HERITAGE CANNABIS HOLDINGS CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
ANNUAL AND QUARTERLY HIGHLIGHTS

For the Year Ended October 31, 2020

March 1, 2021

The Management Discussion and Analysis for Heritage Cannabis Holdings Corp. provides analysis of the Company's audited consolidated financial results for the year ended October 31, 2020. The following information should be read in conjunction with the accompanying audited consolidated financial statements and related notes for the years ended October 31, 2020 and October 31, 2019.

Date of Report

The following Management Discussion and Analysis ("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 audited consolidated financial statements and related notes for the years ended October 31, 2020 and 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 1, 2021.

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 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 for the Company to access consumer markets for its products;
- the Company's ability to expand into international markets;
- the Company's relationship with its distribution partners;
- cannabis and 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 novel strain of coronavirus ("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 the heading "Risks and Uncertainties", included in this MD&A.

If any of these risks or uncertainties stated herein 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. The Company does not undertake to update or revise any forward-looking statements, except as, and to the extent required by applicable securities laws in Canada.

Management's Responsibility for Financial Statements

The information provided in this MD&A, including the annual consolidated financial statements and notes, are the responsibility of Management. In the preparation of the accompanying annual consolidated financial statements, estimates are sometimes necessary to make a determination of the future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been reflected in the accompanying annual consolidated financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Nature of Business and Overall Performance

The Company was incorporated on October 25, 2007 under the Business Corporations Act of British Columbia. The Company was called for trading on the TSX Venture Exchange on January 6, 2010. Effective March 8, 2013, Trijet Mining Corp. consolidated its share capital on a two-old-for-one-new basis and changed its name to Umbral Energy Corp. On October 20, 2014, the 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 2, 2019.

Heritage is a cannabinoid Company focused on the production and sale of medical and recreational hemp-based and cannabis-based products and services 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 to advance their products or services to compete both domestically and internationally.

In Canada, Heritage operates through its subsidiaries Voyage Cannabis Corp. (“Voyage”) and CannaCure Corporation (“CannaCure”), both regulated under the Cannabis Act Regulations. Voyage holds a Health Canada issued cultivation, processing and medical and adult use sales license, as well as an industrial hemp license and a cannabis oil sales license. 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. CannaCure operates out of a 122,000 square foot facility in Fort Erie, Ontario. Currently, CannaCure holds a Health Canada cultivation, processing and medical sales license, as well as an industrial hemp license and a cannabis oil sales license 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. 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.

Working under these subsidiaries and the Purefarma, Pura Vida and Premium 5 brands, Heritage focuses on extraction and the creation of derivative products and brands for recreational consumers, as well as the formulation of cannabis based medical solutions.

In the U.S., Heritage operates under Opticann Inc., a Colorado based oral and topical cannabinoid company with the rights to exclusively sell non-psychoactive cannabinoids Cannabidiol (“CBD”) and Cannabigerol (“CBG”), products made with the patented VESIsorb® drug delivery system for optimized absorption and stability.

On December 18, 2018, Heritage incorporated Calyx Life Sciences Corp. (“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.

The Company incorporated four new wholly-owned subsidiaries: 5450 Realty Inc. (November 1, 2019), Heritage (US) Oregon Corp. (March 23, 2020), Heritage (US) Colorado Corp. (September 24, 2020) and Heritage Cannabis Exchange Corp. (October 6, 2020), of which the Company owns or controls 100% of the issued and outstanding shares of each of the four entities.

Fourth Quarter Updates

On August 5, 2020, Heritage announced that it entered into an agreement (the "Agreement") to acquire all of the issued and outstanding equity of Opticann Inc. ("Opticann"), a Colorado based oral and topical cannabinoid company for initial consideration of up to $3.7 million of common shares and warrants of Heritage, and a series of possible earn-outs contingent upon achieving significant financial and enterprise milestones over five years. Opticann has the rights to exclusively sell CBD and CBG products made with the patented VESIsorb® drug delivery system for optimized absorption and stability through a supply and distribution agreement with Geocann LLC ("Geocann"). The acquisition was completed on October 6, 2020.

On August 27, 2020, Voyage initiated the development of full spectrum cannabis vape cartridges for Sugarbud Craft Growers Corp. ("Sugarbud") under the terms of the previously announced agreement for contract manufacturing services. The input biomass used in extraction and production is cannabis grown and supplied by Sugarbud.

During the quarter Heritage announced that it received orders for various products for purchase by consumers in both British Columbia, through their Liquor Distribution Branch ("LDB") authorized channels, and Manitoba initially through select licensed retail locations. Both Purefarma and Pura Vida brand vape cartridge products and tinctures became available in these markets during the month of October. Additionally, the Company announced it teamed with the Patient Choice online platform, a Health Canada licensed virtual portal, to offer its Purefarma and Pura Vida branded products for medical cannabis patients across Canada.

On October 13, 2020, Heritage's subsidiary CannaCure Corp. was granted a cannabis oil sales license by Health Canada, effective October 9, 2020. This sales license allows CannaCure to sell cannabis products, including oil derivatives, directly to the provincial cannabis boards.

On October 29, 2020, the Company signed a letter of intent with IntelGenx, a leading drug delivery company focused on the development and manufacturing of pharmaceutical films, for the supply of filmstrip products containing CBD for the Canadian and Australian markets. In January 2021, a definitive supply agreement was signed pursuant to which IntelGenx will manufacture filmstrips containing 10 mg of CBD using its VersaFilm® technology. Under the agreement, Heritage placed its first purchase order for 50,000 CBD Filmstrips that will be sold in select provincial retailers and the direct-to-consumer medical channel in Canada. IntelGenx expects to make its first shipment of product to Heritage in the second quarter of 2021. Pursuant to the Agreement, Heritage will supply CBD material for IntelGenx's filmstrip manufacture and supply in Canada and Australia on a non- and semi-exclusive basis, respectively. The Agreement also contemplates an option on future co-development of CBD and THC filmstrips using proprietary technology from both companies.

Updates Subsequent to the Fourth Quarter

On December 11, 2020, the Company announced that it accepted the resignation of its auditor MNP LLP ("Former Auditor") as of December 8, 2020 and that the board of directors of the Company appointed Davidson & Company LLP ("Successor Auditor") as the Company's auditor effective December 8, 2020. There were no reservations or modified opinions in the Former Auditor's audit reports for the Company. There are no "reportable events" (as the term is defined in National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102")) between the Company and the Former Auditor. In accordance with NI 51-102, the notice of change of auditor, together with the required letters from the Former Auditor and the Successor Auditor, were reviewed by the board of directors of the Company and filed on SEDAR.

On December 23, 2020, Heritage announced that it entered into a definitive agreement (the "Agreement") to acquire all of the issued and outstanding securities of Premium 5 Ltd. ("Premium 5"), a Canada-based recreational and medical cannabis company that creates high-quality full spectrum concentrates under the brand Premium 5. Premium 5 is a leader in developing and launching products, proven by successfully introducing one of the first hydrocarbon products in the Canadian recreational and medical markets as well as becoming the first to launch live resin vapes. Premium 5 offers a wide range of high-quality products that encompass premium, core, and value priced brands in both the recreational and medical markets, creating a leading portfolio of products in the Cannabis 2.0 space focused on derivative concentrates. It is best known for its namesake brand – Premium 5 in the premium hydrocarbon and solventless concentrates category, as well as the newly launched RAD value brand in the value hydrocarbon concentrate, flower and distillate vape categories.

Currently, Premium 5 has entered eight of the 13 provincial and territorial recreational markets including the three largest, Ontario, Alberta and British Columbia and have strong product listings on the two leading medical platforms; Shelter Market (13 listed products) and Shoppers Drug Mart's online cannabis platform (11 listed products). In total, Premium 5 has 66 SKU offerings and a strong product development pipeline with a focus on innovation and quality. High demand for Premium 5 products has resulted in provincial purchase orders nearing $10.0 million since launching sales in June 2020 and growing each month to an annualized run-rate of approximately $20.0 million. With the acquisition, Heritage realizes immediate coast to coast sales, strong margins with an opportunity to drive additional synergies, an increased focus on execution and speed-to-market, and a strong product development pipeline. The acquisition was completed on January 26, 2021, and as consideration for the acquisition, the Company issued 150,000,000 Heritage common shares. The Company will issue additional Heritage common shares upon achieving a series of revenue milestones and maintaining minimum gross margin objectives over 24 months. The Company is currently assessing its accounting treatment of the acquisition, including the evaluation and fair value measurement of consideration paid, assets acquired, and liabilities assumed.

On February 1, 2021, Heritage filed a preliminary short form prospectus with the securities commissions in the provinces of British Columbia, Alberta, Ontario and Nova Scotia (the "Canadian Jurisdictions") in connection with an overnight marketed public offering of units (each, a "Unit") of the Company (the "Offering"). The Company intends to issue up to 86,000,000 Units at a price of $0.14 per Unit (the "Issue Price") for aggregate gross proceeds of up to $12.04 million, not including any exercise of the over-allotment option described below. Each Unit will consist of one common share of the Company (each, a "Common Share") and one common share purchase warrant (each, a "Warrant"). Each Warrant will be exercisable for one Common Share at any time for a period of 24 months following closing of the Offering at an exercise price of $0.21 per Common Share. The Company intends to apply to the Canadian Securities Exchange (the "CSE") to list the Warrants on the CSE, subject to satisfying all conditions to listing.

The Offering will be conducted on a "best efforts" basis by a syndicate of agents co-led by Cantor Fitzgerald Canada Corporation and Cormark Securities Inc., together with Canaccord Genuity Corp. (collectively, the "Agents"). The Company has granted the Agents an option, exercisable in whole or in part, at the sole discretion of the Agents, at any time up to 48 hours before the closing of the Offering, to purchase from the Company up to an additional 15% of the Units sold under the Offering, on the same terms and conditions of the Offering, to cover over-allotments, if any, and for market stabilization purposes (the "Over-Allotment Option"). The Over-Allotment Option may be exercised by the Agents to purchase additional Units, Common Shares, Warrants or any combination thereof.

Selected Annual Information

Fiscal year ended	2020	2019	2018
Net revenue	$ 8,256,435	$ 3,563,623	N/A
General and administrative expenses	$ (8,244,186)	$ (13,620,226)	$ (6,834,262)
Net loss	$ (8,632,771)	$ (13,155,560)	$ (6,417,267)
Comprehensive loss	$ (8,596,759)	$ (13,155,560)	$ (6,417,267)
Basic and diluted loss per share	$ (0.02)	$ (0.03)	$ (0.04)
Total assets	$ 83,431,808	$ 92,489,553	$ 14,070,871
Long-term financial liabilities	$ 6,325,870	$ 4,708,235	Nil

Revenue increased during the year ended October 31, 2020 as the Company continued to produce white label products for customers and increased its processing services. In addition to third party production, the Company introduced its own branded products which started selling in the adult use markets in British Columbia and Alberta.

Total assets decreased by $9,057,745 primarily due to the Company having lower cash and short-term investments of $7,495,659 at October 31, 2020 compared to $11,536,466 at October 31, 2019 and reduction in goodwill by $5,500,000 during 2020. During the year, the Company continued to use its cash resources to scale the business and is in the process of completing a financing subsequent to the year end. The Company performed its annual impairment analysis at October 31, 2020 and as a result reduced the goodwill. Long term debt increased as on February 3, 2020 the Company entered into a long-term credit facility and added $4,566,186 on its balance sheet at October 31, 2020. This increase in liabilities was partially offset by a reduction in contingent consideration payable as portions of the milestone payments expired.

Results of Operations

Selected financial highlights for the three-month period and year ended October 31, 2020 and October 31, 2019 include the following:

(in $CDN)	Three months ended October 31, 2020	Three months ended October 31, 2019	Year ended October 31, 2020	Year ended October 31, 2019
Gross Revenue	$ 1,500,750	$ 3,563,623	$ 9,257,070	$ 3,563,623
Net Revenue	$ 1,429,973	$ 3,563,623	$ 8,256,435	$ 3,563,623
Cost of Sales	$ 298,214	$ 4,072,626	$ 6,656,120	$ 4,072,626
Gross Margin	$ 1,131,759	$ (322,756)	$ 1,750,300	$ (322,756)
General and Administrative Expenses	$ 510,188	2,335,270	$ 8,244,186	$ 13,620,226
Other Income (Expenses)	$ (5,017,017)	$ 1,346,947	$ (3,357,185)	$ (917,213)
Comprehensive Income (Loss)	$ (4,745,405)	$ 91,556	$ (8,596,759)	$ (13,155,560)

For the three-month period ended October 31, 2020, the Company recorded a comprehensive loss of $4,745,405 or $0.01 loss per share compared to a comprehensive income of $91,556 or nil earnings per share for the three-month period ended October 31, 2019. The results for three months period ending October 31, 2020 includes a loss on impairment of goodwill of $5,500,000. As at October 31, 2020, the Company performed its annual impairment test on the goodwill using the value-in-use method. The key assumptions used in the calculation of the recoverable amount relate to five-year future cash flows, weighted average cost of capital, and five-year average growth rate. These key assumptions were based on historical data from internal sources as well as industry and market trends. The discount rate used was 15.8% (2019 – 25%), representing the weighted average cost of capital (after-tax) determined based on mid-year discounting, and the five-year average growth rate in gross revenue was estimated at 75% (2019 - 20%). Management has determined that the impairment was primarily due to shifting market dynamics.

Fourth Quarter

The Company reported gross revenue of $1,500,750 for the three-month period ending October 31, 2020, a decrease of $2,062,873 compared to the same three-month period in fiscal 2019 in which the Company's gross revenue was $3,563,623. The decline in gross revenue was the result of the continuing transition from primarily third-party contracts to branded sales to the provincial boards. The Company began selling its branded products to the provincial boards part way through the quarter.

Cost of sales for the three-month period ending October 31, 2020 was $298,214 resulting in a gross margin on sales of $1,131,759 compared to a negative gross margin of $322,756 for the three-months ending October 31, 2019. During the three-month period ended October 31, 2020, the Company recognized a recovery of accounts payable from a vendor in the amount of $2,879,718 with a corresponding decrease in cost of sales.

Full Year

For the year ended October 31, 2020, the Company reported gross revenue of $9,257,070, an increase of 5,693,447 as compared to gross revenue of $3,563,623 for the year ended October 31, 2019. The increase was a result of a complete year of revenue as the Company only began producing revenue in the fourth quarter of 2019. In 2020, revenue was composed primarily of proceeds from third party contracts, with branded provincial sales beginning late in 2020.

For the year ended October 31, 2020, the Company recorded a net loss of $8,632,771 or $0.02 loss per share compared to a net loss $13,155,560 or $0.03 loss per share for the year ended October 31, 2019.

Cost of sales for the year ended October 31, 2020 was $6,656,120 resulting in a gross margin of $1,750,300. Gross margins during the year were impacted by the progression of the COVID-19 outbreak which impacted the Company's revenue, and maintenance of efficient production and operating metrics. As discussed in the three-month analysis, the Company also recognized a recovery during the year of accounts payable and corresponding decrease in cost of sales.

During the year ended October 2020, the Company elected to suspend growing activities as part of its operations. The biological assets held by the Company prior to the time at which it ceased growing activities, in June 2020, were not a material part of the Company's business and, as such, for strategic reasons the Company elected to instead focus on its other business objectives. The Company did not hold any biological assets as of July 31, 2020 or October 31, 2020 and the Company does not intend to, or expect that it will, re-engage in any growing activities during the twelve-month period following the date of this MD&A. Between the period starting in August 2019 to October 2019, the Company expensed immaterial costs, including direct and indirect costs, related to its biological assets. The Company recorded an unrealized change in the fair value of biological assets in the amount of $149,985 in its interim financial statements for the period ending July 31, 2020. The unrealized change in fair value of biological assets for the three months ended July 31, 2020 was nil, consistent with the nil balance of biological assets as at July 31, 2020. The Company does not currently have any material supply arrangements for biological assets.

General and administrative expenses for the three-month period ended October 31, 2020, were $510,188 a decrease of $1,825,082 from $2,335,270 for the comparable period in 2019. For the year ended October 31, 2020, general and administrative expenses were $8,244,186 a decrease of $5,376,040 from $13,620,226 for the comparable period in 2019. The net changes were attributable to the following:

a) Advertising, travel and promotion for the three-month period ended October 31, 2020, was $115,924, a decrease of $275,605 from $391,529 for the comparable period in 2019. For the year ended October 31, 2020, these costs were $648,196, a decrease of $656,221 from $1,304,417 for the comparable period in 2019. The decreases were primarily attributable to a decline in corporate travel and conferences attended during the three-month period and year ended October 31, 2020 compared to the same period of 2019.

b) Amortization expense for the three-month period ended October 31, 2020, was $258,360, an increase of $54,021 from $204,339 for the comparable period in 2019. For the year ended October 31, 2020, amortization expense was $2,515,498 an increase of $672,470 from $1,843,028 in the comparable period in 2019. The increased amortization was largely attributable to additional equipment in service during the period and amortizing the assets acquired during 2019 for the full year. The cost base of depreciable assets increased by $1,404,541 from $20,133,325 as at October 31, 2019, to $21,537,866 as at October 31, 2020. In addition, the Company's cost base for depreciable intangible assets increased by $3,679,158 from $36,047,000 as at October 31, 2019 to $39,726,158 as at October 31, 2020.

c) Management and consulting fees for the three-month period ended October 31, 2020 were $394,591, a decrease of $314,890 from $709,481 for the comparable period in 2019. For the year ended October 31, 2020, management and consulting fees were $1,638,848, a decrease of $734,461 from $2,373,309 for the year ended October 31, 2019. The decreases were a result of less consulting services procured in-line with cash management strategies. These reductions were primarily related to advertising and lower medical market related fees.

d) Occupancy, general and administrative expense for the three-month period ended October 31, 2020 was $356,198, a decrease of $48,094 from $404,292 for the comparable period in 2019. The decrease was the result of a continued focus on cost reductions during the fourth quarter of 2020. For the year ended October 31, 2020, occupancy, general and administration expenses were $2,105,889, an increase of $166,848 from $1,939,041 for the comparable period in 2019. The increase was primarily the result of more fulsome operations during 2020 and accordingly higher costs.

e) Professional fees for the three-month period ended October 31, 2020 were $111,693, a decrease of $49,542 from $161,235 for the comparable period in 2019. For the year ended October 31, 2020, professional fees were $538,095, a decrease of $184,888 from $722,983 for the comparable period in 2019. The decreases were the result of management's focus on cost reductions.

f) Share-based payments for the three-month period ended October 31, 2020, were $15,591, a decrease of $178,400 from $193,991 for the comparable period in 2019. For the year ended October 31, 2020, share-based payments were $368,232, a decrease of $3,346,751 from $3,714,983 for the year ended October 31, 2019. The decreases were attributed to the majority of the issued stock-based payments being expensed in prior periods and no additional stock-based payments being issued during the current periods.

g) Salaries, wages and benefits for the three-month period ended October 31, 2020, were $(742,169), a decrease of $1,012,572 from $270,403 for the comparable period of 2019. This was a result of three main factors:

reduction of labour costs as a result of sector volatility due to COVID-19, the positive impact of the utilization of the Canada Emergency Wage Subsidy ("CEWS") government grant by the Company during the quarter which totaled $581,494 and a re-allocation of cost to cost of sales. For the year ended October 31, 2020, salaries, wages and benefits were $429,428, a decrease of $1,293,037 from $1,722,465 for the year ended October 31, 2019. The decrease was the result of the Company reducing labour costs during the fourth quarter of 2020 to plan for sector volatility and lower sales volumes resulting from the near-term impact of COVID-19, as well as the utilization of the CEWS government grant by the Company which totaled $936,329.

Other Income and Expenses

Interest income for the three-month period ended October 31, 2020 was $34,878, an increase of $80,918 from an expense of $46,040 for the same period in 2019. This increase was the result of cash balances being carried during the period earning interest. For the year ended October 31, 2020, interest income was $277,785, an increase of $85,012 from $192,773 for the same period in 2019. The increase was a result of the Company having higher cash balances and earning interest on these balances during the year.

Interest and accretion expense for the three-month period and year ended October 31, 2020 was $204,738 and $549,581, respectively. The expense relates to the long-term debt of $4,566,186 the Company has outstanding as at October 31, 2020, which was not in place at the same time during 2019.

The share of loss from investments in associate for the three-month period and year end October 31, 2020 of $91,469 and $448,701 respectively relates to the Company's 30% interest in the net loss of Endocanna for the periods. Endocanna was acquired by the Company at the end of the three-month period ended July 31, 2019. During the three-month period and the year ended October 31, 2019, the loss from investment in associate was $115,597.

During the three-month period and the year ended October 31, 2020, the Company recorded a loss on impairment of goodwill of $5,500,000. As at October 31, 2020, the Company performed its annual impairment test on the goodwill using the value-in-use method. The key assumptions used in the calculation of the recoverable amount relate to five-year future cash flows, weighted average cost of capital, and five-year average growth rate. These key assumptions were based on historical data from internal sources as well as industry and market trends. The discount rate used was 15.8% (2019 – 25%), representing the weighted average cost of capital (after-tax) determined based on mid-year discounting, and the five-year average growth rate in gross revenue was estimated at 75% (2019 - 20%). Management has determined that the impairment was primarily due to shifting market dynamics.

During the three-month period and year ended October 31, 2020, the Company had an unrealized gain on contingent consideration payable of $1,054,689 and $3,173,689 respectively, compared to unrealized gain of $1,675,999 and unrealized loss of $676,974 for the comparable periods in 2019. The unrealized gains during 2020, were the result of a change in the contingent liability due to the passage of time and current actual results relative to original expectations. The contingent consideration relates to the acquisition of Purefarma in the first half of 2019 and the previous acquisition of Voyage.

Summary of Quarterly Results

	2020				2019			
(in $CDN)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total net revenues (1)(2)	$1,429,973	$ 2,310,050	$ 884,830	$ 3,632,000	$ 3,563,623	Nil	Nil	Nil
Comprehensive loss (income)	$ 4,745,405	$ 151,152	$ 1,681,936	$ 3,789,021	$ (91,556)	$ 4,241,377	$ 5,216,718	$ 2,018,266
Basic and fully diluted loss (income) per share (3)	$ 0.01	$ 0.00	$ 0.01	$ 0.01	$ (0.00)	$ 0.01	$ 0.01	$ 0.01

(1) Revenue reported in Q1-Q3 2019 consisted of $238,813 in interest income and unrealized changes in the fair value of biological assets.
(2) Sales are net of excise tax.
(3) Basic loss per share equals fully diluted loss per share as any potential dilutive instruments are anti-dilutive.

Prior to the fourth quarter in 2019, the Company was focused on building and preparing its facilities for commercial production sales.

During the second quarter of 2019, the Company granted 5,500,000 incentive stock options with a fair value of $1,486,038 to directors, officers, employees and consultants of the Company, and by their vesting terms, resulted in the recognition of approximately $569,476 of stock-based compensation for the 3-month period.

During the first quarter of fiscal 2019, $2,020,311 of share-based payments were awarded to advisors in connection with the acquisitions of CannaCure and Purefarma. In addition, as part of the purchase consideration, the Company assumed CannaCure's outstanding employee incentive stock options, which resulted in a $12,657 expense relating to the vesting of said options in the quarter.

During fourth quarter of 2019, the Company granted 2,000,000 incentive stock options with a fair value of $541,632 to directors, officers, employees and consultants of the Company, and by their vesting terms, resulted in the recognition of approximately $224,073 of stock-based compensation for the 3-month period.

During the first quarter of 2020, the Company experienced strong sales as well as increased costs as a result of continued scaling of the business.

During the second quarter of 2020, the Company posted weak sales primarily because the Company's third-party customers experienced lower volumes as a result of COVID-19 which reduced the Company's sales.

During the third quarter of 2020, the Company posted increasing sales as the market rebounded from COVID-19 lockdowns. The improvement in the net loss was a result of reduced contingent consideration and recovered salaries and wages as a result of the CEWS to post stronger results.

During the fourth quarter of 2020 the Company posted lower sales as a result of transitioning from operating primarily as a third-party service provider to producing and selling its branded products to the provincial boards. The Company also wrote down goodwill as a result of its annual impairment analysis which was offset by a recovery of an accounts payable from a vendor.

Outlook

With the launch of Heritage's own brands in 2020, Management is focused on new product launches, service agreements, and product development to bring Canadian consumers new and innovative products through the authorized provincial channels, and online through portals like Patient Choice, Shoppers Drug Mart and Shelter Market.

With the recent acquisition of Premium 5 complete, Management is expanding the SKU offering, which includes the launch of RAD, Heritage's new value brand dedicated to providing recreational cannabis consumers with the most affordable products while still maintaining the highest quality standard possible. RAD products, including RAD Shatter, RAD Crumble, RAD Vapes, and RAD CBD Isolate will be available in BC through the British Columbia Liquor Distribution Branch in February, with additional products expected to be available shortly after. Additionally, Heritage has applied for its flower sales license from Health Canada to support the requested launch of RAD Reefer and RAD Doobies, which are also expected to be available across Canada.

In Ontario, four of Premium 5's concentrate products are already available, and Heritage received an order from the Ontario Cannabis Store ("OCS") for its Pura Vida's DayBreak Sativa Honey Oil Drops and NightFall Indica Honey Oil Drops, as well as Purefarma's Hemplixir 30 CBD Oil and 15:15 Balance CBD Oil.

Heritage has submitted its full product catalog for review to Alberta, Saskatchewan, Manitoba, Nova Scotia, New Brunswick, Newfoundland, Northwest Territories, Shelter Market and Shoppers Drug Mart. Additionally, Heritage is working through the approval process for Quebec. Although Heritage continues to focus on its branded product launches, extraction services remain a component of its strategy. Heritage recently signed two supply agreements, the first with Concept cannabis, a Saskatchewan-based brand, for the supply of flower, pre-rolls, and vapes, and the second with an Alberta based cannabis retailer for the supply of tincture oils. Heritage is in the final stages of signing supply agreements with two additional cannabis companies for similar supply agreements.

In Canada, Heritage's medical prescription-based CBD products focused on the goal of assisting with chronic inflammatory pain and dermal conditions, and which are supported by clinical data are in the in-licensing phase. These products will be marketed to physicians and clinics across Canada and available to patients directly from Heritage. Additionally, Heritage is preparing for the launch of Chyll™, an innovative CBD/CBDA filmstrip being produced in partnership with IntelGenx.

In the United States, Heritage, through its U.S. subsidiary Opticann, is preparing for the eCommerce launch of ArthroCBD, the CBD 25 mg softgel brand formulated using VESIsorb®, which provides 4.5x the absorption versus other oral CBD products on the market as proven in a published clinical trial in peer reviewed journal Molecules in 2019. Additionally, three topical products formulated with VESIsorb® for the treatment of eczema, psoriasis, and local pain are being prepared for launch to reach retail over-the-counter consumers at leading national retailers including CVS, Walgreens, Rite-Aid, Kroeger, Walmart and Costco.

Management continues to focus on broadening the Company's medical market reach internationally through the planned launch of CBD/CBDA filmstrips in Australia and the previously announced agreement with Entourage Phytolabs for the bulk sale of CBD and THC extracts for the Brazilian medical market.

As the Company continues to execute its strategy and complete its milestones the potential impact of COVID-19 and the continued sector volatility could have a negative impact on production efficiency and product launches.

Commitments

On January 30, 2020, the Company entered into a 24-month loan agreement with a maximum amount of $6,700,000, among which the first tranche of $4,875,000 had been advanced to the Company as at October 31, 2020, with the second tranche of $1,825,000 becoming 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 Company may, at any time prior to maturity, request an increase in credit in the aggregate amount of up to $2,300,000, to be provided at the sole discretion of the creditor. On September 29, 2020, the Company amended the loan agreement. The amendments replaced the original interest-only repayment schedule by monthly principal repayments of $85,000 plus interest from February 2021 to January 2022 with remaining balance due on maturity date. The amendments also added a clause that the advance of the second tranche of $1,825,000 shall be at the creditor's sole and absolute discretion. To maintain the term loan, the Company is required to meet certain working capital ratios. As at October 31, 2019 and 2020, the Company was in compliance with the capital requirements.

The proceeds of the Loan are being used to fund capital expenditures, and other income generating assets to advance the Company's business strategies.

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 as at October 31, 2020 and October 31, 2019.

		As at October 31, 2020		As at October 31, 2019
Current Assets	$	14,895,641	$	19,430,634
Current Liabilities	$	3,505,107	$	7,745,160
Working Capital	$	11,390,534	$	11,685,474

As at October 31, 2020, the Company had cash and short-term investments of $7,495,659 compared to $11,536,466 as at October 31, 2019.

The table below summarizes the Company's use of cash for the three month period and year ended October 31, 2020 and the comparable three and twelve month periods ended October 31, 2019.

		Three months ended October 31, 2020		Three months ended October 31, 2019		Year ended October 31, 2020		Year ended October 31, 2019
Cash Flows Provided by (Used in):								
Operating Activities	$	(2,751,954)	$	(396,290)	$	(6,976,072)	$	(8,918,294)
Investing Activities	$	67,462	$	1,509,549	$	1,602,905	$	(20,722,127)
Financing Activities	$	(8,066)	$	6,244	$	4,332,360	$	30,952,287

During the three-month period ended October 31, 2020, cash flows used in operating activities were $2,751,954 compared to $396,290 for the three-month period ended October 31, 2019. The increase of $2,355,634 was primarily due to the costs associated with the introduction of the brands and products by the Company during the fourth quarter of 2020, market volatility and near-term impact of COVID-19. During the year ended October 31,

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2020, cash flows used in operating activities were $6,976,072 compared to cash outflows of $8,918,294 for the year ended October 31, 2019. The decrease of $1,942,222 was primarily due to stronger sales in 2020.

During the three-month period ended October 31, 2020, cash flows provided by investing activities were $67,462 compared to $1,509,549 for the three-month period ended October 31, 2019, with the decrease of $1,442,087 primarily due to the maturity of short-term investments of $9,050,000 and reinvestment of short-term investments of $6,050,00. During the year ended October 31, 2020, cash flows provided by investing activities was $1,602,905 compared to cash flows used in investing activities of $20,722,127 for the comparable period. The increase of $22,325,032 was due to the maturity of short-term investments of $9,050,000 offset by the reinvestment of short-term investments of $6,050,000 and the acquisition of property, plant, and equipment in the amount of $1,355,212.

During the three-month period ended October 31, 2020, cash flow used in financing activities were $8,066 compared to cash flows provided by financing activities of $6,244, with the increase of $14,310 primarily due to principal repayments being made on the lease obligation during 2020 and while warrants were exercised during 2019. During the year ended October 31, 2020, the Company received total proceeds from financing activities of $4,332,360, of which $4,363,949 were from the long-term loan, which was offset by $27,229 used for principal payments on lease obligation and $4,360 used for the repayment of long-term debt.

The progression of the COVID-19 pandemic may 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, management continues to closely monitor the evolving situation and are looking into all possible actions that could minimize the impact of the COVID-19 pandemic.

As at October 31, 2020, the Company had cash and short-term investments of $7,495,659 (October 31, 2019 - $11,536,466). At the reporting date, the Company had long-term financial debts amounting to $6,325,870, including $4,070,493 of long-term debt, $1,362,000 relating to contingent consideration payable to the former shareholders of Purefarma and Voyage, and $893,377 relating to warrant liabilities issued as part of the consideration for the acquisition of Opticann.

The Company's long-term debt is a term loan with a 24-month contractual term maturing January of 2022. The term loan bears interest at 9.5% per annum, with monthly principal payments of $85,000 plus interests from February 2021 to January 2022 with the remaining balance due on maturity. The term loan is advanceable in two tranches of $4,875,000 and $1,825,000, with the first tranche advanced on January 31, 2020. Each tranche is subject to an original issue discount of 4.50%.

Outstanding Share Capital

The Company has the following shares outstanding as of January 26, 2021:

	Number of shares outstanding
Balance, October 31, 2018	203,919,450
Issued shares for cash:	
Brokered private placement	65,660,000
Warrants exercised	25,166,216
Incentive stock options exercised	4,241,919
Shares issued for acquisition - CannaCure	131,548,575
Shares issued for finders fees - CannaCure	5,784,751
Shares issued for acquisition - Purefarma	33,333,333
Shares issued for finders fees - Purefarma	1,200,000
Shares issued for acquisition - Endocanna	2,710,515
Share based compensation	153,265
Balance, October 31, 2019	473,718,024
Shares issued for acquisition - Opticann	21,918,698
Shares issued for acquisition – Pura Vida brand	500,000
Balance, October 31, 2020	496,136,772
Shares issued for acquisition – Premium 5 Ltd.	150,000,000
Exercise of stock options	2,549,644
Shares issued for RSU's	5,076,628
Balance, February 25, 2021	653,763,044

Off-Balance Sheet Arrangements

As of the date of this MD&A, there are no off-balance sheet arrangements to which the Company is committed.

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- and twelve-month periods ended October 31, 2020 and October 31, 2019 are summarized as follows:

Transactions with directors, officers and companies controlled by directors, officers and/or their families.[1]

		Three months ended October 31, 2020		Three months ended October 31, 2019		Year ended October 31, 2020		Year ended October 31, 2019
Management fees	$	45,000	$	45,000	$	180,000	$	180,000
Consulting fees	$	143,500	$	231,359	$	697,574	$	773,083
Occupancy	$	-	$	4,000	$	-	$	60,645
Accrued interest income	$		$	1,199	$	-	$	2,495
Loans advanced	$	-	$	-	$	-	$	254,408
Loan repayments received	$	-	$	254,408	$	-	$	254,408
Cash paid to non-controlling interest	$	-	$	-	$	-	$	150,000
Key Management Compensation								
Salary and short-term benefits	$	76,102	$	74,769	$	309,384	$	266,989
Share-based payments	$	-	$	4,693	$	156,356	$	876,636

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

As at October 31, 2020 the Company was owed $48,831 (2019 - $48,831) from related parties and owed $338,906 (2019 - $200,049) to related parties.

Critical Accounting Estimates

The preparation of these 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods. While management believes that the estimates are reasonable, actual results could differ materially from those estimates and may impact the future results of operations.

(i) COVID-19 Estimation Uncertainty

In March 2020, the World Health Organization declared the outbreak of the novel strain of coronavirus (“COVID-19”), a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, had an impact on the Company's operations from the second quarter of 2020. As at October 31, 2020, management performed an annual impairment test on goodwill. Based on the impairment test, management has recognized an impairment loss of $5,500,000 on goodwill.

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's business, financial position and operating results in the future. In addition, it is possible that estimates in the Company's consolidated financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

(ii) Share-based payment transactions

Certain equity-settled transactions are measured by reference to the fair value of the equity instruments granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the share option or warrant, volatility and dividend yield.

(iii) Business combinations

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

(iv) Estimated useful lives and depreciation of property, plant and equipment, right-of-use asset and intangible assets with finite lives

Depreciation and amortization of property, plant and equipment, right-of-use asset and intangible assets with finite lives are dependent upon estimates of useful lives and when the asset is available for use, which are determined through the exercise of judgment and are dependent upon estimates that take into account factors such as economic and market conditions, frequency of use, anticipated changes in laws and technological improvements.

(v) Impairment of property, plant and equipment, right-of-use asset and intangible assets other than goodwill

The assessment of any impairment on property, plant and equipment, right-of-use asset and intangible assets other than goodwill is dependent upon estimates of recoverable amounts. As the recoverable amount is the higher of fair value less costs of disposal and value in use, management must consider factors such as economic and market conditions, estimated future cash flows, discount rates and asset-specific risks.

(vi) Impairment of goodwill

The impairment test for cash generating units ("CGUs") to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based on assumptions including, but not limited to, the cash flow growth rate and the discount rate.

(vii) Determination of CGUs

Management is required to use judgement in determining which assets or group of assets make up appropriate CGUs for the level at which goodwill and intangible assets with indefinite lives are tested for impairment. A CGU is defined as the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

(viii) Valuation of financial instruments

The Company makes estimates and assumptions relating to the fair value measurement and disclosure of its convertible promissory note receivable, private company investments, contingent consideration payable and warrant liabilities. The fair values are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, management's judgment is required to establish fair values.

(ix) Control, joint control or significant influence

In determining the appropriate basis of accounting for the Company's interests in investees, judgment is applied regarding the degree to which the Company has the ability to control or exert significant influence over, directly or indirectly, the investees' financial and operating activities.

(x) Income taxes and recoverability of potential deferred tax assets

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses for income tax purposes, it assesses the probability of taxable income being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

(xi) Inventory

Inventory is valued at the lower of cost and net realizable value. Determining net realizable value requires the Company to make assumptions about estimated selling prices in the ordinary course of business, the estimated costs of completion and the estimated variable costs to sell.

(xii) Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECLs") for all debt financial assets not held at fair value requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses. These assumptions are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

(xiii) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. Management monitors future cash requirements to assess the Company's ability to meet these future funding requirements.

(xiv) Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows

Changes in Accounting Policies Including Initial Adoption

The Company has adopted the following new or amended accounting pronouncements for the year beginning November 1, 2019.

(a) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, Leases which replaced the previous guidance on leases, predominantly, IAS 17, Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize all assets and liabilities arising from a lease. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16.

As at November 1, 2019, the Company adopted IFRS 16 in accordance with the transitional provisions stipulated in IFRS 16. The Company has applied the following practical expedients:

(i) The Company applied the modified retrospective approach and did not restate comparative information. As a result, any adjustment on initial application is recognized in accumulated deficit as at November 1, 2019.

(ii) On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were excluded from consideration under IFRS 16. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after November 1, 2019.

In accordance with the practical expedients applied, the Company has recognized lease liabilities and right-of-use assets at the date of initial application for leases previously classified as operating leases in accordance with IAS 17. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease term of 12 months or less) and leases for which the underlying asset is of low value. The Company has also elected to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. In addition, the Company has elected not to record depreciation of the right-of-use assets prior to the date of initial application. Upon transition to the new standard, lease liabilities were measured at the present value of the remaining lease payments discounted at the Company's incremental borrowing rate as at November 1, 2019. Right-of-use assets and lease liabilities were recognized on the consolidated statement of financial position with the cumulative difference recognized in accumulated deficit.

As at November 1, 2019, the Company had one non-cancellable lease, resulting in the recognition of a lease liability and right-of-use asset in the amount of $53,412 with $nil cumulative difference recognized in accumulated deficit. The lease was previously assessed and reported as an operating lease in accordance with IAS 17. Refer to the commitment note in the consolidated financial statements for the year ended October 31, 2019. The weighted average incremental borrowing rate applied on the date of initial application is 5%. The right-of-use asset is amortized over 1.9 years, the lesser of lease term and useful life.

(b) Adoption of IFRIC 23, Uncertainty Over Income Tax Treatments

IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 became effective for fiscal years beginning on or after January 1, 2019, with earlier application permitted. The Company has adopted this interpretation as of November 1, 2019 and has assessed no significant impact as a result of the adoption of this interpretation.

(c) Adoption of Amendments to IFRS 3, Business Combinations

IFRS 3 was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive and the inputs and process must together significantly contribute to operating outputs. In addition, it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted. The Company has early adopted these amendments as permitted. The Company has assessed no significant impact as a result of the adoption of these amendments.

(d) Amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Issued but not Yet Effective

IAS 1 and IAS 8 were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted. The Company will adopt these amendments as of their effective date, and is currently assessing the impacts on adoption.

Financial Instruments and Risk Management

The Company is exposed to risks that arise from its use of financial instruments. This section describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information pertaining to these risks is presented throughout these consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them since October 31, 2019, unless otherwise stated.

(a) Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company has moderate exposure to credit risk from its cash, short-term investments, accounts receivable, and convertible promissory note receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash and short-term investments is mitigated by holding these balances with highly-rated Canadian financial institutions. The Company therefore does not expect any credit losses on its cash and short-term investments.

The Company's accounts receivable balance consists of the following:

	As at October 31, 2020	As at October 31, 2019
Trade accounts receivable from customers	$ 948,367	$ 473,716
Expected credit losses	(358,250)	-
Net trade receivables	590,117	473,716
Interest and other receivables	473,651	125,551
	$ 1,063,768	$ 599,267

The Company provides credit to certain customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk for customers is assessed on a case-by-case basis and a provision is recorded where required. As at October 31, 2020, the Company identified certain accounts that may result in a credit loss on its accounts receivable, for which expected credit losses are recognized.

The Company has assessed that there is a concentration of credit risk, as 91% of the Company's trade accounts receivable is due from 2 customers as at October 31, 2020 (2019 - 100% of the balance due from 2 customers).

An analysis of the aging of trade accounts receivable (net of allowance) is as follows:

	As at October 31, 2020	As at October 31, 2019
Current (30 days or less)	$ 495,414	$ -
31-60 days	6,482	414,736
61-90 days	8	58,980
Greater than 90 days	88,213	-
	$ 590,117	$ 473,716

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the financial obligations associated with its financial liabilities as they come due. The Company manages liquidity risk through the management of its capital structure. As at October 31, 2020, the Company had working capital of $11,390,534 (2019 – $11,685,474). The Company does not yet have positive cash flows from operations and as such, the Company may be dependent upon the issuance of new equity and/or debt to advance its production efforts and meet its financial obligations. If equity or debt financing is required, failure to obtain such financing on a timely basis may cause the Company to postpone, reduce or terminate its production plans. The Company has the following undiscounted contractual obligations subject to liquidity risk:

	<1 year	1-3 years	> 3 years
Accounts payable and accrued liabilities	$ 2,462,297	$ -	$ -
Long-term debt	1,172,329	4,250,159	8,779
Contingent consideration payable	157,527	782,000	-
Total	$ 3,792,153	$ 5,032,159	$ 8,779

(c) Market risk

(i) Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. The Company is exposed to this risk on its investment in Endocanna, an associate that bears the U.S. dollar as its functional currency. The Company is required to translate the financial position and operating results of Endocanna into Canadian dollars and to recognize its share of the resulting translation gain or loss in other comprehensive loss. The Company is further exposed to the risk through Opticann, a wholly owned subsidiary operating in United States. As at October 31, 2020 and October 31, 2019, the Company has not entered into any hedging agreements to mitigate foreign currency risk. As such, the Company's financial position and financial results may be adversely affected by the unfavorable fluctuations in currency exchange rates.

The following table provides a summary of financial assets and liabilities denominated in USD:

	As at October 31, 2020	As at October 31, 2019
Cash	$ 3,724	$ -
Other current assets	9	-
Accounts payable and other liabilities	204,658	-
Investment in associate	2,645,529	2,909,901

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by $324,839 (2019 - $382,943). A 10% weakening of the Canadian dollar against the foreign currencies listed above would result in an equal, but opposite effect.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's short-term investments and convertible promissory note receivable earn fixed rates of interest in the range from 0.7% to 1.05% per annum and 2.00% per annum respectively. The Company's long-term debt bears interest at a fixed rate as detailed in Note 13. As at October 31, 2020 and October 31, 2019, the Company had no hedging agreements in place.

(iii) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. As at October 31, 2020 and October 31, 2019, the Company is exposed to this risk on its contingent consideration payable in Heritage Common Shares pursuant to the acquisition of Opticann and Purefarma.

Fair value of financial instruments

Assets recorded at fair value in the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments are measured either at fair value or at amortized cost. The table below lists the valuation methods used to determine the fair value of each financial instrument.

Financial Instruments measured at fair value	
Contingent consideration payable	Discounted cash flow (Level 3)
Convertible promissory note receivable	Amount due on demand (Level 3)
Warrant liabilities	Black-Scholes model (Level 3)
Other investments	Discounted cash flow (Level 3)
Financial instruments measured at amortized cost	
Cash; Short-term investments; Accounts receivable; Other current assets; Accounts payable and accrued liabilities	Carrying amount (approximates fair value due to short-term nature)
Long-term debt	Carrying value at the effective interest rate which approximates fair value

During the year ended October 31, 2020 and 2019, there were no transfers of amounts between levels.

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.

Subsequent Events

(a) Exercise of options

On November 12, 2020, the Company issued 2,549,644 Heritage Common Shares as a result of 2,549,644 options exercised at an exercise price of $0.1.

(b) Issuance and exercise of RSUs

On January 15, 2021, the Company issued 5,076,628 RSUs as settlement of part of 2019 key management compensation, which were then exercised by the holders resulting in an issuance of 5,076,628 Heritage Common Shares.

(c) Acquisition of Premium 5 Ltd.

On January 26, 2021, the Company acquired all of the issued and outstanding securities of Premium 5 Ltd. ("Premium 5"), a Canada-based recreational and medical cannabis company in order to leverage their distribution channels, brand recognition, and financial synergies. As consideration for the acquisition, the Company issued 150,000,000 Heritage Common Shares. The Company will issue additional Heritage Common Shares with a potential value of up to $20,000,000 upon achieving a series of revenue milestones and maintaining minimum gross margin objectives over the next 24 months. The Company is currently assessing its accounting treatment of the acquisition, including the evaluation and fair value measurement of consideration paid, assets acquired and liabilities assumed.

(d) Public offering

On February 2, 2021, the Company announced a public offering of units (each, a "Unit") of the Company (the "Offering") to issue up to 86,000,000 Units at a price of $0.14 per Unit (the "Issue Price") for aggregated gross proceeds of up to $12,040,000. Each Unit consists of one Heritage Common Share and one common share purchase warrant (each, a "Warrant"). Each Warrant is exercisable for one Heritage Common Share at any time for a period of 24 months following the closing of the Offering at an exercise price of $0.21 per Warrant.

(e) Subsequent receipt of Canadian Employment Wage Subsidy funding

Subsequent to October 31, 2020, the Company received the CEWS funding of $299,436, which was included in accounts receivable as at October 31, 2020.

United States Operations and Regulatory Framework

The Company does not have any direct, indirect or material ancillary involvement in the United States cannabis industry and accordingly is not currently subject to Canadian Securities Administrators Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities ("Staff Notice 51-352"). The Company currently has immaterial exposure to US cannabis operations in connection with: (a) its non-controlling 30% ownership interest in EndoCanna; (b) its joint venture partnership with Empower Clinics Inc.; and (c) its subsidiary, Opticann.

EndoCanna concentrates in endocannabinoid DNA testing. Endocanna has developed a home-based DNA test kit using a saliva collection. The test kit 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 helps customers select cannabis with the right cannabinoid profile and assist with choosing the formulation, dosage, and best delivery method for their needs.

The Company has a promissory note with Empower Clinics Inc., which at the Company's option, the promissory note is convertible into the shares of Empower Clinics based on the value of the shares at the closing price the day before the conversion, or into the equity interest in the joint venture to be formed between the Company and Empower Health. The Company will install extraction units and related downstream extraction equipment inside Empower Clinics Inc.'s existing licensed hemp processing facility in Sandy, Oregon. In addition, the Company will train and supervise the staff on the proprietary methods of extraction and oil production that it produces in Canada. Once operational, the joint venture will begin producing proprietary branded products for Empower Clinics Inc.'s corporately owned physician staffed health clinics in Washington State, Oregon, and Arizona. The development of the CBD extraction facility has been delayed due to the impact of the COVID-19 pandemic and significant limitations of travel that have prevented further work from taking place.

Opticann has an exclusive licensing agreement to use the patented VESIsorb® drug delivery system for absorption into the system. Although Opticann currently has no active operations in the United States, Opticann is preparing for the eCommerce launch of ArthroCBD, a CBD 25 mg softgel brand formulated using VESIsorb®. In addition, the Company is planning on selling the ArthroCBD through over-the-counter sales at leading U.S. retailers.

OptiCann is developing arthrocbd.com as an e-commerce platform to sell CBD-based products in compliance with the Farm Bill (as hereinafter defined). The Company anticipates that the platform will utilize plug-ins from WooCommerce to power e-commerce functionality and Slate Payment software for payment processing, both of which were selected following a thorough diligence process undertaken by Opticann. The Company anticipates that the site will be operational in April, 2021.

The CBD production contemplated by the joint venture with Empower Clinics Inc. and the ArthroCBD branded products produced by Opticann are derived from industrial hemp, which may be sold legally under U.S. federal law, whether through retail sales or online, pursuant to the Agriculture Improvement Act of 2018, Pub. L. 115-334 (the "Farm Bill").

The passage of the Farm Bill materially altered federal law governing hemp by removing hemp from the Controlled Substances Act (21 U.S.C § 811), as amended (the "CSA") and establishing a federal regulatory framework for hemp production in the United States. Among other provisions, the Farm Bill: (a) explicitly amends the CSA to exclude all parts of the cannabis plant (including its cannabinoids, derivatives, and extracts) containing a delta-9 tetrahydrocannabinol concentration of not more than 0.3% on a dry weight basis from the CSA's definition of "marihuana"; (b) permits the commercial production and sale of hemp; (c) precludes states, territories, and Indian tribes from prohibiting the interstate transport of lawfully-produced hemp through their borders; and (d) establishes the United States Department of Agriculture ("USDA") as the primary federal agency regulating the cultivation of hemp in the United States, while allowing states, territories, and Indian tribes to obtain (or retain) primary regulatory authority over hemp activities within their borders after receiving approval of their proposed hemp production plan from the USDA. Any such plan submitted by a state, territory, or Indian tribe to the USDA must meet or exceed minimum federal standards and receive USDA approval. Any state, territory, or Indian tribe that does not submit a plan to the USDA, or whose plan is not approved by the USDA, will be regulated by the USDA; provided that states retain the ability to prohibit hemp production within their borders. The Farm Bill will remain in effect until December 2023.

On October 31, 2019, the USDA issued an interim final rule (the "IFR") to implement the Farm Bill. The IFR establishes regulations governing commercial hemp production in the United States and provides the framework for state departments of agriculture and Indian tribes to begin implementing commercial hemp production programs. In addition, following the issuance of the IFR, the USDA stated that it will begin, and has since begun, reviewing hemp production plans submitted by states, territories, and Indian tribes. Pursuant to the Farm Bill, the USDA has 60 days from the date a plan is submitted to approve or disapprove it. As of the date hereof, several states and Indian tribes have submitted plans to the USDA, some of which have been approved or disapproved.

The Farm Bill neither affects nor modifies the Federal Food, Drug and Cosmetic Act (the "FD&C Act"), thus expressly preserving the U.S. Food and Drug Administration's (the "FDA") authority to regulate food, drugs, dietary supplements, and cosmetics containing cannabis and/or cannabis-derived compounds, such as CBD. On the same date that the Farm Bill was signed into law, the FDA issued a statement (i) reaffirming its jurisdiction over products containing cannabis and/or cannabis-derived compounds and (ii) restating its position that "it [is] unlawful to introduce food containing added CBD into interstate commerce, or to market CBD products as, or in, dietary supplements, regardless of whether the substances are hemp-derived," because CBD is an active ingredient in an

FDA-approved drug and was the subject of substantial clinical investigations that were made public before it was marketed as a food or dietary supplement. Following the passage of the Farm Bill, the FDA has also acknowledged that "there is substantial public interest in marketing and accessing CBD in food, including dietary supplements . . . [and] [t]he statutory provisions that currently prohibit marketing CBD in these forms also allow the FDA to issue a regulation creating an exception, and some stakeholders have asked that the FDA consider issuing such a regulation to allow for the marketing of CBD in conventional foods or as a dietary supplement, or both." The FDA held a public hearing in May 2019 to obtain scientific data and information about the safety, manufacturing, product quality, marketing, labeling, and sale of products containing cannabis or cannabis-derived compounds, and also established a high-level internal working group to explore potential pathways for various types of CBD products to be lawfully marketed.

In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding cannabis regulation.

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 the Company, or that are currently deemed immaterial, may also impair operations. If any such risks actually occur, the business, financial condition, liquidity and results of 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 a 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, 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 COVID-19, may adversely affect trade, global and local economies and the trading prices of the Common 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 the Company may be required to temporarily close one or more of its facilities and suspend operations. Given the ongoing and dynamic nature of the circumstances, the extent to which COVID-19 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 2021 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.

<u>Risks related to operating in the Cannabis Industry</u>

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 market, 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 the Company's 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 are 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.

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.

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 no assurance 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

Regulatory scrutiny of the Company's interests in the United States

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, 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 securities of the Company to make trades. In particular, the securities of the Company would become highly illiquid as investors would have no ability to effect a trade of the securities 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.

Cannabis remains illegal under federal law in the United States, and therefore, strict enforcement of federal laws regarding cannabis would likely result in our inability to execute our business plan.

Cannabis, other than hemp (defined by the U.S. government as Cannabis sativa L. with a tetrahydrocannabinol (THC) concentration of not more than 0.3% on a dry weight basis), is a Schedule I controlled substance under the CSA. In December 2018, the U.S. government changed hemp's legal status. The Farm Bill, removed hemp and extracts of hemp, including CBD, from the CSA schedules. Accordingly, the production, sale and possession of hemp or extracts of hemp, including certain CBD products, no longer violate the CSA. U.S. states have implemented a patchwork of different laws on hemp and its extracts, including CBD. Additionally, the U.S. Food and Drug Administration claims that the Food, Drugs & Cosmetics Act significantly limits the legality of hemp-derived CBD products.

Even in U.S. states or territories that have legalized cannabis to some extent, the cultivation, possession, and sale of cannabis all violate the CSA and are punishable by imprisonment, substantial fines and forfeiture. Moreover, individuals and entities may violate federal law if they aid and abet another in violating the CSA, or conspire with another to violate the law, and violating the CSA is a predicate for certain other crimes, including money laundering laws and the Racketeer Influenced and Corrupt Organizations Act. The U.S. Supreme Court has ruled that the federal government has the authority to regulate and criminalize the sale, possession and use of cannabis, even for individual medical purposes, regardless of whether it is legal under state law. For over five years, however, the U.S. government has not prioritized the enforcement of those laws against cannabis companies complying with state law and their vendors. No reversal of that policy of prosecutorial discretion is expected under a Biden administration given his campaign's position on cannabis, discussed further below, although prosecutions against state-legal entities cannot be ruled out.

On January 4, 2018, then U.S. Attorney General Jeff Sessions issued a memorandum for all U.S. Attorneys (the "Sessions Memo") rescinding certain past U.S. Department of Justice ("DOJ") memoranda on cannabis law enforcement, including the Memorandum by former Deputy Attorney General James Michael Cole (the "Cole Memo") issued on August 29, 2013, under the Obama administration. Describing the criminal enforcement of federal cannabis prohibitions against those complying with state cannabis regulatory systems as an inefficient use of federal investigative and prosecutorial resources, the Cole Memo gave federal prosecutors discretion not to prosecute state law compliant cannabis companies in states that were regulating cannabis, unless one or more of eight federal priorities were implicated, including use of cannabis by minors, violence, or the use of federal lands for cultivation. The Sessions Memo, which remains in effect, states that each U.S. Attorney's Office should follow established principles that govern all federal prosecutions when deciding which cannabis activities to prosecute. As a result, federal prosecutors could and still can use their prosecutorial discretion to decide to prosecute even state-legal cannabis activities. Since the Sessions Memo was issued over three years ago, U.S. Attorneys have generally not prioritized the targeting of state law compliant entities.

Then Attorney General William Barr testified in his confirmation hearing on January 15, 2019, that he would not upset "settled expectations," "investments," or other "reliance interest[s]" arising as a result of the Cole Memo, and that he did not intend to devote federal resources to enforce federal cannabis laws in states that have legalized cannabis "to the extent people are complying with the state laws." He stated: "My approach to this would be not to upset settled expectations and the reliance interests that have arisen as a result of the [Cole Memo] and investments have been made and so there has been reliance on it, so I don't think it's appropriate to upset those interests." He also implied that the CSA's prohibitions of cannabis may be implicitly nullified in states that have legalized cannabis: "[T]he current situation … is almost like a back-door nullification of federal law." Industry observers generally have not interpreted Attorney General Barr's comments to suggest that the DOJ would proceed with cases against participants who entered the state-legal industry after the Cole Memo's rescission.

As such, there is no assurance that each U.S. Attorney's Office in each judicial district will not choose to strictly enforce federal laws governing cannabis sales in the event the Company commences any cannabis activities in the United States. The Company believes that the basis for the U.S. federal government's lack of recent enforcement with respect to the cannabis industry extends beyond the strong public sentiment and ongoing prosecutorial discretion. Since 2014, versions of the U.S. omnibus spending bill have included a provision prohibiting the DOJ, which includes the Drug Enforcement Administration, from using appropriated funds to prevent states from implementing their medical-use cannabis laws. In USA vs. McIntosh, the U.S. Court of Appeals for the Ninth Circuit held that the provision prohibits the DOJ from spending funds to prosecute individuals who engage in conduct permitted by state medical-use cannabis laws and who strictly comply with such laws. The court noted that, if the spending bill provision were not continued, prosecutors could enforce against conduct occurring during the statute of limitations even while the provision was previously in force. Other courts that have considered the issue have ruled similarly, although courts disagree about which party bears the burden of proof of showing compliance or noncompliance with state law. Consequently, it is feasible that in the future that Company may directly or indirectly sell adult-use cannabis, if permitted by such state and local laws now or in the future, and therefore may be outside any protections extended to medical-use cannabis under the spending bill provision. This could subject us to greater and/or different federal legal and other risks as compared to businesses where cannabis is sold exclusively for medical use, which could in turn materially adversely affect our business. Furthermore, any change in the federal government's enforcement posture with respect to state-licensed cannabis sales, including the enforcement postures of individual federal prosecutors in judicial districts where the Company may operate, would result in our inability to execute our then business plan, and we would likely suffer significant losses with respect to client base, which would adversely affect our operations, cash flow and financial condition.

While President Biden's campaign position on cannabis falls short of full legalization, he has campaigned on a platform of relaxing enforcement of cannabis proscriptions, including decriminalization generally. According to the Biden campaign website: "A Biden Administration will support the legalization of cannabis for medical purposes and reschedule cannabis as a CSA Schedule II drug so researchers can study its positive and negative impacts. This will include allowing the [Department of Veteran's Affairs] to research the use of medical cannabis to treat veteran-specific health needs." He has pledged to "decriminalize" cannabis, which could prompt his U.S. Attorney General to issue policy guidance to U.S. Attorneys that they should not enforce federal cannabis prohibition against state law compliant entities and others legally transacting business with them. Indeed, the Biden-Sanders Unity Platform, which was released at the time President Biden won the Democratic Party nomination for President, affirmed that his administration would seek to "[d]ecriminalize marijuana use and legalize marijuana for medical purposes at the federal level;" "allow states to make their own decisions about legalizing recreational use;" and "automatically expunge all past marijuana convictions for use and possession." Vice President Harris echoed these intentions during the vice presidential debate, saying that "[w]e will decriminalize marijuana and we will expunge the records of those who have been convicted of marijuana[-related offenses]." While President Biden's promise to decriminalize likely would mean that the federal government would not criminally enforce the Schedule II status against state legal entities, the implications are not entirely clear.

Although the U.S. Attorney General could issue policy guidance to federal prosecutors that they should not interfere with cannabis businesses operating in compliance with states' laws, any such guidance would not have the force of law, and could not be enforced by the courts. The President alone cannot legalize medical cannabis, and as states have demonstrated, legalizing medical cannabis can take many different forms. While rescheduling cannabis to the

CSA's Schedule II would ease certain research restrictions, it would not make the state medical or adult-use programs federally legal. Additionally, President Biden has not appointed any known proponents of cannabis legalization to the Office of National Drug Control Policy transition team. Furthermore, while industry observers are hopeful that changes in Congress, along with a Biden presidency, will increase the chances of federal cannabis policy reform, such as the Marijuana Opportunity Reinvestment and Expungement Act (or MORE Act), which was originally co-sponsored by now Vice President Harris in the Senate, or banking reform, such as the SAFE Banking Act, we cannot provide assurances about the content, timing or chances of passage of a bill legalizing cannabis, particularly in the Senate. Accordingly, we cannot predict the timing of any change in federal law or possible changes in federal enforcement. In the unlikely event that the federal government were to reverse its long-standing hands-off approach to the state legal cannabis markets and start more broadly enforcing federal law regarding cannabis, this may hinder potential expansion opportunities of the Company into the United States.

Anti-money laundering laws and regulations

The Company is 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 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), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control 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. Banks often refuse to provide banking services to businesses involved in the U.S. cannabis industry due to the present state of the laws and regulations governing financial institutions in the United States. The lack of banking and financial services presents unique and significant challenges to businesses in the medical cannabis industry. The potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the unavailability of traditional banking and financial services.

In February 2014, the Department of the Treasury Financial Crimes Enforcement Network ("FinCEN"), a division of the U.S. Department of Treasury, issued the FinCEN Guidance, providing instructions to banks seeking to provide services to cannabis-related businesses. The FinCEN Guidance states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that former Deputy Attorney General James M. Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. While the FinCEN Guidance has not been rescinded by the DOJ at this time, it remains unclear whether the current administration will follow its guidelines. Overall, the DOJ continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act that occur in any U.S. state, including in states that have legalized the applicable conduct, and the DOJ's current enforcement priorities could change for any number of reasons, including a change in administration, the opinions of the President of the United States or the United States Attorney General. A change in the DOJ's enforcement priorities could result in the DOJ prosecuting banks and financial institutions for crimes that previously were not prosecuted. On September 25, 2019, the U.S. House of Representatives passed the Secure and Fair Enforcement Banking Act of 2019 (commonly known as the SAFE Banking Act) which aims to provide safe harbor and guidance to financial institutions that work with legal U.S. cannabis businesses. The SAFE Banking Act will next require passage by the U.S. Senate.

In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations 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 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. Furthermore, while there are no current intentions to declare or pay dividends in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Other Information

Other information relating to the Company may be found on the Company's website 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 1, 2021