		
Share options exercised	8,559,000	2,978,287
Warrants exercised	49,085,353	5,000,055
Stock based compensation – RSU's granted	6,000,000	1,820,000
Shares issued for receipt of MMPR license	4,000,000	380,000
Balance, October 31, 2018	**203,919,450**	**21,598,702**
Issued shares for cash:		
Brokered private placement	33,000,000	7,500,000
Warrants exercised	129,375	7,763
Share issue costs - cash	-	(387,825)
Share issue costs – other estimated cash expenses	-	(300,000)
Share issue costs – broker warrants	-	(358,479)
Shares issued for acquisition - CannaCure	133,333,326	40,000,000
Shares issued for finders fees - CannaCure	4,000,000	1,200,000
Shares issued for acquisition - Purefarma	33,333,333	6,500,000
Shares issued for finders fees - Purefarma	1,200,000	234,000
Balance, February 27, 2019	**408,915,484**	**$ 75,994,161**

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 $882,500 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.

During the year ended October 31, 2018, received $4,776,535 for the exercise of 49,085,353 warrants exercised at $0.06 and $0.10 per common share which resulted in a transfer from share-based payment reserve to share capital of $223,520 and $1,496,360 for the exercise of 8,559,000 options at prices ranging between $0.065 and $0.59 which resulted in the transfer from share-based payment reserve to share capital of $1,481,927.

In accordance with the Share Purchase Agreement to acquire an additional 25% controlling interest in PhyeinMed Inc., the Company issued to 4,000,000 common shares at a deemed price of $0.095 upon ACMPR License receipt. The Company issued 6,000,000 common shares under the terms of the RSU plan that was ratified and approved by the shareholders at the Company AGM held August 10, 2018.

Subsequent to October 31, 2018, received $7,763 for the exercise of 129,375 warrants exercised at $0.06 per common share. Pursuant to the definitive agreement signed October 18, 2018 and amended October 25, 2018, the Company issued 133,333,326 common shares on November 5, 2018 to the holders of CannaCure shares at a deemed price of $0.30 per share. The Company also issued 4,000,000 common shares at a deemed price of $0.30 as a finder's fee. On November 7, 2018, the Company completed a brokered private placement financing of 33,000,000 Special Warrants for aggregate gross proceeds of $7,500,000. The Company paid $387,825 cash commission and issued 1,551,300 broker special warrants. Each Special Warrant entitles the holder to receive without additional consideration one Unit of the Company, each Unit being comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.35 on a date that is earlier of May 7, 2021 or as specified in the acceleration notice. Pursuant to a definitive agreement dated December 7, 2018, the Company issued 33,333,333 common shares on December 14, 2018 to the of Purefarma shares at a deemed price of $0.195 per share. The Company also issued 1,200,000 common shares at a deemed price of $0.195 as a finders fee.

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. As at October 31, 2018, there were 4,200,000 common shares held in voluntary escrow. As at the date of this MD&A a further 1,050,000 were released leaving 3,150,000 held in voluntary escrow.

Share Purchase Warrants

The following share purchase warrants were outstanding at October 31, 2018:

NUMBER OF WARRANTS	EXERCISE PRICE	EXPIRY DATE
129,375	$0.06	December 20, 2018
102,960	$0.10	August 30, 2019
232,335		

Subsequent to October 31, 2017, received $7,763 for the exercise of 129,375 warrants exercised at $0.06 per common share. The Company also completed a brokered private placement financing of 33,000,000 special warrants (the "Special Warrants") at the price of $0.25 per Special Warrant for aggregate gross proceeds of $7,500,000. The offering was conducted by a syndicate of agents led by Cormark Securities Inc, and including Canaccord Genuity Corp. Each Special Warrant entitles the holder thereof to receive, upon exercise or deemed exercise and without payment of additional consideration, one unit of the Company (each a "Unit"), subject to a penalty clause. All unexercised Special Warrants shall be deemed exercised on behalf of, and without any required action on the part of, the holders on the earlier of: (i) March 8, 2019 and (2) the third business day after the date on which a receipt for a final short form prospectus qualifying the Units underlying the Special Warrants is issued by the British Columbia Securities Commission, on behalf of the applicable securities commissions. Each Unit is comprised of one common share of the Company (the "Common Shares") and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one Common

Share at an exercise price of $0.35 on a date that is the earlier of (i) May 7, 2021 and (ii) the date specified in any warrant acceleration notice.

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, 2018:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY DATE
2,000,000	$0.10	August 16, 2022
480,000	$0.14	November 15, 2022
700,000	$0.59	January 22, 2023
1,261,000	$0.54	March 19, 2023
1,250,000	$0.35	April 30, 2023
5,691,000		

Subsequent to year end, on February 8, 2019 the Company announced that it had granted a total of 5,500,000 incentive stock options to directors/officers/employees and/or consultants under the Company's Stock Option Plan. The options are exercisable at $0.34 per share and will expire February 8, 2024. Following this grant of options, the Company has 10,791,000 stock options outstanding.

SUBSEQUENT EVENTS

Please refer to Note 19 - Subsequent Events of the Annual Consolidated Financial Statements for the year ended October 31, 2018 for full disclosure of the subsequent events occurring subsequent to October 31, 2018 or Section 1.2 – Overall Performance of this MD&A.

DIRECTORS AND OFFICERS

The directors and officers of the Company are:

Donald Ziraldo, Director and Chairman
Clint Sharples, President, CEO and Director
Graeme Staley, Director
Celine Arsenault, Director
Debra Senger, Director
Erin Prohaska, CFO
Daniel Phaure, COO
Elizabeth Thomas, Secretary

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 is nearing completion of the first phase of its greenhouse construction plan at its Falkland, BC location. Phase one, which consists of four, 4,000 square foot greenhouses is expected to be in operation by April 2019. The Company will continue its greenhouse buildout in Falkland during the second half of 2019 and into 2020.

As a result of our acquisition of CannaCure Corporation, mentioned in the subsequent events, the Company completed its first harvest at its licensed facility in Fort Erie, Ontario and anticipates launching its second grow process following the installation of extraction systems.

The acquisition of Purefarma has significantly advanced two key Company initiatives: extraction capability and hemp procurement. Utilizing Purefarma's expertise in the field of extraction, the Company secured its first four extraction machines in Q2 2019. Management anticipates that these initial extraction machines will be installed and operational (pending appropriate regulatory licenses) in Q2 2019. The initial extraction capacity rated volume is expected to be approximately 100,000 kgs of dried flower annually. Via Purefarma, the Company has satisfied its hemp procurement initiative by securing 1,600 acres of hemp for extraction in 2019 and increasing the hemp supply to 3,000 acres in the subsequent year. Subject to receiving the required licences from Health Canada, the product from the 2018 crop will be processed through the initial machines currently being installed.

The Company expects it will expand its product offering into beverages, edibles and infusions, as government regulations are finalized and released. The product expansion will primarily occur at its 122,000 square foot facility in Fort Erie, Ontario and is expected to be done with select partners. Types of products and desirable markets are under review.

Through the course of 2019, the Company will continue on its path towards product expansion and partnerships in furtherance of its plan to leverage the benefits of recent acquisitions.

RISKS AND UNCERTAINTIES

The following are certain factors relating to the Company's business which prospective investors should carefully consider before deciding whether to purchase Common Shares 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 AIF. 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.

Risks related to operating the Company's business

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, equitylinked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of holders of Common Shares, and existing holders of such shares may experience dilution.

Reliance on Licenses

Failure to comply with the requirements of the PhyeinMed and CannaCure Licenses, or any failure to maintain the licenses would have a material adverse impact on the business, financial condition and operating results of PhyeinMed and CannaCure.

Reliance on Facilities

The Company's existing facilities in Falkland, British Columbia and Fort Erie, Ontario are integral to the Company's grow operations and its ability to integrate the extraction capabilities of Purefarma. Any adverse changes or developments affecting either facility may impact the Company's ability to produce medical cannabis and cannabis products, its business, financial condition and its results of operations.

Volatile Market Price for Common Shares

The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Company operates;
- addition or departure of the Company's executive officers and other key personnel;
- release or expiration of transfer restrictions on outstanding Common Shares;
- sales or perceived sales of additional Common Shares;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the Company's industry generally and its business and operations;
- announcements of developments and other material events by the Company or its competitors;
- fluctuations to the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates and 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 Cannabis Regulations

The market for cannabis (including medical marihuana) in Canada is regulated by the Controlled Drug and Substances Act, the Cannabis Act and Regulations, the Narcotic Control Regulations, and other applicable law. Health Canada is the primary regulator of the industry as a whole. The Cannabis Act and Regulations aim 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 Cannabis Regulations 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	**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 Cannabis Act; (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 *Cannabis Regulations* 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 *Cannabis Regulations* have been met, and the application

	successfully completes the Detailed Review and Security Clearance stage, a license to produce will be issued.
4 **PhyeinMed and CannaCure applications are in this stage**	**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 *Cannabis Regulations*, 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 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 *Cannabis Regulations*, 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 *Cannabis Regulations*. Separate licenses may be issued for dried marijuana, plants and/or cannabis oil.

Holding Company Status

The Company is a holding company and essentially all of its operating assets are the capital stock of its subsidiaries. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to the Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the Company.

Management of Growth

The Company may be subject to growth-related risks 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 Company's brand and the brands of its subsidiaries.

Dividends

The Company's policy is to retain earnings to finance the development and enhancement of its products and to otherwise reinvest in the Company's businesses. Therefore, the Company does not anticipate paying cash dividends on Common Shares in the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of the board 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 the Cannabis Industry

The Cannabis Industry is Subject to Competition

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

Because of the early stage of the industry in which the Company operates in the cannabis area, the Company 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 the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products and pricing strategies. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Consumer perception

Consumer perception regarding the safety, efficacy and quality of medical marijuana can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding consumption of medicinal marijuana products. There can be no assurance that consumer perception will remain positive or that adverse research reports, findings, proceedings, media attention or publicity, with or without merit, will not have a material and adverse impact on the medical marijuana industry as a whole, or the Company's ability to sell its products.

Regulatory Risks

The Company's subsidiaries operate in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements. The Company's ability to grow, store 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.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of our operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the Company's control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future capital investments or the Company's operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

Environmental Regulations and Risks

The Company's operations are subject to environmental regulation. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

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

The Company is subject to changes in Canadian laws, regulations and guidelines which could adversely affect the Company's future business, financial condition and results of operations.

The Company's operations will be subject to various laws, regulations and guidelines relating to the manufacture, management, packaging/labelling, advertising, sale, transportation, storage and disposal of medical cannabis but also including laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects business, financial condition and results of operations of the Company. The Company endeavours to comply with all relevant laws, regulations and guidelines. To the best of the Company's knowledge, the Company is in compliance or in the process of being assessed for compliance with all such laws, regulations and guidelines.

On June 30, 2016, the Canadian Federal Government established the Task Force to seek input on the design of a new system to legalize, strictly regulate and restrict access to marijuana. On November 30, 2016, the Task Force completed its review and published a report outlining its recommendations. On April 13, 2017, the Canadian Federal Government released Bill C-45, which proposes the enactment of the Cannabis Act, to regulate the production, distribution and sale of cannabis for unqualified adult use. On October 17, 2018, the Cannabis Act, as well as laws to address drug-impaired driving, protect public health and safety and prevent youth access to cannabis, came into force.

The Cannabis Act prohibits testimonials and branding and packaging that is appealing to youth. The restrictions on advertising, marketing and the use of logos and brand names could have a material adverse impact on the Company's business, financial condition and results of operation. The legislative framework pertaining to the Canadian adult-use cannabis market is developing and subject to change. In addition, the governments of every Canadian province and territory have, to varying degrees, announced proposed, and in some cases enacted, regulatory regimes for the distribution and sale of cannabis for adult-use purposes within those jurisdictions. There is no guarantee that provincial legislation regulating the distribution and sale of cannabis for adult-use purposes will be enacted according to all the terms announced by such provinces and territories, or at all, or that any such legislation will create the growth opportunities that the Company currently anticipates. While the impact of any new legislative framework for the regulation of the Canadian adult-use cannabis market is uncertain, any of the foregoing could result in a material adverse effect on the Company's business, financial condition and results of operation.

Restrictions on Sales Activities

The industry is in its early development stage and restrictions on sales and marketing activities imposed by Health Canada, various medical associations, other governmental or quasi-governmental bodies or voluntary industry associations may adversely affect the Company's ability to conduct sales and marketing activities and could have a material adverse effect on the Company's respective businesses, operating results and financial conditions.

Competition

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 *Cannabis Regulations* to cultivate, process and/or 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 153 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

The Company'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 the Company 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

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

Product Liability

As a manufacturer and distributor of products designed to be ingested or inhaled by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of products involve the risk of injury or loss to consumers due to tampering by unauthorized third parties, product contamination, unauthorized use by consumers or other third parties. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury, illness or loss, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, adversely affect the Company's reputation with its respective clients and consumers generally, and adversely affect the results of operations and financial conditions of the Company.

Product Recalls

Manufacturers and distributors of products may be subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention.

Operating Risk and Insurance Coverage

The Company has insurance to protect its assets, operations and employees. While the Company 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 the Company is exposed. However, the Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon the Company's financial performance and results of operations.

Unfavourable Publicity or Consumer Perception

Management of the Company believes the medical marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marijuana produced. Consumer perception of the Company's proposed products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of 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 the Company's proposed products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for its proposed products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical marijuana in general, or the Company'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.

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.

"*Clint Sharples***"**

Chairman, CEO and Director
February 27, 2019