HERITAGE CANNABIS HOLDINGS CORP.

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS

For The Three Month Period Ended January 31, 2020

This Management Discussion and Analysis – Quarterly Highlights for Heritage Cannabis Holdings Corp. provides analysis of the Company's interim condensed consolidated financial results for the three month period ended January 31, 2020. The following information should be read in conjunction with the accompanying interim condensed consolidated financial statements and related notes for the three month period ended January 31, 2020 and the annual consolidated financial statements and related notes for the year ended October 31, 2019.

HERITAGE CANNABIS
Holdings Corp

Date of Report

The following Management Discussion and Analysis – Quarterly Highlights ("**MD&A**") focuses on significant factors that have affected Heritage Cannabis Holdings 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 interim condensed consolidated financial statements for the three month period ended January 31, 2020 and the annual consolidated financial statements and related notes for the year ended October 31, 2019, 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 March 30, 2020.

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, capacity and yield;
- expectations regarding our growth rates, growth plans and strategies;
- expectations with respect to the approval and/or amendment of the Company's licenses;
- expectations with respect to the future growth of its medical and recreational cannabis products;
- the medical benefits, safety, efficacy, dosing and social acceptance of cannabis;
- the Company's competitive position and the regulatory 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;
- cannabidiol oil processing efficiency and sales;
- impact of scientific findings regarding long term impacts of Cannabis use or ability to cure medical issues;
- the ability of the Company to access sufficient power for generation of greenhouses;
- the efficiency of mechanical processing for hemp;
- the variability of hemp farming; and
- estimations and anticipated effects of the COVID-19 pandemic.

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 "Risks and Uncertainties", which include:

- the Company's expectations regarding its revenue, expenses and research and development operations;
- the Company's anticipated cash needs and its needs for additional financing;
- the Company's intention to grow the business and its operations;
- expectations with respect to future production costs, capacity and yield;
- expectations regarding its growth rates, growth plans and strategies;
- expectations with respect to the approval and/or amendment of the Company's licenses;
- expectations with respect to the future growth of its medical and recreational cannabis products;
- the medical benefits, safety, efficacy, dosing and social acceptance of cannabis;
- the Company's competitive position and the regulatory environment in which the Company operates;
- the Company's expected business objectives for the next twelve months;
- 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;
- cannabidiol oil processing efficiency and sales;
- impact of scientific findings regarding long term impacts of Cannabis use or ability to cure medical issues
- the ability of the Company to access sufficient power for generation of greenhouses;
- the efficiency of mechanical processing for hemp;
- the variability of hemp farming; and
- risks related to the current global financial conditions and the impact of COVID-19.

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 "Risks and Uncertainties", which include:

- the Company has 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;
- 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, retain and/or renew 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 may have 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 common shares of the Company (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, quality of crop, 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 the *Cannabis Act* (the "**Cannabis Act**") and the current and proposed regulations thereunder (the "**Cannabis Regulations**"), the Company may have restrictions on the type and form of marketing and packaging 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 Common Shares;
- the Company is subject to certain construction related risks;
- the Company is subject to force majeure events, including global pandemics such as the recent COVID 19 pandemic;
- licencing risks related to expansion of operations, including multi-site license amendments;
- 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 "Risks and Uncertainties" should be considered carefully by readers.

The Company's forward-looking statements are based on the reasonable beliefs, expectations and opinions of 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 interim condensed consolidated financial statements, are the responsibility of Management. In the preparation of the accompanying interim condensed 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 interim condensed 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.

Nature of Business

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 Common 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 (as such term is defined in the CSE Policy 8) and operates as a cannabis issuer.

The Company's head office is located at 77 Bloor Street West, Toronto, Ontario, M5S 1M2. At its August 9, 2019 annual general and special meeting of the shareholders of the Company, the shareholders approved a continuance into Ontario, which was effective on November 4, 2019.

Heritage is a vertically integrated cannabis-based business, focusing on the emerging Canadian cannabis market, which is regulated under the Cannabis Act, the Cannabis Regulations, and other applicable laws. The Cannabis Act received Royal Assent on June 21, 2018 and it, along with its supporting regulations, came into force on October 17, 2018. On October 17, 2019, amendments to the Cannabis Regulations came into force, permitting the production and sale of cannabis edibles, extracts, and topicals.

In pursuit of its vision, Heritage has built an infrastructure of complementary entities, each focused on the Company's strategy to build a vertically integrated cannabis business.

Heritage's subsidiary, Voyage Cannabis Corp. (formerly PhyeinMed Inc.) ("**Voyage**"), holds a Health Canada issued cultivation, processing and medical sales licence. Voyage operates out of a 15,500 square foot processing facility in Falkland, British Columbia, which has been fit out with a drying room, trimming room, packaging area and an approved security level vault. Voyage's current cultivation strategy will be fulfilled through greenhouses, which will be built on the property's 13 acres of land. Currently, greenhouses with a total square footage of 16,000 have been erected.

CannaCure Corporation ("**CannaCure**"), a wholly owned subsidiary of Heritage, operates out of 122,000 square foot facility in Fort Erie, Ontario. Currently, CannaCure holds a Health Canada cultivation, processing and medical sales licence under the Cannabis Regulations. The facility was a former manufacturing plant for a pharmaceutical white labeler. Presently, approximately 24,260 square feet has been retrofitted for cannabis activities, and Management believes that the size and layout of the facility offer significant advantages in terms of expansion and diversification of product offerings and services. Subject to an expansion of the cultivation capacity discussed below, Management has earmarked the remainder of the facility for extraction and strategic partnerships, including related storage requirements. Management has developed partnership criteria and is in the process of assessing further potential partnerships for finished goods (edibles and infusion products) in connection with the ultimate selection of long term strategic partners.

Purefarma Solutions Inc. ("**Purefarma**") is a wholly owned subsidiary with its head office in Kelowna, British Columbia. A leader in extraction techniques and processing, Purefarma has deployed its team and devotes its efforts on Heritage's processing activities. Purefarma is strategic to the Company's vertically integrated business strategy for its extraction and processing capabilities. It also works closely with the Company's newest wholly owned operating entity, Calyx Life Sciences Corp. ("**Calyx**") (formerly, BriteLife Sciences Ltd.) on medical and educational initiatives.

On December 18, 2018, Heritage incorporated Calyx to support its business objectives by creating products and services which champion an integrative approach to cannabinoid therapy for healthcare consumers and healthcare practitioners. Led by Dr. Chris Spooner, the Company's Chief Science Officer, Calyx seeks to develop tools, resources and methods to simplify and normalize the use of medical cannabis while at the same time optimizing health outcomes for patients through a personalized and scientific approach to cannabinoid therapy.

During the third quarter of the year ended October 31, 2019, the Company commenced the build-out of its United States corporate infrastructure, with the incorporation of Heritage US Holdings Corp., a Delaware based entity, and Heritage (US) Cali Corp. ("Cali Corp") a California company. On July 26, 2019, through a series of transactions, Cali Corp. acquired a 30% interest in EndoCanna Health, Inc. ("EndoCanna"), the Company's first investment in the United States.

First Quarter Updates

On November 5, 2019, the Company announced the completion of its continuation out of the Province of British Columbia under the provisions of the *Business Corporations Act* (British Columbia) into the Province of Ontario under the provisions of the *Business Corporations Act* (Ontario), as approved by the shareholders of the Company at the annual general and special meeting of the shareholders held on August 9, 2019.

On November 12, 2019, the Company announced that it has entered into a supply and manufacturing agreement with James E. Wagner Cultivation Corporation ("JWC") for the filling and packing of vape pen cartridges for Canadian recreational and medical markets. Under the twelve-month supply and manufacturing agreement, JWC will provide the Company with a minimum of 100 kilograms per month of aeroponically-grown premium-grade cannabis biomass for processing into direct-to-vape products which maintain the natural properties of the cannabis strain and assures no harmful additives or heavy metals are blended into the oil.

On November 25, 2019, the Company announced that its wholly-owned subsidiary and Health Canada license holder, CannaCure, received amendment licensing approval in accordance with Health Canada's Cannabis Act and Cannabis Regulations for the expansion of three additional rooms at its facility in Fort Erie, Ontario. The approved rooms will be used for operating extraction machines, and various downstream equipment related to extraction and the production of formulated cannabis oil. This expanded space will enable the installation of two new Vitalis Q90 extraction systems which were delivered in the third quarter of 2019.

On December 4, 2019, Heritage announced the launch of its EndoDNA Test Kit in Canada powered through its partly owned subsidiary Endocanna. The EndoDNA test analyzes over 500 genes and more than 550,000 Single Nucleotide Polymorphisms in the human body, and provides a personalized EndoDecoded report, identifying how an individual's specific genetic makeup interacts with cannabinoids and terpenes. The custom report will help customers select cannabis with the right cannabinoid profile and assist with choosing the formulation, dosage, and best delivery method for their needs.

On December 11, 2019 the Company announced a partnership with Brock University ("Brock") to further Brock's research of cannabis tissue culture and contribute to the advanced understanding of the medical benefits of cannabis. The goal of the research is improving the quality and health of medicinal-use cannabis plants through disease diagnostics and testing.

On February 3, 2020 the Company announced that it had entered into a term loan agreement with Trichome Financial Corp. for total proceeds of $6,700,000. The term loan is advanceable in two tranches of $4,875,000 and

$1,825,000 respectively and has a 24-month contractual term maturing January of 2022. The term loan bears interest at 9.50% per annum, with monthly interest-only payments, and all principal due on maturity. The term loan also bears an original issue discount of 4.50%.

On February 10, 2020 the Company announced the resignation of Debra Senger from the Board of Directors as well as her position as Chief Strategy Officer of the Company.

On March 5, 2020 the Company announced the advancement of its Joint Venture Partnership with Empower Clinics Inc. ("**Empower**"), with the order and installation of extraction and post-production equipment units at Empower's existing licensed hemp processing facility in Sandy, Oregon. Propriety branded products will be distributed through Empower's corporately owned physician staffed health clinics in Oregon and Arizona and in upcoming new franchise locations which currently have access to over 165,000 patients.

Plans and Milestones

During the quarter, Management continued to focus on completing key milestones to drive revenue. The following key milestones have been identified as critical success factors and are being actively monitored:

Milestone	Estimated time to completion
Secure long-term consumer-packaged cannabis contracts	Ongoing – Note 1
Phase 2 CannaCure facility extraction expansion	Ongoing– Note 2
Falkland facility – cultivation expansion	Ongoing
Voyage & CannaCure – obtain full Sales License	Q2 2020 – Note 3
Secure debt financing	Complete- Note 4

Note 1
In addition to the contract manufacturing agreements with Cronos Group Inc, and JWC, for the filling and packaging of vaporizer devices to be sold into the Canadian adult-use and medical markets, the Company continues to provide tolling services and seek out both short- and long-term contracts with other industry participants.

Note 2
Management continues to execute on its Phase 2 expansion strategy of its licensed space dedicated to extraction, downstream processing and additional products. On November 22, 2019, the Company received approval for the expansion of its licensed area from Health Canada. During Q1 2020, the Company completed the installation and commissioning of downstream processing equipment and is in the process of commissioning two extraction machines previously purchased.

Note 3
The Company has submitted its applications for full sales licenses at both facilities and is waiting on approval from Health Canada. In Q1 2020, Health Canada conducted its final site inspection at Voyage Cannabis Corporation, in connection with the issuance of a sales license. The Company anticipates the receipt of this license amendment in Q2 2020.

Note 4
In Q1 2020, the Company entered into a 24-month term loan agreement with Trichome Financial Corp. for total proceeds of $6,700,000, payable in two tranches. Tranche 1, being $4,875,000, was advanced on closing and Tranche 2, being $1,825,000, is available upon the earlier of (i) the issuance of a Health Canada sales license to CannaCure or Voyage, or (ii) the Company achieving consolidated revenues of $7,500,000.

The progression of the COVID-19 outbreak could have an impact on the Company's ability to reach the above-noted milestones due to the economic effect of COVID-19 on the Company's business and operations.

Results of Operations

For the three month period ended January 31, 2020, the Company recorded a net loss and comprehensive loss of $2,018,266 or $0.01 loss per share compared to a net loss and comprehensive loss of $3,789,021 or $0.01 loss per share for the three month period ended January 31, 2019.

The Company reported revenue of $4,008,395 for the three month period ended January 31, 2020, as compared to the same three month period in fiscal 2019 in which the Company's revenue was nil. Approximately two thirds of the revenue was derived from the sale of bulk oil with the remainder from the provision of services (i.e., tolling contracts and other downstream processing services). Cost of Sales, including excise taxes, amounted to $2,512,511 resulting in a gross margin percentage of approximately 37%. The Company's adjusted margin, a margin calculation which excludes the impact of excise taxes, is approximately 41%. As previously noted, the progression of the COVID-19 outbreak could have an impact on the Company's ability to maintain consistent revenue and/or achieve revenue targets in the remaining quarters of the fiscal year.

General and administrative expenses for the Company decreased by $788,184, from $3,803,904 for the three month period ended January 31, 2019 to $3,015,720 for the current three month period ended January 31, 2020.The net decrease was attributable to the following:

a) Advertising, travel and promotion increased by $94,280 from $59,566 for the three month period ended January 31, 2019 to $153,846 for the three month period ended January 31, 2020. Of the increase, $44,952 was directly attributable to corporate travel of management and $34,697 was related to travel of the Company's extraction team. The increased travel over that recorded in the first quarter of 2019 is a function of the efforts needed to manage a bicoastal company. In addition, with growth and increased personnel, the Company increased its representation at conferences and seminars resulting in an increase of $9,679 towards these expenditures.

b) Amortization expense increased by $374,253 from $396,525 for the three month period ended January 31, 2019 to $770,778 for the three month period ended January 31, 2020. The increase is largely attributable to depreciation of the Company's property, plant and equipment. The cost base of depreciable assets increased from $9,501,947 in the comparable quarter to $20,097,316 as at January 31, 2020, a result of additions to leasehold improvements and the acquisition of extraction and processing equipment over the course of the last 12 months.

c) Consulting fees increased by $66,858 from $391,912 for the three month period ended January 31, 2019 to $458,770 for the three month period ended January 31, 2020. Excluding $50,000 one-time acquisition costs recorded in the three month period ended January 31, 2019, the true increase is $116,858, of which $52,800 relates to an increased effort on the Company's medical business and positioning in the market including the engagement of a physician and $28,327 relates to human resource consultants for which there was no prior period comparable. In addition, the current quarter includes $16,000 of fees paid to external directors of the Company for which there was no prior period comparable. The remaining variance of $19,731 can be attributed to various consultants retained to provide cannabis specific expertise.

d) Management fees of $45,000 were recorded during the three month period ended January 31, 2020, which is in line with the management fees recorded in the comparable prior three month period.

e) Occupancy, office expense and other increased by $176,327 from $322,670 for the three month period ended January 31, 2019 to $498,997 for the three month period ended January 31, 2020. The $176,327 increase is offset by a $283,513 adjustment which capitalized indirect production expense capitalized, resulting in an actual variance of $459,840 from the three month period ended January 31, 2020. Of the increase, $180,007 can be attributed to capitalized supplies, small tools and related equipment repairs and maintenance. An additional $108,818 is directly related to increased insurance premiums, a function of adding coverage necessary for operations, including product recall, product liability, directors and officers and cyber insurance for which there is no prior year comparison. An additional $62,677 relates to increased computer software, and support costs which scaled up with production and the procurement of an Enterprise Resource Planning (ERP) software. Of the remaining variance, $52,834 relates to corporate rent and head office supplies and $55,504 can be attributed to an overall increase in overhead costs required to operate a growing business.

f) Professional fees decreased by $18,409 from $187,593 for the three month period ended January 31, 2019 to $169,184 for the three month period ended January 31, 2020. The decrease was due to the absence of transaction related professional fees which were prevalent in the prior year quarter.

g) Regulatory fees decreased by $15,544 from $18,344 for the three month period ended January 31, 2019 to $2,800 for the current three month period ended January 31, 2020.

h) Shareholder communications increased by $11,490 from $104,283 for the three month period ended January 31, 2019 to $115,773 for the three month period ended January 31, 2020.

i) Share-based payments decreased by $1,776,658 from $2,020,793 for the three month period ended January 31, 2019 to $244,135 for the three month period ended January 31, 2020. During the three months ended January 31, 2020, the Company expensed $215,471 and $28,664 in connection with the vesting of previously granted stock options and restricted share units respectively. No new options were granted during the period. Share-based payments are a non-cash expense. During the three months ended January 31, 2019, $2,008,136 of share-based payments were made to advisors in connection with the acquisitions of CannaCure and Purefarma and an additional $12,657 was recorded in connection with the vesting of certain options assumed by the Company on the acquisition of CannaCure.

j) Transfer agent and shareholder information decreased by $6,698 from $18,458 for the three month period ended January 31, 2109 to $11,760 for the three month period ended January 31, 2020. This decrease is due to the low level of shareholder activity within the period.

k) Wages and salaries increased by $305,917 from $238,760 for the three month period ended January 31, 2019 to $544,677for the three month period ended January 31, 2020. This increase is due to the growing staff levels at CannaCure and Purefarma as the Company expands production capacity to the current scale.

Overall, the Company's general and administrative expenses decreased as compared to the prior year mainly due to the transition from development stage status to fully operational status, whereby a proportion of indirect costs, previously included in the general and administrative expenses, have been capitalized to inventory and subsequently expensed through cost of sales as revenues are generated. There can be no assurance that the Company will be able to continue to raise funds, which may affect the Company's ability to meet its future 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 interim condensed consolidated financial statements.

Commitments

The Company did not enter into any new commitments during the three month period ended January 31, 2020.

Liquidity

Managing the Company's liquidity and capital structure requires maintaining sufficient cash to fund the Company's operating and strategic growth requirements.

The table below sets out the Company's current assets, short term liabilities and working capital at January 31, 2020.

	As at January 31, 2020	As October 31, 2019
Current Assets	$ 21,851,463	$19,430,634
Short term liabilities	$ 7,046,494	$ 7,745,160
Working capital	$14,804,969	$11,685,474

As at January 31, 2020, current assets include a cash position of $9,299,666, including $4,550,000 in cashable Guaranteed Investment Certificates ("**GICs**") compared to $11,536,466 of cash at October 31, 2019, including GICs totalling $9,050,000.

The table below summarizes the Company's use of cash over the three month period ending January 31, 2020 and the comparable three month period ending January 31, 2019.

Cash Flows Provided from (Used in)	January 31, 2020	January 31, 2019
Operating Activities	($5,454,310)	($1,685,935)
Investing Activities	$3,355,318	($5,336,025)
Financing Activities	$4,362,192	$6,868,108

During the quarter, investing activities resulted in a total cash inflow of $3,355,318, with the largest inflow being the redemption of a $4,500,000 GIC. The largest outflow from investing activities was attributable to the acquisition of plant, property and equipment in the amount of $894,682.

During the quarter, the Company received total proceeds from financing activities of $4,362,192, of which $4,363,949 was received from a long term loan. The progression of the COVID-19 pandemic will likely impact the Company's cash position and ability to raise funds to maintain the Company's planned growth and development activities.

Capital Resources

Given the unique nature of the COVID-19 pandemic, there are certain uncertainties related to the short and long term impacts of the COVID-19 pandemic on the Company's liquidity and capital resources; however, we continue to closely monitor the rapidly evolving situation and we are looking into all possible actions that could minimize the impact of the COVID-19 pandemic.

For the second consecutive quarter, the Company reported revenues from cannabis operations and the execution of long term oil manufacturing contracts.

As at January 31, 2020, the Company had cash and short-term investments of $9,299,666 (October 31, 2019 - $11,536,466). At the reporting date, the Company had long-term financial debts amounting to $9,494,023; $4,387,023 of long-term debt and $5,107,000 relating to contingent consideration to the former shareholders of Purefarma.

The Company's long term debt, a term loan, has a 24-month contractual term maturing January of 2022. The term loan bears interest at 9.50% per annum, with monthly interest-only payments, and all principal due on maturity. The term loan is advanceable in two tranches of $4,875,000 and $1,825,000, with the first tranche advanced in Q1 2020. Each tranche is subject to an original issue discount of 4.50%.

There have been no changes to Management's previously disclosed use of proceeds as detailed in the Company's Management Discussion and Analysis dated February 27, 2020.

The Company's largest financial commitment continues to relate to equity and cash settled earn-out payments to the former shareholders of Purefarma, which were structured to represent additional purchase consideration on the acquisition. Details of the earn out are more particularly detailed in Note 12 - Contingent Consideration Payable of the Interim Condensed Consolidated Financial Statements.

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. Management compensation transactions for the three month period ended January 31, 2020 and 2019 are summarized as follows:

Key Management Compensation (1)	2020	2019
Short-term management benefits	**$ 45,000**	$ 45,000
Consulting fees	**$ 226,359**	$ 81,012
Salary and employment benefits	**$ 77,033**	$ 34,842
Occupancy	**$ nil**	$ 12,645
Share-based payments	**$ nil**	$ nil

(1) Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors.

As of January 31, 2020, Clint Sharples and a company controlled by Clint Sharples were prepaid $nil (2019 - $4,800), Graeme Staley, a director of the Company, and persons related to him were owed $4,861 (2019- $45,820), Peter Yuzek was owed $nil (2019 - $1,975), Debra Senger, a former director of the Company was owed $nil (2019 - $9,165), a company controlled by Erin Prohaska was owed $24,386 (2019 - $nil) and a company controlled by Elizabeth Thomas was owed $12,089 (2019 - $nil) . At January 31, 2020 the Company was owed $48,830 (2019 - $33,532) from a company owned by the former shareholders of Purefarma and controlled by Peter Yuzek, Graeme Staley, and persons related to Graeme Staley.

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. Management is uncertain whether any of these proposals will ultimately be completed.

Subsequent Events

The following events occurred subsequent to January 31, 2020.

a) In December 2019, the World Health Organization was informed that a limited number of cases of pneumonia, of an unknown cause, were detected in Wuhan, Hubei; now identified as COVID-19. The development and spread of COVID-19 led to the World Health Organization, on March 10, 2020, declaring the outbreak a global pandemic.

   Management is currently assessing the impact of the outbreak on the Company's financial position and operating results, including certain estimates related to contingent consideration payable, adverse impacts to the price and demand for the Company's products as well as the Company's ability to collect outstanding receivables from its customers.

b) In March 2020, the Company incorporated Heritage (US) Oregon Corp., a wholly-owned subsidiary.

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
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 cannabis companies. Such associations may give rise to conflicts of interest. The directors are required by law, however, to act honestly and in good faith with a view to the best interests of the Company and its shareholders and to disclose any personal interest which they may have in any material transaction which is proposed to be entered into with the Company and to abstain from voting as a director for the approval of any such transaction.

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 MD&A. These risks and uncertainties are not the only ones the Company is facing. Additional risk and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our operations. If any such risks actually occur, the business, financial condition, liquidity and results of our operations could be materially adversely affected.

Additional Financing

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

Reliance on Licenses

Failure to comply with the Health Canada licensing requirements, pursuant to the Cannabis Act and Cannabis Regulations, any failure to maintain the licenses would have a material, adverse impact on the business, financial condition and operating results of the Company as a whole, including all subsidiaries whether or not they are license holders.

Reliance on Facilities

The Company's existing facilities in Falkland, British Columbia and Fort Erie, Ontario are integral to the Company's 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 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 price volatility of CBD and THC as active product ingredients;

- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Such volatility has been particularly evident with regards to the share prices of cannabis companies that are reporting issuers in Canada. Accordingly, the market price of Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are lasting and not temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in share price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of Common Shares may be materially adversely affected.

Licensing Requirements Under the Cannabis Regulations

The market for cannabis (including medical cannabis) in Canada is regulated by the *Controlled Drug and Substances Act*, the Cannabis Act and Cannabis Regulations, the Narcotic Control Regulations, and other applicable law. Any applicant seeking to become licensed cultivator, producer and/or seller under the Cannabis Regulations is subject to stringent Health Canada licensing requirements. The government of Canada has only issued to date a limited number of licenses under the Cannabis Regulations to cultivate, process and/or sell 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. If the number of users of cannabis in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Holding Company Status

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

Management of Growth

The Company may be subject to growth-related risks 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 and in accordance with Company policies including the Fraud Prevention Policy and the Related Party Transaction Policy. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with the applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

Litigation

The Company may become party to litigation from time to time in the ordinary course of its business which could adversely affect its operations. Should any litigation in which the Company becomes involved be determined against it, such a decision may adversely affect the Company's ability to continue operating, adversely affect the market price of Common Shares and use significant resources. Even if the Company is involved in litigation and succeeds, litigation can redirect significant company resources. Litigation may also create a negative perception of the Company's brand and the brands of its subsidiaries.

Dividends

The Company's policy is to retain earnings to finance the development and enhancement of its products and to otherwise reinvest in the Company's businesses. Therefore, the Company does not anticipate paying cash dividends on Common Shares in the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of the Board and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Board may deem relevant. As a result, investors may not receive any return on investment in the Common Shares unless they sell them for a share price that is greater than that at which such investors purchased them.

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.

Cyber Security
The Company relies on certain internal processes, infrastructure and information technology systems to efficiently operate its business in a secure manner. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, training, processes designed to protect systems, computers, software, date and networks from attack, damage or unauthorized access is a priority. The inability to continue to enhance or prevent a failure of these internal processes, infrastructure or information technology systems could negatively impact the Company's ability to operate its business.

Force Majeure Events- COVID 19
In December 2019, a novel strain of coronavirus, COVID-19, was reported to have surfaced in Wuhan, China. On March 11, 2020, the World Health Organization declared this outbreak a global pandemic. Major health issues and pandemics, such as the coronavirus, may adversely affect trade, global and local economies and the trading prices of the Shares. The outbreak may affect the supply chain of the Company and may restrict the level of economic activity in affected areas, which may adversely affect the price and demand for the Corporation's products as well as the Company's ability to collect outstanding receivables from its customers. It is possible that we may be required to temporarily close one or more of our facilities and suspend operations. Given the ongoing and dynamic nature of the circumstances, the extent to which the coronavirus will impact the Company's financial results and operations is uncertain. It is possible, however, that the Company's business operations and financial performance in 2020 and beyond may be materially adversely affected by this global pandemic.

Intellectual Property Risk
The success of the Company's business depends in part on its ability to protect its ideas, technology and proprietary know-how. Even as the Company moves to protect its intellectual property with trademarks and trade processes, patents, copyrights or by other means, it is not assured that competitors will not develop similar technologies, methods or that in the event of an infringement, the Company will be able to exercise its legal rights. Actions taken to protect or preserve intellectual property rights may require significant resources such that said actions meaningfully impact the ability to successful grow the business.

Third Party Transportation
The Company is required to rely on third party transportation services. The Company is exposed to the inherent risks associated with relying on third party transportation service providers, including logistical problems, delays,

loss or theft of product and increased shipping costs. Any delay in transporting the product, breach of security or loss of product, could have material adverse effect on the Company's business, financial performance and results of operations. Moreover, any breach of security and loss of product during transport could affect the Company's status as a Licensed Producer.

Risks related to operating in the Cannabis Industry

The Cannabis Industry is Subject to Competition

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial, production and marketing resources and experience than the Company. Additionally, there is potential that the industry will undergo consolidation, creating larger companies that may have increased geographic scope and other economies of scale. Increased competition by larger, better-financed competitors with geographic or other structural advantages could materially and adversely affect the business, financial condition and results of operations of the Company.

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

Consumer perception

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

Regulatory Risks

The Company's subsidiaries operate in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements. The Company's ability to grow, store, process and sell cannabis in Canada is dependent on obtaining licenses from Health Canada and the need to maintain such licenses in good standing. Failure to: (i) comply with the requirements of a license; and (ii) maintain a license would have a material adverse impact on the business, financial condition and operating results of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of 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 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 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.

On October 17, 2019, amendments to the Cannabis Regulations came into force, permitting the production and sale of cannabis edibles, extracts and topicals. Although the impact of these regulatory changes have not adversely affected our business, provincial regulations and restrictions governing vape products continue to pose a potential threat.

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.

Risks Inherent in an Agriculture Business

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

Unfavourable Publicity or Consumer Perception

Management of the Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception of the Company's proposed products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be noassurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis market or any particular product, or consistent with earlier publicity.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's proposed products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for its proposed products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or the Company's proposed products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Overview of United States Regulations of Cannabis

On February 8, 2018 the Canadian Standards Association ("**CSA**") published a revised staff notice setting out the CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States ("**Staff Notice 51-352**"). Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation, possession or distribution of marijuana (as defined in the Staff Notice 51-352, "**marijuana-related activities**"). The Company views Staff Notice 51-352 favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the United States.

The Company has non-controlling ownership of EndoCanna, a company that operates within the cannabis sector in California, but is not in the business of cultivation, possession and distribution of cannabis. However, the Company or EndoCanna may expand into such businesses in the future, specifically in the state of California, where local state laws permit such activities. The Company also has a Joint Venture Partnership with Empower, with the order and installation of extraction and post-production equipment units at Empower's existing licensed hemp processing facility in Sandy, Oregon. Propriety branded products will be distributed through Empower's corporately owned physician staffed health clinics in Oregon and Arizona. Over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis. However, the U.S. federal government has not enacted similar legislation. As such, the cultivation, manufacture, distribution, sale and use of cannabis remains **illegal under U.S. federal law.** While the Company's business activities are compliant with applicable state and local laws, such activities remain illegal under United States federal law.

Compliance of United States Operations

California authorized the cultivation, possession and distribution of cannabis by certain licensed California cannabis businesses. The California Bureau of Cannabis Control regulates California's cannabis regulatory program. Endocanna operates in California, but is not currently engaged in the cultivation, possession and/or distribution of cannabis. As such the Company has not obtained local counsel in the state of California at this time but is advised by other advisors in connection with California's cannabis regulatory program. At such a time when the Company and its advisors deem necessary, the Company will develop a robust compliance program designed to ensure operational and regulatory requirements continue to be satisfied.

Oregon has both a medical and adult-use cannabis program. Effective January 1, 2017, cannabis was permitted to be sold for adult-use only by businesses that obtained a recreational retailer license from the Oregon Liquor Control Commission. Medical cannabis dispensaries that did not obtain a retailer license were no longer permitted to sell cannabis for adult-use after 2016. Holders of retailer licenses are permitted to sell cannabis for medical use to a patient 18 years of age or older under the Oregon Medical Marijuana Program, whereas the minimum age to purchase cannabis for adult-use is 21.

Arizona's medical cannabis program was introduced in November 2010 when voters approved the Proposition 203 "Arizona Medical Marijuana Initiative" ballot measure that legalized medical cannabis for patients with certain qualifying conditions. The first sales were made to patients in December 2012. The Arizona Department of Health Services has allocated 130 medical cannabis dispensary certificates. Each dispensary certificate permits the license holder to open one dispensary and gives the license holder the option to open one cultivation facility and/or one processing facility.

The Joint Venture Partnership with Empower will operate in Oregon with the expectation that medical sales will also be made in Arizona. The Joint Venture Partnership will ensure that it has the necessary local counsel in the states of Oregon and Arizona, but is currently advised by other advisors in connection with each state's cannabis regulatory program. At such a time when the Company and its advisors deem necessary, the Company will ensure that there is a robust compliance program designed to ensure operational and regulatory requirements continue to be satisfied.

Regulation of Marijuana in the United States

Unlike in Canada which has proposed to have federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the Access to Cannabis for Medical Purposes Regulations (Canada), investors are cautioned that in the United States, cannabis is largely regulated at the State level. To the Company's knowledge, there are to date a total of 33 States, plus the District of Columbia, that have legalized cannabis in some form.

Notwithstanding the permissive regulatory environment of cannabis at the State level, cannabis continues to be categorized as a controlled substance under the "**CSA**" in the United States and as such, remains illegal under federal law in the United States.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture.

As a result of the conflicting views between State legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored a memorandum (the "**Cole Memorandum**") addressed to all United States district attorney acknowledging that, notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several US States had enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined the priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice never provided specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority.

In March 2017, the newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit. However, on January 4, 2018, Mr. Sessions issued a new memorandum that rescinded and superseded the Cole Memorandum effective immediately (the "**Sessions Memorandum**"). The Sessions Memorandum stated, in part, that current law reflects "Congress' determination that cannabis is a dangerous drug and cannabis activity is a serious crime", and Mr. Sessions directed all U.S. Attorneys to enforce the laws enacted by Congress and to follow well-established principles when pursuing prosecutions related to marijuana activities. The inconsistency between federal and state laws and regulations is a major risk factor.

Federal law pre-empts state law in these circumstances, so that the federal government can assert criminal violations of federal law despite state law. The level of prosecutions of state-legal cannabis operations is entirely unknown, nonetheless the stated position of the current administration is hostile to legal cannabis, and furthermore may be changed at any time by the Department of Justice, to become even more aggressive. The

Sessions Memorandum lays the groundwork for United States Attorneys to take their cues on enforcement priority directly from Attorney General Jeff Sessions by referencing federal law enforcement priorities set by the Attorney General Jeff Sessions. If the Department of Justice policy under Attorney General Jeff Sessions was to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Company could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, and (ii) the arrest of its employees, officers, managers and investors, and charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to cannabis companies that service or provide goods to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis.

Notably, current federal law (in the form of budget bills) prevents the Department of Justice from expending funds to intervene with states' rights to legalize cannabis for medical purposes.

Now that the Cole Memorandum has been repealed by Attorney General Jeff Session, the Department of Justice under the current administration or an aggressive federal prosecutor could allege that the Company and its Board and, potentially its shareholders, "aided and abetted" violations of federal law by providing finances and services to its portfolio cannabis companies. Under these circumstances, it is possible that the federal prosecutor would seek to seize the assets of the Company, and to recover the "illicit profits" previously distributed to shareholders resulting from any of the foregoing financing or services. In these circumstances, the Company's operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.

Proceeds of Crime Statutes

The Company will be subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In the event that any of the Company's license agreements, or any proceeds thereof, in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could be materially averse to the Company and, among other things, could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

Regulatory Scrutiny of the Company's Interests in the United States

For the reasons set forth above, the Company's interests in the United States cannabis market, and future licensing arrangements, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to carry on its business in the United States.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. It has been reported by certain publications in Canada that The Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. Neither CDS nor its parent company have issued any public statement in regards to these reports. However, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Company, it would have a material adverse effect on the ability of holders of Common Shares to make trades. In particular, the Common Shares would become highly illiquid as investors would have no ability to affect a trade of the Common Shares through the facilities of a stock exchange.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical or recreational cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or recreational cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Our business is dependent on laws pertaining to the cannabis industry.

Continued development of the marijuana industry is dependent upon continued legislative authorization of the use and cultivation of marijuana at the State level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt use of marijuana, which would negatively impact our proposed business.

Currently, thirty-three states and the District of Columbia allow its citizens to use medical cannabis. Additionally, ten states have legalized cannabis for adult use, including the state of California. The state laws are in conflict with the federal CSA, which makes marijuana use and possession illegal at the federal level. The Obama administration, pursuant to the Cole Memorandum, previously effectively stated that it is not an efficient use of resources to direct law federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana. However, the Sessions Memorandum under the Trump administration has reversed this position which creates a risk of prosecution by a number of federal agencies. Additionally, there can be no assurance as to the position any new administration may take on cannabis and could decide to enforce the federal laws strongly. Any enforcement of current federal laws could cause significant financial damage to the Company and its shareholders.

Cannabis remains illegal under Federal law

Cannabis is a Schedule 1 controlled substance and is illegal under federal U.S. law. Even in those states in which the use of cannabis has been legalized, its use remains a violation of federal law. Since federal law criminalizing the use of cannabis pre-empts state laws that legalize its use, strict enforcement of federal law regarding cannabis would harm the Company's business, prospects, results of operation, and financial condition.

Unfavourable Tax Treatment of Cannabis Businesses

Under Section 280E of the U.S. Internal Revenue Code ("**Section 280E**"), "no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted." This provision has been applied by the IRS to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its income tax expenses.

State Regulatory Uncertainty

The rulemaking process for cannabis operators at the state level in any state will be ongoing and result in frequent changes. As a result, a compliance program is essential to manage regulatory risk. The Company's legal team will provide guidance in regards to any rulemaking processes and resulting regulatory changes. All operating policies and procedures implemented in the operation will be compliance-based and derived from the state regulatory structure governing ancillary cannabis businesses and their relationships to state-licensed or permitted cannabis operators, if any. Notwithstanding the Company's efforts, regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that the Company will receive the requisite licenses, permits or cards to operate its businesses.

In addition, local laws and ordinances could restrict the Company's business activity. Although legal under California state law, local governments have the ability to limit, restrict, and ban cannabis businesses from operating within their jurisdiction. Land use, zoning, local ordinances, and similar laws could be adopted or changed, and have a material adverse effect on the Company's business.

Restricted Access to Banking

In February 2014, the Financial Crimes Enforcement Network ("**FinCEN**") bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defences from examination or regulatory or criminal enforcement actions by the Department of Justice, FinCEN or other federal regulators. Thus, most banks and other financial institutions in the United States do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump Administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Company may have limited or no access to banking or other financial services in the United States. In addition, federal money laundering statutes and Bank Secrecy Act regulations discourage financial institutions from working with any organization that sells a controlled substance, regardless of whether the state it resides in permits cannabis sales. The inability or limitation in the Company's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned or to operate efficiently.

Limited Trademark Protection

The Company will not be able to register any United States federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the state of California by one or more other persons could have a material adverse effect on the value of such trademarks.

Potential FDA Regulation

Should the federal government legalize cannabis, it is possible that the U.S. Food and Drug Administration (the "**FDA**"), would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including certified good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact would be on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If Company is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Company's business, operating results and financial condition.

Legality of Contracts

Because the Company's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in U.S. federal and certain state courts.

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*"

CEO and Director
March 30, 2020