



HERITAGE CANNABIS HOLDINGS CORP.
(formerly Umbral Energy Corp.)

Condensed Interim Consolidated Financial Statements

Three and Six Month Periods ended April 30, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

**NOTICE OF NO AUDITORS' REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the condensed interim consolidated financial statements.

The accompanying unaudited condensed interim consolidated financial statements of Heritage Cannabis Holdings Corp. (formerly Umbral Energy Corp.) (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada ("CPA Canada") for a review of interim financial statements by an entity's auditor.

HERITAGE CANNABIS HOLDINGS CORP.

(A Development Stage Company)

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

Condensed Interim Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

(UNAUDITED)

	AS AT APRIL 30, 2018	AS AT OCTOBER 31, 2017
Assets		
Current		
Cash	\$ 2,079,472	\$ 1,647,781
GST and accounts receivable	167,827	35,927
Prepaid expenses and deposits (Note 3)	287,996	113,807
Marketable securities at fair value (Note 4)	-	97,500
Total Current Assets	2,535,295	1,895,015
Investment (Notes 5 and 8)	500,000	-
Intangible asset (Note 6)	5,067,000	5,067,000
Property, buildings and equipment (Note 7)	3,351,447	1,114,330
Total Assets	\$ 11,453,742	\$ 8,076,345
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 755,761	\$ 328,150
Provision for flow-through liability	69,927	69,927
Total Liabilities	825,688	398,077
Equity		
Share capital (Note 8)	15,908,618	11,420,360
Share-based payment reserve (Note 8)	2,956,199	1,063,882
Shares reserved for issuance (Notes 5 and 8)	630,000	380,000
Deficit	(9,933,877)	(6,330,157)
Equity attributable to shareholders	9,560,940	6,534,085
Non-controlling interest	1,067,114	1,144,183
Total equity	10,628,054	7,678,268
Total Liabilities and Equity	\$ 11,453,742	\$ 8,076,345

Nature of Operations and Going Concern (Note 1)

Subsequent Events (Note 11)

Approved on behalf of the Board of Directors:

"Jagdish Bal"

Director

"Clint Sharples"

Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Stated in Canadian Dollars)

(UNAUDITED)

	THREE MONTH PERIOD ENDED APRIL 30,		SIX MONTH PERIOD ENDED APRIL 30,	
	2018	2017	2018	2017
General and Administrative Expenses				
Advertising, travel and promotion	\$ 7,010	\$ 42,612	\$ 18,083	\$ 83,725
Amortization	2,376	-	4,751	-
Consulting fees (Note 9)	167,476	197,310	392,218	207,347
Management fees (Note 9)	50,000	30,390	90,000	45,390
Office expense and miscellaneous	51,673	1,321	96,391	3,150
Professional fees	64,812	18,399	119,841	21,138
Regulatory fees	2,005	4,240	19,861	5,740
Shareholder communications	(408)	5,790	9,282	10,800
Stock based compensation (Notes 8 and 9)	1,446,342	433,674	2,976,919	466,310
Transfer agent and shareholder information	6,150	3,275	7,093	4,596
Total general and administrative expenses	(1,797,436)	(737,011)	(3,734,439)	(848,196)
Other Items				
Equity loss on investment in joint venture	-	(9,377)	-	(22,115)
Loss on sale of mineral properties	-	(69,096)	-	(69,096)
Gain on sale of investment (Note 4)	-	80,000	53,650	80,000
Total Other Items	-	1,527	53,650	(11,211)
Net Loss and Comprehensive Loss for the Period	\$ (1,797,436)	\$ (735,484)	\$ (3,680,789)	\$ (859,407)
Net Loss and Comprehensive Loss for the Period attributed to:				
Shareholders of the Company	\$ (1,758,444)	\$ (735,484)	\$ (3,603,720)	\$ (859,407)
Non-Controlling Interest	(38,992)	-	(77,069)	-
Total Loss and Comprehensive Loss for the Period	\$ (1,797,436)	\$ (735,484)	\$ (3,680,789)	\$ (859,407)
Basic and Diluted Loss Per Share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)
Weighted Average Number Of Shares Outstanding	165,123,517	72,425,413	151,614,637	67,853,406

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

Condensed Interim Consolidated Statements of Changes in Equity

(Stated in Canadian Dollars)

(UNAUDITED)

Six Month Periods Ended April 30, 2018, 2017 and Year Ended October 31, 2017

	SHARE CAPITAL		SHARE-BASED	SHARE	DEFICIT	NON-	TOTAL
	NUMBER	AMOUNT	PAYMENT RESERVE	SUBSCRIPTION RECEIVABLE		CONTROLLING INTEREST	
Balance, October 31, 2016	63,342,146	\$ 6,067,501	\$ 674,170	\$ -	\$ (6,372,508)	\$ -	\$ 369,163
Issued for cash							
Share options exercised	10,680,000	1,464,485	(733,736)	-	-	-	730,749
Warrants exercised	1,226,000	81,951	-	-	-	-	81,951
Shares issued for mineral property	1,500,000	112,500	-	-	-	-	112,500
Share subscription receivable	-	-	-	(32,500)	-	-	(32,500)
Stock based compensation	-	-	466,310	-	-	-	466,310
Net loss for the period	-	-	-	-	(859,407)	-	(859,407)
Balance, April 30, 2017	76,748,146	7,726,437	406,744	(32,500)	(7,231,915)	-	868,766
Issued shares for cash							
Non-brokered private placement	43,700,000	2,622,000	-	-	-	-	2,622,000
Share options exercised	2,350,000	308,091	(156,340)	-	-	-	151,751
Warrants exercised	6,476,951	400,370	-	-	-	-	400,370
Share issue costs	-	(301,538)	199,580	-	-	-	(101,958)
Shares issued for acquisition	7,000,000	665,000	-	-	-	1,165,000	1,830,000
Stock based compensation – options granted	-	-	469,092	-	-	-	469,092
Stock based compensation – RSU's granted	-	-	144,806	-	-	-	144,806
Shares subscribed/reserved for issuance (Note 8)	-	-	-	412,500	-	-	412,500
Net income (loss) for the period	-	-	-	-	901,758	(20,817)	880,941
Balance, October 31, 2017	136,275,097	11,420,360	1,063,882	380,000	(6,330,157)	1,144,183	7,678,268
Issued shares for cash							
Share options exercised	5,820,000	1,772,464	(882,664)	-	-	-	889,800
Warrants exercised	26,178,553	2,713,565	(199,709)	-	-	-	2,513,856
Stock based compensation – options granted	-	-	2,976,919	-	-	-	2,976,919
Broker warrants expired	-	2,229	(2,229)	-	-	-	-
Shares reserved for issuance (Notes 5 and 8)	-	-	-	250,000	-	-	250,000
Net loss for the period	-	-	-	-	(3,603,720)	(77,069)	(3,680,789)
Balance, April 30, 2018	168,273,650	\$ 15,908,618	\$ 2,956,199	\$ 630,000	\$ (9,933,877)	\$ 1,067,114	\$ 10,628,054

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

Condensed Interim Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

(UNAUDITED)

	SIX MONTH PERIODS ENDED	
	APRIL 30,	
	2018	2017
Operating Activities		
Net loss for the period	\$ (3,680,789)	\$ (859,407)
Adjustments for non-cash expenses and income		
Amortization	4,751	-
Gain on sale of marketable securities	(53,650)	(80,000)
Loss on investment in joint venture	-	22,115
Loss on sale of exploration and evaluation properties	-	69,096
Stock based compensation	2,976,919	466,310
Changes in non-cash operating assets and liabilities		
GST and accounts receivable	(131,900)	(18,679)
Prepaid expenses and deposits	(174,189)	(236,183)
Accounts payable and accrued liabilities	427,611	(26,084)
Cash Used In Operating Activities	(631,247)	(662,832)
Investing Activities		
Acquisition of property, plant and equipment	(2,241,868)	-
Advances	-	(111,955)
Proceeds from sale of marketable securities	151,150	-
Advances in long-term investment	(250,000)	-
Mineral property acquisition and exploration costs	-	39,754
Cash Used In Investing Activities	(2,340,718)	(72,201)
Financing Activity		
Share capital proceeds	3,403,656	780,200
Cash Provided By Financing Activity	3,403,656	780,200
Net Change In Cash	431,691	45,167
Cash, Beginning Of Period	1,647,781	85,057
Cash, End Of Period	\$ 2,079,472	\$ 130,224
Supplementary Information		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

Non-cash Investing and Financing Transactions (Note 10)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Month Periods Ended April 30, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

1. Nature of Operations and Going Concern

Heritage Cannabis Holdings Corp. (formerly Umbral Energy Corp.) (the “**Company**”) is a development stage public company whose common shares trade on the Canadian Securities Exchange under the symbol “CANN”. The Company was incorporated on October 25, 2007 in British Columbia, Canada, under the Business Corporations Act and commenced operations on November 1, 2007. On January 9, 2018, the Company changed its name to Heritage Cannabis Holdings Corp. The head office and principal address of the Company is 929 Mainland Street, Vancouver, British Columbia, Canada V6C 2B3 and the registered and records office of the Company is located at Suite 1500-1055 West Georgia St., Vancouver, B.C., V6E 4N7.

The Company is principally engaged in the acquisition of a Health Canada license under the Access to Cannabis for Medical Purposes Regulations (“**ACMPR**”) for the purpose of entering the medical marijuana industry through its investment in PhyeinMed Inc., a 75% owned subsidiary of the Company.

Although the Company has started to invest resources for a medical marijuana business, there is no guarantee the Company will be awarded a license to grow medical marijuana. As the Company does not yet have cash flow from operations, it must rely on equity financing to fund operations. To date the Company’s main source of funding has been the issuance of equity securities for cash, through private placements to sophisticated investors and through public offering to institutional investors. The Company has historically raised operating capital from the sale of equity, and will continue to do so.

The condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes the Company will operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred operating losses since inception, does not have positive operating cash flow, and there can be no assurances that sufficient funding, including adequate financing, will be available to develop its ACMPR business plans and to cover general and administrative expenses necessary for the maintenance of a public company. The ability of the Company to arrange additional financing in the future depends in part, on the prevailing capital market conditions and its success on obtaining an ACMPR license. These factors may cast significant doubt on the Company’s ability to continue as a going concern. Accordingly, the condensed interim consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments other than in the normal course of business and at amounts different from those in these condensed interim consolidated financial statements.

2. Basis of Presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”) applicable to the preparation of condensed interim consolidated financial statements, including International Accounting Standard (“**IAS**”) 34 - Interim Financial Reporting. The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in the Company’s audited annual financial statements for the year ended October 31, 2017.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Month Periods Ended April 30, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

2. Basis of Presentation (Continued)

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 1005477 B.C. Ltd. and Umbral Energy LLC (Washington State) and a 75% interest in PhyeinMed Inc. The condensed interim financial statements of the subsidiaries are prepared using consistent accounting policies and reporting dates of the Company. All inter-company transactions and accounts have been eliminated upon consolidation.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of June 20, 2018, the date the Audit Committee approved the statements. Any subsequent changes to IFRS after this date could result in changes to the condensed interim consolidated financial statements for the period ended April 30, 2018. The condensed interim consolidated financial statements do not contain all disclosures required under IFRS and should be read in conjunction with Company's annual financial statements and the notes thereto for the year ended October 31, 2017.

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods. Actual results could differ from those estimates. Significant accounts that require estimates as the basis for determining the stated amounts include but are not limited to exploration and evaluation assets, oil and gas interests, share-based payments, allocation of financing proceeds, and income and mining taxes. Differences may be material.

3. Prepaid Expenses and Deposits

The Company's current prepaid expenses and advances consist of the following:

	April 30, 2018	October 31, 2017
ACMPR growing, marketing and distribution consulting fees	\$ -	\$ 97,917
Clearview, Ontario property non-refundable deposit	130,000	-
Falkland property construction advances	155,155	-
Others	2,841	15,890
	\$ 287,996	\$ 113,807

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Month Periods Ended April 30, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

4. Marketable Securities

During the year ended October 31, 2017, the Company received 2,000,000 common shares of Equitorial Exploration Corp. ("Equitorial") in accordance with the assignment agreement of the Tule Valley and Gerlach Mineral Exploration Projects. As at October 31, 2017, the Company held 1,300,000 common shares of Equitorial with a fair market value of \$97,500. During the period ended April 30, 2018, the Company sold 1,300,000 for net proceeds of \$151,150 resulting in a realized gain of \$53,650.

5. Investment

On January 16, 2018, the Company signed a Letter of Intent ("LOI") to acquire a 20% interest in Stanley Park Digital Ltd. ("SPD"), a blockchain developer based in Vancouver, British Columbia. The terms of LOI require payment of \$250,000 cash (paid) and the issuance of \$250,000 common shares (pending) upon signing of a Share Purchase Agreement.

6. Intangible Asset

	License Acquisition Costs
Cost	
As October 31, 2016	\$ -
Acquired through business combination	5,067,000
As at October 31, 2017 and April 30, 2018	5,067,000
Amortization	
As at October 31, 2016	-
Additions	-
As at October 31, 2017 and April 30, 2018	-
Net Book Value as at October 31, 2016	-
Net Book Value as at October 31, 2017 and April 30, 2018	\$ 5,067,000

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Month Periods Ended April 30, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

7. Property, Buildings and Equipment

	Equipment	Buildings	Land	Total
Cost				
As October 31, 2016	\$ -	\$ -	\$ -	\$ -
Additions	-	854,076	255,000	1,109,076
Acquired through business combination	-	6,449	-	6,449
As at October 31, 2017	-	860,525	255,000	1,115,525
Additions	105,132	2,136,736	-	2,241,868
April 30, 2018	105,132	2,997,261	255,000	3,357,393
Amortization				
As at October 31, 2016	-	-	-	-
Additions	-	1,195	-	1,195
As at October 31, 2017	-	1,195	-	1,195
Additions	-	4,751	-	4,751
April 30, 2018	-	5,946	-	5,946
Net Book Value as at October 31, 2017	-	859,330	255,000	1,114,330
Net Book Value as at April 30, 2018	\$ 105,132	\$ 2,991,315	255,000	\$ 3,351,447

8. Share Capital and Reserve

a) Authorized

Unlimited number of common shares without par value

b) Issued

Period ended April 30, 2018:

The Company issued 5,820,000 common shares for the exercise of 5,820,000 stock options between \$0.065 and \$0.59 per share for total proceeds of \$889,800 which resulted in a transfer from share-based payment reserve to share capital of \$882,664. The Company also issued 26,178,553 common shares for the exercise of 26,178,553 warrants at \$0.06 and \$0.10 per share for total proceeds of \$2,513,855 which resulted in a transfer from share-based payment reserve to share capital of \$199,709.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Month Periods Ended April 30, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

8. Share Capital and Reserve (Continued)

b) Issued (Continued)

Year ended October 31, 2017:

The Company issued 13,030,000 common shares for the exercise of 13,030,000 stock options between \$0.05 and \$0.08 per share for total proceeds of \$878,500 which resulted in a transfer from share-based payment reserve to share capital of \$890,076. The Company also issued 7,702,951 common shares for the exercise of 7,702,951 warrants at \$0.06 and \$0.10 per share for total proceeds of \$482,321.

The Company issued 7,000,000 common shares in accordance with the share purchase agreement for the acquisition of an additional 25% interest in PhyeinMed Inc. The common shares had a fair value of \$665,000 measured on the acquisition date. In accordance with the purchase agreement the seller entered a voluntary escrow agreement whereby the shares would be escrowed and released as to 10% on the acquisition date and 15% on the date that is every six months thereafter.

The Company completed a non-brokered private placement of 43,700,000 units for gross proceeds of \$2,622,000. Each unit consists of one common share and one common share purchase warrant entitling the holder to purchase one additional common share at \$0.10 per share for two years. A cash finders' fee of \$90,459 was paid. The Company also issued 1,515,413 broker warrants exercisable at \$0.10 per warrant for a period of two years from closing. The broker warrants were valued at \$199,580 using a Black Scholes option pricing model using the following assumptions: dividend yield of \$nil, a risk-free interest rate of 1.24%, annualized volatility of 224% and an expected life of two years. The Company also incurred a total of \$11,499 in legal fees required to close the transaction.

c) Warrants

The following is a summary of the changes in warrants:

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, October 31, 2016	11,845,226	\$0.06
Granted	45,215,413	0.10
Exercised	(7,702,951)	0.06
Balance, October 31, 2017	49,357,688	0.10
Exercised	(26,178,553)	0.10
Expired	(40,185)	0.10
Balance, April 30, 2018	23,138,950	\$0.10

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Month Periods Ended April 30, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

8. Share Capital and Reserve (Continued)

c) Warrants (Continued)

The following table summarizes the warrants outstanding and exercisable at April 30, 2018:

NUMBER OF WARRANTS	EXERCISE PRICE	EXPIRY DATE
191,589	\$0.06	May 16, 2018
101	\$0.10	May 16, 2018
637,500	\$0.06	December 20, 2018
22,309,760	\$0.10	August 30, 2019
23,138,950		

As at April 30, 2018, the weighted average remaining contractual life of all warrants outstanding was 1.30 years (April 30, 2017 – 1.06 years).

d) Stock Options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Canadian Stock Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Options will be exercisable for a period to be determined by the board of Directors, but not exceeding 10 years.

In connection with the foregoing, the number of common shares reserved for issuance to any technical consultant will not exceed two percent (2%) of the issued and outstanding common shares in any twelve-month period. The number of common shares reserved for issuance to individuals providing investor relation services will not exceed two percent (2%) of issued and outstanding common shares in any twelve-month period. Further, these options must vest over twelve months with a maximum of one quarter of the options vesting in any three-month period. Options may be exercised no later than 30 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

During the period ended April 30, 2018, stock-based compensation in the amount of \$2,976,919 (April 30, 2017 – \$466,310) was recognized on the issuance of stock options to directors, officers and consultants.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Month Periods Ended April 30, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

8. Share Capital and Reserve (Continued)

d) Stock Options (continued)

The following is a summary of the changes in options:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, October 31, 2016	4,765,000	\$0.08
Granted	13,280,000	0.07
Exercised	(13,030,000)	0.07
Cancelled	(1,815,000)	0.08
Balance, October 31, 2017	3,200,000	\$0.09
Granted	11,050,000	0.27
Exercised	(5,820,000)	0.15
Balance, April 30, 2018	8,430,000	\$0.29

The following table summarizes the options outstanding and exercisable at April 30, 2018:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY DATE
400,000	\$0.08	May 30, 2021
2,000,000	\$0.10	August 16, 2022
2,130,000	\$0.14	November 15, 2022
700,000	\$0.59	January 22, 2023
1,800,000	\$0.54	March 19, 2023
1,400,000	\$0.35	April 30, 2023
8,430,000		

As at April 30, 2018, the weighted average remaining contractual life of all options outstanding was 4.58 years (April 30, 2017 – 4.06 years).

The Company uses the Black-Scholes option pricing model to estimate the fair value of the options granted using the following assumptions:

	SIX MONTH PERIODS ENDED APRIL 30,	
	2018	2017
Dividend yield	Nil	Nil
Annualized volatility	222% - 231%	216%
Risk-free interest rate	1.63% - 2.11%	0.91%
Expected life	5 years	5 years

Heritage Cannabis Holdings Corp.

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Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Month Periods Ended April 30, 2018

(Stated in Canadian Dollars)

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8. Share Capital and Reserve (Continued)

e) Restricted Share Units

Subject to ratification by shareholders at the Company's next annual general meeting, the Company has adopted a restricted share unit plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Canadian Stock Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, restricted share units ("RSU's"), provided that the number of common shares reserved will not exceed 10% of the issued and outstanding common shares of the Company. The Board of Directors of the Company will establish performance conditions for the vesting of RSU's granted based on the conditions of individual grants. RSU's will be settled as either one common share per vested RSU or a cash amount equal to the vesting date value at the discretion of the Board of Directors of the Company.

During the year ended October 31, 2017, the Company granted 4,000,000 RSU's to consultants of the Company. For equity-settled awards, the fair value of the RSUs is recognized as compensation expense over the period that related services are rendered with a corresponding increase in equity. The total amount expensed is recognized over a two-year vesting period on a tranche basis, which is the period over which all the specified vesting conditions should be satisfied. These RSUs had a grant-date fair value of \$380,000.

f) Earnings (Loss) Per Share

Basic loss per share amounts are calculated by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. The basic and diluted loss per share are the same as there are no instruments that have a dilutive effect.

	THREE MONTH PERIODS ENDED APRIL 30,		SIX MONTH PERIODS ENDED APRIL 30,	
	2018	2017	2018	2017
Issued shares at beginning of period	156,455,067	64,172,146	136,275,097	63,342,146
Weighted average issuances	8,668,450	8,253,267	15,339,540	4,511,260
Basic weighted average common shares	165,123,517	72,425,413	151,614,637	67,853,406

g) Nature and Purpose of Reserve

The 'Share-based Payment Reserve' is used to recognize the fair value of stock option grants, RSU grants, and warrants prior to exercise, expiry or cancellation.

h) Shares Reserved for Issuance

During the year ended October 31, 2017, the Company entered into a Share Purchase Agreement to issue 4,000,000 common shares at a deemed price of \$0.095 per share upon final award of an ACMPR production license.

During the period ended April 30, 2018, the Company entered into a Letter of Intent to purchase a 20% interest in Stanley Park Digital Corp. As at April 30, 2018 the Company is obligated to issue \$250,000 in common shares of the Company upon signing of the Share Purchase Agreement.

Heritage Cannabis Holdings Corp.

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Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Month Periods Ended April 30, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

9. Related Party Transactions

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

a) Related party transactions with directors and companies with a director in common.

	THREE MONTH PERIODS ENDED APRIL 30,		SIX MONTH PERIODS ENDED APRIL 30,	
	2018	2017	2018	2017
Management fees	\$ 50,000	\$ 30,390	\$ 90,000	\$ 45,390
Consulting fees	\$ 22,500	\$ 3,410	\$ 30,000	\$ 3,410
Share-based payments	\$ 327,388	\$ 186,608	\$ 846,462	\$ 210,201

b) Advances payable

	APRIL 30, 2018	OCTOBER 31, 2017
Advances from directors are unsecured, non-interest bearing and is repayable on demand	\$ -	\$ 102,278

10. Non-Cash Investing and Financing Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

Six month period ended April 30, 2018:

\$882,664 was transferred from share-based payment reserves to share capital as a result of the exercise of 5,820,000 stock options. \$199,709 was transferred from share-based payment reserve to share capital as a result of the exercise of 1,904,553 broker warrants. \$2,229 was transferred from share-based payment reserves to share capital as a result of the expiry of 40,000 broker warrants.

Six month period ended April 30, 2017:

\$733,736 was transferred from share-based payment reserves to share capital as a result of the exercise of 10,680,000 stock options at prices between \$0.05 and \$0.08.

Heritage Cannabis Holdings Corp.

(formerly Umbral Energy Corp.)

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Month Periods Ended April 30, 2018

(Stated in Canadian Dollars)

(UNAUDITED)

11. Subsequent Events

Subsequent to April 30, 2018, the Company:

- Submitted to Health Canada the evidence package of the site and facility completion. This is the final step of the application process, with the next step being PhyeinMed receiving a production license and approval to cultivate cannabis at their location in Falkland, British Columbia;
- Issued 670,000 common shares for the exercise of 670,000 warrants at \$0.06 and \$0.10 per share for total proceeds of \$51,000;
- Issued 514,000 common shares for the exercise of 514,000 options at prices ranging between \$0.08 and \$0.54 per share for total proceeds of \$93,560 which resulted in a transfer from share-based payment reserve to share capital of \$92,299.