



HERITAGE CANNABIS HOLDINGS CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

ANNUAL AND QUARTERLY HIGHLIGHTS

For the Year Ended October 31, 2021

May 10, 2022

This 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, 2021. The following information should be read in conjunction with the accompanying audited consolidated financial statements and related notes for the years ended October 31, 2021 and October 31, 2020.



Introduction

This Management Discussion and Analysis (“MD&A”) focuses on significant factors that have affected the performance of Heritage Cannabis Holdings Corp. (the “Company” or “Heritage”) 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, 2021 and October 31, 2020, 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 May 10, 2022.

Forward-Looking Statements

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 and legal 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 general level of consumer demand for the Company’s products;
- the ability for the Company to access consumer markets for its products;
- the Company’s ability to expand into international markets and further across domestic 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 Company’s ability to sustainably and effectively source the necessary materials to produce its products;

- 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 (viii) 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 the senior management of the Company (“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.

United States Cannabis and Hemp Oil Industry Activities

In the future, the Company may be involved, directly or indirectly, in the cannabis and hemp oil industry in the United States where local state laws permit such activities.

The U.S. federal government regulates drugs through the Controlled Substances Act (21 U.S.C § 811), as amended (the “CSA”) including cannabis. Cannabis is classified as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use under medical supervision. The U.S. Food and Drug Administration has not approved marijuana as a safe and effective drug for any indication.

In the U.S., cannabis is largely regulated at the state level. State laws regulating cannabis are in direct conflict with the federal CSA. Although certain states authorize, medical or recreational cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation and transfer of cannabis and any related drug paraphernalia is illegal. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.

On January 4, 2018, U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the U.S., including the August 2013 memorandum by then Deputy Attorney General, James Cole (the "Cole Memorandum"). With the Cole Memorandum rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law.

There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdiction. Unless and until the U.S. Congress amends the CSA with respect to medical and/or adult-use cannabis, there is a risk that federal authorities may enforce current federal law. If the Company or any of its subsidiaries becomes involved in the cannabis industry in the United States in a manner which, although legal in a particular state, is illegal under the federal laws of the United States and the federal government elects to enforce such laws, or if existing applicable laws in such state are repealed or curtailed in such a manner as would result in the activities of the Company or any of its subsidiaries becoming illegal, the Company and its subsidiaries may be materially adversely affected by such enforcement measures. See "Risks and Uncertainties" of this MD&A for additional information.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the Canadian Securities Administrators published Canadian Securities Administrators Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities ("Staff Notice 51-352") setting out the Canadian Securities Administrator's disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S., Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry.

Management's Responsibility for Financial Statements

The information provided in this MD&A, including the audited consolidated financial statements and related notes for the years ended October 31, 2021 and October 31, 2020, are the responsibility of Management. In the preparation of the accompanying audited consolidated financial statements and related notes for the years ended October 31, 2021 and October 31, 2020, 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 and related notes.

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.

Company Overview

The Company was incorporated on October 25, 2007 under the Business Corporations Act of British Columbia as Trijet Mining Corp. 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 (the "Common Shares") 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 completed a Fundamental Change of Business pursuant to CSE Policy 8 (as such term is defined in the CSE Policy 8), changed its name to Heritage Cannabis Holdings Corp., and began trading under the symbol "CANN.C". No consolidation of capital was completed. The Company currently 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 leading cannabis products company operating two licensed manufacturing facilities in Canada, and offers innovative products to both the medical and recreational legal cannabis markets in Canada, the U.S., and internationally. Heritage focuses on extraction and the creation of extract and extract-derivative products and brands for adult use and cannabis-based medical solutions. The Company has an extensive portfolio of high-quality cannabis products under the brands Purefarma, Pura Vida, Really Awesome Dope (“RAD”), Premium 5, feelgood., ArthroCBD, and CB4. In pursuit of its vision, Heritage has built an infrastructure and platform to advance its products to compete in domestic and international markets.

In Canada, Heritage operates through its wholly owned 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, a cannabis oil sales license, and a cannabis research license. Voyage operates out of a 15,500 square foot processing facility in Falkland, British Columbia, which has been outfitted with extraction, downstream processing, formulation and packaging areas and an approved security-level vault. CannaCure holds a Health Canada cultivation, processing, and medical sales license, as well as industrial hemp, cannabis oil sales, and dried cannabis sales licenses under the Cannabis Act Regulations. CannaCure operates out of a 122,000 square foot facility in Fort Erie, Ontario, which formerly operated as a 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.

On July 26, 2019, through a series of transactions, Heritage, through its subsidiary Heritage (US) Cali Corp. (“Cali Corp”) acquired a 30% interest in EndoCanna Health, Inc. (“EndoCanna”), the Company’s first investment in the United States.

In the U.S., Heritage operates primarily through its wholly owned subsidiary, Opticann Inc. (“Opticann”), 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. The Company indirectly owns 100% of the issued and outstanding shares of Opticann, which was incorporated on May 5, 2019.

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), in each of which the Company owns or controls 100% of the issued and outstanding shares. The Company also acquired a 100% interest in Premium 5 Ltd. (“Premium 5”) on January 25, 2021.

Heritage Brands

Purefarma

Purefarma is a brand that offers medicinal-grade cannabis formulations for the pharmaceutical, recreational, and cosmeceutical markets. Purefarma develops its products using its own proprietary modifications to industry-standard machinery and has industrialized a variety of proprietary production processes with in-house design-built equipment.

Pura Vida

Heritage developed the Pura Vida product line, which is altruistically medicinal but recreationally focused, by leveraging the know-how of the Purefarma offerings. Pura Vida gained national recognition after entering several competitions and winning multiple awards for concentrates in the CBD, Indica, Sativa, and Hybrid categories at the Emerald Cup, High Times and Cannabis Cup prior to its acquisition by Heritage.

Premium 5

Premium 5 is dedicated to creating high-quality, full-spectrum concentrates, selling a premium high-THC experience, and providing a healthier and more discrete way to medicate and consume.

Products offered under the Premium 5 brand are crafted from indoor-grown, fresh-frozen whole bud that have been carefully selected for optimal cannabinoid and terpene profiles to offer customers only the most exceptional quality. Premium 5 is a consumer-driven brand focused on providing high-demand products to their partners, consumers, and communities.

RAD

RAD offers high-quality products at affordable prices, delivering quality concentrates and competitive price points to meet the needs and preferences of all types of cannabis consumers while effectively harnessing the captivating power of nostalgia in our brand messaging.

Products being offered under RAD are made from high quality flower inputs selected specifically for their Indica, Sativa, and Hybrid profiles, and excellent terpene profiles, offering consumers a high-quality choice while delivering on an affordable price point.

feelgood.

feelgood. is a health and wellness brand dedicated to providing consumers with affordable, high-potency products while still maintaining the highest quality standards possible. With feelgood's safe and effective skin care and wellness products, Heritage acts through the brand to offer a variety of natural alternative options to help consumers find confidence in the products they use.

ArthroCBD

ArthroCBD is an innovative hemp formulation that has 4x higher absorption of other products, as proven by a published human clinical trial. ArthroCBD delivers ingredients in effective levels for maximum, fast and lasting effect. ArthroCBD is also backed by extensive safety testing and human clinical data. ArthroCBD provides relief with no THC and without unwanted side-effects.

CB4

CB4 medical cannabis products are based on trusted pharmaceutical technology platforms that are optimized for the effective delivery of cannabinoids – for maximum effect and to minimize unwanted effects. The CB4 suite of products are familiar to most medical patients and their caregivers: oral capsules, sublingual filmstrips, and topically administered products in the form of gels and creams. CB4 products are based on innovative pharmaceutical technology that deliver the best results consistently, safely, and in convenient dosage forms. These dosage forms are tested and optimized to deliver active ingredients for effective results. CB4 products also contain the highest quality ingredients and are thoroughly quality tested for consistency.

Fourth Quarter Corporate Developments

The Company reports financial results on a consolidated basis and presents the following information to provide a more detailed description of the developments in the business.

Corporate

During the quarter, Heritage announced changes to its board of directors (the “Board”) and appointment of a new Chief Executive Officer (“CEO”). Donald Ziraldo resigned from the Board and his position as Chair for personal reasons and to pursue other business initiatives. Clinton Sharples assumed the position as chair of the Board, and in conjunction with this, Mr. Sharples stepped down as President and CEO of the Company. The Board appointed David Schwede as his successor in the role of President and CEO. Mr. Schwede originally joined Heritage as President of Recreational following the acquisition of Premium 5. Prior to joining the Company, Mr. Schwede was CEO of Premium 5, and was a member of the senior management team at Aurora Cannabis Inc. Mr. Sharples also stepped down as director for many of the Company’s subsidiaries, following which Mr. Schwede was appointed as director of these entities. Max Gerard, a Partner at Merida, resigned as director from the Board pending security clearance by Health Canada, which is a requirement for appointment as a board member. In the meantime, Mr. Gerard will retain a position as an advisor to the Board. Merida, a large strategic shareholder in Heritage, will maintain an active role in the Company and continue to support the advancement of Heritage’s Canadian and U.S. strategy, and a duly appointed representative from Merida will take a role on the Board in the future once regulatory clearance is awarded. In Mr. Gerard’s place, Mr. Schwede was appointed as a director of the Board.

Acquisitions and Partnerships

During the fourth quarter, Heritage entered into a three-year exclusive intellectual property licensing and royalty agreement (the “Licensing Agreement”) with Avicanna Inc. (“Avicanna”), a biopharmaceutical company focused on the development, manufacturing, and commercialization of plant-derived cannabinoid-based products. The Licensing Agreement is for the commercialization of a number of Avicanna’s advanced CBD-based topical products under Heritage’s medical cannabis brands (the “Branded Products”) targeting patients registered to purchase medical cannabis in Canada. The Branded Products include Avicanna’s proprietary cannabinoid topical formulations developed through years of extensive research by Avicanna’s team of scientists. The specific products are all supported with pre-clinical studies in addition to two of the SKUs that are supported by completed human studies. The Branded Products were launched late 2021 through Heritage’s extensive medical sales channels in Canada and the aim in distributing these Branded Products is to address unmet medical needs of the mass market with evidence-based and standardized cannabinoid products. Under the Licensing Agreement, Avicanna has exclusively licensed, subject to certain conditions and exceptions, the use of certain proprietary product formulations to Heritage to be marketed and sold under Heritage’s medical Opticann branded products in non-competing medical channels in Canada. Heritage is required to meet certain minimum sales requirements every year for each Branded Product licensed under the Licensing Agreement and will pay Avicanna a royalty for each product sold to its medical consumers.

Additionally, Heritage entered into a joint venture sales and processing agreement with Noble Growth Corp. (“Noble”), a cannabis cultivator focused on creating beneficial strains that contain sought after cannabinoid, flavonoid, and terpene profiles for both recreational and medical usage. Under the Agreement, Noble will be producing some of their highly sought-after cultivars for Heritage to strategically expand its presence in the premium dried flower markets across the nation under the RAD Reefer Reserve and Pura Vida Legacy brands. Noble currently houses over 300+ Pheno hunted genetics in tissue culture boasting high THC and Terpene levels and rare genetics that customers are looking for.

Equity and Debt Transactions

In September 2021, Heritage executed a term sheet with Merida Capital Partners IV LP and its affiliates for up to USD\$1.5 million in senior unsecured convertible promissory notes to fund the Company’s entry into the state of Missouri, in accordance with Heritage’s relationship with 3Fifteen entered into on May 4, 2021. Subsequently Heritage entered into a Note and Warrant Purchase Agreement, dated October 18, 2021, pursuant to which Merida

Fund III and Merida Fund IV loaned the Company an aggregate amount of USD\$1,500,000. The USD\$1.5 million is to be disbursed in four tranches from October 18, 2021 through December 31, 2021.

On closing, the Company issued a promissory note to Merida Fund III (the "Note") for a principal amount of USD\$660,000 (the "Principal Amount"), set to mature on October 18, 2023. The Note has an interest rate of 15%, which shall be paid in common shares of the Company (the "Common Shares" and such shares issuable as interest payment, the "Interest Shares"). The price of these shares will be the greater of (i) 90% of the volume weighted average price per Common Share as reported on the CSE for the 5 consecutive trading days preceding such issuance, and (ii) the minimum price per Common Share permitted pursuant to applicable securities laws and CSE regulations. The Principal Amount may be repaid in Common Shares (the "Conversion Shares") at a conversion price equal to the greater of: (i) the closing market price of the Common Shares on the CSE on the trading day prior to the earlier of dissemination of a news release disclosing the issuance of the Conversion Shares or the posting of notice by the Company to the CSE website of the proposed issuance of Conversion Shares, and (ii) CAD\$0.07. The Company also issued a warrant to Merida Fund III equal to 50% of the aggregate number of Conversion Shares that would be received upon conversion of 100% of the aggregate amount of principal outstanding under the Note.

The Company also issued 696,942 shares to each of Merida Fund III and Merida Fund IV as a commitment fee for this transaction, representing USD\$31,250 divided by 90% of the volume weighted average price per Common Share as reported on the CSE for the 30 consecutive trading days preceding such issuance (the "Commitment Fee"). The shares issued in connection with the Commitment Fee were issued at a price of CAD\$0.055 per share.

All securities referenced above, specifically, the Interest Shares, the Conversion Shares, and the Commitment Fee are subject to a standard four-month hold under applicable securities laws.

In order to further support Heritage's growing business, it entered into an amended non-revolving loan agreement (the "Amended Loan Agreement") with BJK Holdings Ltd. ("BJK"), improving the terms of its existing loan with BJK entered into on March 29, 2021, and further supporting its growing business.

Under the terms of the Amended Loan Agreement, the original loan amount of \$7.0 million has been increased to \$7.175 million, and its maturity date was extended from September 29, 2022 to February 1, 2023 (the "Increased Initial Loan"). In connection with this Increased Initial Loan, the Company paid a one-time extension fee (the "Extension Fee") of \$175,000 to BJK on October 12, 2021 (the "Closing Date").

Additionally, pursuant to the Amended Loan Agreement, BJK advanced \$2.6 million to the Company on the Closing Date, at the Royal Bank of Canada prime lending rate plus 1.25% per annum, adjusted automatically with each quoted or published change in rate, until the entire Loan is repaid on February 1, 2023 (the "Additional Loan"). This Additional Loan was advanced to help fund the Company's capital asset acquisitions and general corporate purposes.

To further support the Company's operations and growth, a revolving line of credit (the "Line of Credit") was established, up to a maximum of \$5.0 million, with an interest rate of 18% per annum, calculated daily and payable monthly.

In total, through the Increased Initial Loan, the Additional Loan, and the Line of Credit (collectively, the "Loan"), the Company has access to a total of \$14.775 million through its Amended Loan Agreement with BJK. Accordingly, on the Closing Date, the Company granted to BJK a promissory note in the principal amount of \$14.775 million together with interest, to represent the amount to be repaid on or before February 1, 2023. If the Company repays the Loan in its entirety on or before October 1, 2022, BJK will repay the Extension Fee to the Company.

Furthermore, in connection with this Amended Loan Agreement, the Company has also granted BJK 10.0 million warrants at an exercise price of \$0.25 per share for a period of 24 months.

As part of its ongoing employee engagement activities, during the quarter Heritage granted a total of 13,875,000 incentive stock options under the Company's Stock Option Plan to directors, officers, and employees and/or consultants. The options are exercisable at \$0.10 per share and will expire September 17, 2026. The options are subject to vesting provisions such that 1/3 of the options vest on the date of grant, 1/3 of the options vest twelve months (12) months from the date of grant, 1/3 of the options vest twenty-four (24) months from the date of grant.

Recreational and Med-Rec Products

Growing sales throughout the fourth quarter reflect Heritage's growing market share, which is related to the Company's introduction of innovative products and expanded distribution channels. As sales momentum builds, the Company remains focused on increasing margins and cost containment. Spending and capital expenditures by Heritage are measured by their expected return on investment and ability to generate near-term revenues.

Vape products have been a key driver in recent sales growth initiatives with sales hitting consecutive records in 2021. Heritage offers vape products under four of its brands (Premium 5, RAD, Purefarma, and Pura Vida) and has been proactively managing its offerings to stay price competitive in all segments, while also delivering innovative products and new flavour profiles to keep up with consumer demands, reaching #9 in Canadian Sales of Vapes during the fourth quarter, and subsequently becoming the #2 brand in British Columbia. Heritage also achieved the second largest vape supplier to New Brunswick with a 12% market share.

Heritage continues to command a large market share of concentrate products. Heritage brand Premium 5 introduced the first dabs and first live resin products in the country in 2020 and is continuing to lead the category in innovation. The company has over 30 concentrate SKUs in market, with sales of the RAD line showing solid traction in all markets where they are currently offered. Recent concentrate launches in Ontario have been extremely successful and have prompted a significant increase in the size of purchase orders by the Ontario Cannabis Store. Heritage currently has the second best performing products in the concentrates category in Canada and has approximately 17% market share in the non-hash concentrate category.

Heritage is continuing the rollout of new dried flower and pre-roll products across the country. In 2021, Heritage launched ten pre rolls and six flower SKUs in multiple provinces with encouraging provincial orders, resulting in the category making up 19% of portfolio sales within a short time-frame. Heritage will be further diversifying the portfolio by adding 12 new SKUs to the flower product line-up during the summer, including infused products from the Pura Vida and RAD lines, which have had a strong and increasing following. Dried cannabis still makes up 64% of recreational cannabis sales in Canada according to Government of Canada research, and will be an important area of sales growth for the Company in the coming months.

To further support growth, in September 2021, Heritage launched a private label program (the "Private Label Program") that pairs leading cannabis brands with Heritage's extraction expertise. Heritage's first agreement under this private label program was with High Tide Inc. to manufacture its "Cabana Cannabis Co" branded shatter for distribution in Ontario, Manitoba, Saskatchewan, and Alberta.

Medical Products

On September 20, 2021, Heritage announced that the first suite of CB4 products had been launched by Opticann, which included Opticann's CB4 Relief-T Softgels 25 mg formulated with VESIsorb® technology, CB4 Relief 0.5% Deep Rub Gel formulated with enhanced skin permeation technology for maximum effect, and CB4 Control CBD & CBDA 10 mg filmstrips based on the Versafilm® technology for rapid and maximum absorption from the sublingual cavity. Furthermore, the Company also announced that Opticann.ca (the brand's website) had been officially launched.

During the quarter, Opticann signed two supply agreements with two well established Australian companies for the supply of medical cannabis products. The first shipment of medical cannabis CBD/CBDA filmstrips totaling \$60,000 was completed during the quarter.

As part of ongoing sales and marketing initiatives, Opticann entered into an exclusive partnership with C.A.R.P. (formerly the Canadian Association of Retired Persons), Canada's largest advocacy association for *Canadians As We Age*. In conjunction with the partnership, C.A.R.P., ZoomerMedia Limited and Opticann have and continue to create tailored education for the 320,000+ C.A.R.P. members through C.A.R.P. affiliate ZoomerMedia's TV, radio, print, and digital channels including VisionTV, The New Classical FM, Zoomer Radio, and Zoomer Magazine. Opticann carries the trusted *C.A.R.P. Recommended Seal*.

Corporate Developments Subsequent to the end of the Fourth Quarter

Subsequent to the end of the fourth quarter, the Company received the remaining three tranches of USD\$840,000 in total in principal from Merida Fund III and Merida Fund IV. Upon its cash receipt of each tranche, in November and December 2021 the Company issued a Note and a warrant to the respective lender. The terms of the Notes and warrants are the same as those issued on closing as described under "Equity and Debt Transactions".

In November 2021, Heritage signed a definitive white label agreement (the "Agreement") with BRNT Ltd. ("BRNT"), an Alberta based brand house and cannabis ancillary company that launched the top performing dried flower and pre-roll Alberta brand, Violet Tourist. Under the Agreement, the Company along with BRNT, launched a Violet Tourist branded cannabis 2.0 infused pre-roll in Alberta. Over the course of the agreement, Heritage will aim to expand distribution of the brand across Canada and further add to its associated SKU listings in both the cannabis 1.0 and 2.0 segments. Terms of the agreement provide Heritage with control of procurement & supply chain and effectively grants Heritage rights to fully operate the proven Alberta brand.

In November 2021, Heritage signed a commercial agreement with Canopy Growth Corp. ("Canopy") for the supply of bulk concentrates, including live resin. The Company recently provided the first shipment of live resin to Canopy, with future purchase orders and shipments to follow. Canopy, a Canadian leader when it comes to revenue and market share in the cannabis space, has engaged Heritage for bulk concentrate supply. Canopy chose Heritage based on its product quality, consistency, industry proven technology and innovation, and the ability to execute on pace with Canopy's growth. The Heritage platform and second-to-none execution provide speed-to-market that Canopy can leverage to continue their positive momentum.

In January 2022, Heritage announced that Spectrum Therapeutics ("Spectrum"), one of Canada's largest online medical cannabis platforms, is now offering Heritage products including products from popular Heritage brands RAD, Premium 5, and CB4, which will be the first third-party cannabis extract and concentrate offerings on the platform. Additionally, Heritage announced the upcoming launch of nine new products that will be available in the Ontario cannabis market through the Ontario Cannabis Store ("OCS") and retailers in the province. New products include two infused pre-rolls, three concentrates, one pre-roll, two vape cartridges, and one flower product. Under

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a recent call for new products, Heritage submitted unique and innovative products for consideration by the OCS, nine of which will be available in Spring of this year.

Based on strategic imperatives and due diligence activities, Heritage management has decided to no longer pursue the acquisition of Capna Intellectual/dba Bloom Brands, and instead will focus efforts on current U.S activities that better align with short and long term goals.

Selected Annual Information

<i>(in \$CDN)</i>	For the years ended October 31,		
	2021	2020	2019
	\$	\$	\$
Net revenue	14,059,130	8,256,435	3,563,623
General and administrative expenses	18,474,262	8,244,186	13,620,226
Net income (loss)	(57,452,213)	(8,632,771)	(13,155,560)
Comprehensive income (loss)	(57,685,532)	(8,596,759)	(13,155,560)
Basic and diluted income (loss) per share	(0.08)	(0.02)	(0.03)
Total assets	97,788,065	83,431,808	92,489,553
Long-term financial liabilities	(33,590,572)	(11,661,870)	(11,262,535)

For the year ended October 31, 2021, the Company increased net revenues by \$5,802,695 to \$14,059,130 from \$8,256,435 for the year ended October 31, 2020. Net revenue increased as the Company completed its transition to a brand company. As a result of the Premium 5 acquisition, which was completed January 25, 2021, Heritage expanded its provincial distribution across the country and increased its product offering significantly from the initial 13 SKUs that were launched into provinces in 2020 to over 120 by the end of fiscal 2021.

For the year ended October 31, 2021, the Company increased its total assets by \$14,356,257 to \$97,788,065 from \$83,431,808 for the year ended October 31, 2020. The increase was primarily driven by three primary factors, intangible assets and goodwill increasing by \$39,318,897 as a result of the Premium 5 acquisition, an increase in inventory of \$10,898,876 year over year as a result of stronger revenues and accounts receivable increasing by \$3,709,517 year over year in response to increased provincial sales. The increase was partially offset by an impairment of \$33,700,000 recognized on goodwill as a result of the Company's performance of its annual impairment test on goodwill and related cash generating unit at October 31, 2021.

Long-term debt increased mainly due to the Company entering into a long-term credit facility with an addition of \$10,822,261 on its balance sheet at October 31, 2021, as well as an increase of \$15,940,000 in contingent consideration payable as a result of the Premium 5 acquisition. This increase in liabilities was partially offset by a reduction in contingent consideration payable as portions of the milestone payments expired and the repayment of Trichome loan in an amount of \$4,863,163.

Results of Operations

Selected financial highlights for the three-month periods and years ended October 31, 2021 and October 31, 2020 include the following:

<i>(in \$CDN)</i>	Three-month periods ended		Years ended	
	Oct 31, 2021	Oct 31, 2020	Oct 31, 2021	Oct 31, 2020
	\$	\$	\$	\$
Gross revenue	7,132,942	1,500,750	18,676,958	9,257,070
Net revenue (net of excise tax)	4,649,025	1,429,973	14,059,130	8,256,435
Cost of sales	7,329,654	22,943	13,492,997	6,656,120
Gross margin	(2,680,629)	1,407,030	566,133	1,750,300
General and administrative expenses	(420,566)	785,459	18,474,262	8,244,186
Other expenses	(41,433,121)	(5,017,017)	(42,563,044)	(3,357,185)
Comprehensive loss	(42,685,990)	(4,745,405)	(57,685,532)	(8,596,759)

The Company reported gross revenue of \$7,132,942 for the three-month period ended October 31, 2021, an increase of \$5,632,192 compared to the gross revenue of \$1,500,750 for the three-month period ended October 31, 2020 representing an increase of over 450%. The increase in gross revenue was due to the continued increasing orders from the provincial boards.

For the year ended October 31, 2021, gross revenue was \$18,676,958, an increase of \$9,419,888 compared to \$9,257,070 for the year ended October 31, 2020 representing an increase of over 100%. The increase in gross revenue was primarily the result of increased product launches and established product offerings across the provinces as a result of the Premium 5 acquisition. The launch and continued demand for our RAD brand coupled with SKU expansion has been the driving factor for our revenue growth.

Cost of sales for the three-month period ended October 31, 2021 was \$7,329,654, an increase of \$7,306,711, compared to \$22,943 for the three-month period ended October 31, 2020. The current quarter was negatively impacted by two primary factors, the first was a one-time event resulting from year-end adjusting entries as a result of a fair value increase in Premium 5 inventories resulting from the acquisition and inventories consumed during the year for \$1,153,034. The second factor was an increase in costing for the year of approximately \$600,000 which was applied to the quarter. The results for the three months ended October 31, 2020 were positively impacted by a recovery of accounts payable from a vendor of \$2,879,718. Excluding the recovery in 2020 and the year-end adjustments in the current period, cost of sales improved to 78% of gross revenue compared to 193% of gross revenue for the same period ending October 31, 2020. The improvement was a result of improved operational efficiency and product sales mix.

For the year ended October 31, 2021, cost of sales was \$13,492,997, an increase of \$6,836,877, compared to \$6,656,120 for the year ended October 31, 2020. Excluding the year-end adjustments in the current quarter, cost of sales declined to 63% of gross revenue compared to 103% of gross revenue for the same period ending October 31, 2020 after excluding the recovery of the accounts payable from a vendor. The improvement over the course of the year was due to strategic biomass purchasing, continued operational improvements and improved commercial strategies.

Gross margin for the three-month period ended October 31, 2021 was \$(2,680,629) compared to gross margin of \$1,407,030 for the three-month period ended October 31, 2020. The decrease of \$4,087,659 was primarily a result of additional excise tax requirements of approximately \$920,000 above historical averages due to previous quarter

accruals, larger than expected losses resulting from Opticann sales of \$513,137 and the Premium 5 adjustments previously mentioned while the prior year was positively impacted by the accounts payable recovery.

For the year ended October 31, 2021, gross margin was \$566,133, a decrease of \$1,184,167 compared to \$1,750,300 for the year ended October 31, 2020. While revenues grew over 100% year over year, this growth was more than offset by the one-time adjustments, changes in costing previously discussed as well as the impact of the one-time payable recovery in 2020.

For the three-month period ended October 31, 2021, the Company recorded a comprehensive loss of \$42,685,990 or \$0.06 loss per share compared to a comprehensive loss of \$4,745,405 or \$0.01 loss per share for the three-month period ended October 31, 2020. For the year ended October 31, 2021, the Company recorded a comprehensive loss of \$57,685,532 or \$0.08 loss per share compared to a comprehensive loss of \$8,596,759 or \$0.02 per share for the year ended October 31, 2020. The increase in losses during these periods was attributable to three primary factors, all of which are non-cash related. In accordance with the accounting policies, the Company recorded an impairment of intangibles and goodwill of \$36,337,826, an unrealized loss on contingent consideration payable of \$3,514,865 as a result of year-end revaluation and a loss on debt extinguishment of \$1,361,338 as a result of the long-term debt facility extension. Also, the prior year was positively impacted by \$936,329 of government funding for COVID-19, which was recorded as a reduction of corresponding expenses.

General and administrative expenses for the three-month period ended October 31, 2021 were \$420,566, a decrease of \$1,206,025 from \$785,459 for the comparable period in 2020. For the year ended October 31, 2021, general and administrative expenses were \$18,474,262 compared to \$8,244,186 for the same period in the prior year. The net changes in general and administrative expenses were attributable to the following:

- a) Advertising, travel and promotion for the three-month period ended October 31, 2021 was \$504,522, an increase of \$388,598 from \$115,924 for the comparable period in 2020. The increase was a result of the ramp in spending to support the significant increase in listed active SKUs and increased travel as a result of optimizing facility production for future growth. For the year ended October 31, 2021, advertising, travel and promotion expense was \$1,654,619, an increase of \$1,006,423 compared to \$648,196 for the comparable period. The increase was a result of increased business activity from the depressed levels into COVID-19 in 2020 and increasing business activity as sales grew almost 4x from the start of 2021.
- b) Amortization expense for the three-month period ended October 31, 2021 was \$2,723,739, a decrease of \$3,257,370 from \$533,631 for the comparable period in 2020. The decrease was largely due to two factors, the write down of the Opticann license of \$2,637,826 and a change in the value of the Premium 5 intangibles upon the finalization of the purchase price allocation for Premium 5 acquisition for the year ended October 31, 2021. For the year ended October 31, 2021, amortization expense was \$5,223,667, an increase of \$2,708,169 compared to \$2,515,498 for the comparable period. The increase was a result of the increase in the depreciable intangible base through the year and the additions in property, plant and equipment spending.
- c) Management and consulting fees for the three-month period ended October 31, 2021 were \$435,662, an increase of \$41,071 from \$394,591 for the comparable period in 2020 and as a result remained consistent year over year. Management and consulting fees for the year ended October 31, 2021 were \$2,034,610, an increase of \$395,762 compared to \$1,638,848 for the same period in 2020. The increase was a result of Heritage's buildout of its management team as a result of its acquisition of Premium 5 and additional increases related to Heritage transitioning to a brand company.
- d) Occupancy, general and administrative expense for the three-month period ended October 31, 2021 was \$716,223, a decrease of \$1,072,421 from \$356,198 for the comparable period in 2020. The decrease was primarily due to the Company's reclassification and capitalization of production-related expenses of approximately \$2,039,000 for the year in current period, which resulted in an increase in cost of sales in current period as previously mentioned. Occupancy, general and administration expenses for the year ended October

31, 2021 were \$2,842,580, an increase of \$736,691 compared to \$2,105,889 for the same period in the previous year. The increase was primarily a result of the increased spending on facility operations from depressed levels in 2020 as a result of Covid-19 as well as increased additional analytics in response to rapid product launches and provincial demands in relation to Heritage's product launches in 2021.

- e) Professional fees for the three-month period ended October 31, 2021 were \$109,182, an increase of \$2,511 from \$111,693 for the comparable period in 2020. Spending remained relatively the same due to business activity. Professional fees for the year ended October 31, 2021 were \$1,060,650, an increase of \$522,555 compared to \$538,095 for the same period in the prior year. The increase was attributed to the increased use of external advisors in connection with the Company's various transactions during the year.
- f) Share-based payments for the three-month period ended October 31, 2021 were \$337,790, an increase of \$322,199 from \$15,591 for the comparable period in 2020. Overall, the increase was due to employee share issuance in lieu of compensation adjustments. Share-based compensation for the year ended October 31, 2021 was \$692,816 compared to \$368,232 for the same period in the prior year. The increase of \$324,584 was a result of the Company paying out its restricted share units during the first quarter of 2021, the cost of additional vesting shares over the course of the year and employee issuance as previously discussed.
- g) Salaries, wages and benefits for the three-month period ended October 31, 2021, were \$1,632,240, an increase of \$2,374,409 from \$(742,169) for the comparable period in 2020. The increase is a result of a continued increase in the Company's internal resources from depressed Covid-19 levels as well as the removal of government COVID-19 grant support in the current year. Salaries, wages and benefits for the year ended October 31, 2021 were \$4,965,320, an increase of \$4,535,892 compared to \$429,428 for the same period during the prior year. The increase, as discussed above, was a result of the addition of Premium 5 which significantly increased the business activity and the continued increase of the Company's internal resources in preparation for the expected growth in the upcoming year.

Other Income and Expenses

Interest and other income for the three-month period ended October 31, 2021 was \$38,293, an increase of \$3,415 compared to \$34,878 for the same period in 2020. This increase was mainly due to a gain of \$17,183 from settling an account payable from a vendor at a lower amount, which was partially offset by lower short-term cash balances earning interest. Interest and other income for the year ended October 31, 2021 was \$121,591 a decrease of \$156,194 compared to \$277,785 for the same period last year. The decrease was the result of a redemption of \$5,100,000 short-term investments during the current year period, resulting in the lower cash balances being carried and earning interest.

Interest and finance expenses for the three-month period ended October 31, 2021 were \$297,537, an increase of \$92,799 compared to \$204,738 for the same period in 2020. The increase was due to the Company carrying a higher debt balance in 2021 compared to 2020. Interest and finance expenses for the year ended October 31, 2021 were \$958,848 compared to \$549,581 for the same period in the prior year. The increase of \$409,267 was related to the increase in of \$6,765,866 in debt as at October 31, 2021 compared to the prior year.

The share of loss from investment in associate for the three-month period ended October 31, 2021 was \$90,443, a decrease of \$1,026 compared to \$91,469 for the same period in 2020. The decrease relates to the Company's 30% interest in the net income of EndoCanna for the current period which remains in an annual deficit position. The share of loss from investment in associate for the year ended October 31, 2021 was \$235,393, a decrease of \$213,308 compared to \$448,701 for the same period in the prior year. The reduced loss is a result of continued decreases in spending which was aided by revenue growth.

As at October 31, 2021, the Company performed its annual impairment test on the goodwill based on the higher of VIU and FVLCD of the CGU, determined in accordance with the expected cash flow approach, a level 3 valuation

technique. 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 12.5% (2020 – 15.8%), 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 as 36.2% (2020 - 75%).

As the recoverable amount was below the carrying value at October 31, 2021, an impairment loss of \$33,700,000 (2020 - \$5,500,000) was recognized and allocated to goodwill based on their relative carrying amounts. Management has determined that the impairment was primarily due to shifting market dynamics.

During the three-month period ended October 31, 2021, the Company had an unrealized loss on contingent consideration payable of \$2,503,649, a decrease of \$3,558,338 compared to unrealized gain of \$1,054,689 for the comparable period in 2020. The increase in unrealized loss was mainly due to a revaluation loss of \$4,435,000 on the contingent consideration payable in relation to the Premium 5 acquisition as a result of the Company exceeding the milestone expectations and therefore increasing the value of such contingent payment, which was partially offset by the unrealized gain from other contingent consideration payables due to portions of their payment milestones having expired. For the year ended October 31, 2021, the unrealized loss on contingent consideration payable was \$3,514,865, a decrease of \$6,688,554 compared to an unrealized gain of \$3,173,689 in the prior comparable period. Larger gain in 2020 was a result of milestones passing without being attained due to financial results and time, while there was an addition of contingent consideration payable of \$15,940,000 in relation to Premium 5 acquisition and increase in such contingent payable due to results beyond expectation during 2021.

The unrealized loss on derivative liabilities for the three-month period ended October 31, 2021 was \$367,484, an increase of \$227,107 compared to \$140,377 for the same period in 2020. The increased loss mainly related to an unrealized loss of \$363,396 from the addition and revaluation of the Note and warrant issued to Merida Fund III mentioned previously. The unrealized gain on derivative liabilities for the year ended October 31, 2021 was \$236,772, an increase of \$377,149 compared to an unrealized loss of \$140,377 for the same period in the prior year. The increase in the unrealized gain was mainly due to decreased fair value of derivative liabilities as a result of decrease in both share price and remaining contractual life in the current year.

The loss on debt extinguishment for the three-month period and year ended October 31, 2021 was \$1,361,338 compared to \$nil for the same periods in 2020. The increase of \$1,361,338 was due to the amendment of BJK loan, with the changes between the fair value of the original loan and the amended loan along with the transaction costs incurred as part of the amendment being recognized as loss on debt extinguishment in accordance with accounting policies. The loss on debt extinguishment is a one-time loss.

The impairment of inventories for the three-month period and year ended October 31, 2021 was \$513,137 compared to \$nil for the same periods in 2020. The increase of \$513,137 related to certain inventories whose costs were not considered recoverable from future sales.

Summary of Quarterly Results

The following tables set out selected consolidated financial information for the last eight quarters, which were prepared in accordance with IFRS accounting standards. All amounts in these tables are in thousands of dollars, except for basic and diluted loss per share which are shown in dollars. More details and explanations on each of the quarterly financial data below can be found in the corresponding Management Discussion and Analysis.

	October 31, 2021 \$	July 31, 2021 \$	April 30, 2021 \$	January 31, 2021 \$
Net revenues ⁽¹⁾	4,649,025	4,314,314	3,575,175	1,520,616
Comprehensive (loss) income	(42,685,990)	(6,637,449)	(5,151,011)	(3,211,082)
Basic and fully diluted (loss) income per share ⁽²⁾	(0.06)	(0.01)	(0.01)	(0.01)

	October 31, 2020 \$	July 31, 2020 \$	April 30, 2020 \$	January 31, 2020 \$
Net revenues ⁽¹⁾	1,429,973	2,310,050	884,830	3,632,000
Comprehensive (loss) income	(4,745,405)	(151,152)	(1,681,936)	(3,789,021)
Basic and fully diluted (loss) income per share ⁽²⁾	(0.01)	0.00	0.00	(0.01)

(1) Revenues are net of excise tax.

(2) Basic loss per share equals fully diluted loss per share as any potential dilutive instruments are anti-dilutive.

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 demanded lower volumes of the Company's product as a result of the financial constraints and lockdown and social distancing requirements brought about by COVID-19, which reduced the Company's sales and impeded the Company's production capabilities.

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 assistance received from the Canada Emergency Wage Subsidy.

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.

During the first quarter of 2021, the Company began to realize the impact of the transitioning from operating primarily a contract manufacturer to focusing on branded sales, which began in the fourth quarter of 2020, and resulted in an increase in sales revenue for the Company.

During the second quarter of 2021, the Company incurred higher losses as a result of higher amortization of intangible assets, as the Company continued to fund and build its platform to support future sales activity.

During the third quarter of 2021, the Company incurred higher losses as a result its increased spending to support future sales and potential market share gains. The Company continues to fund and build its platform to support future sales activity.

During the fourth quarter of 2021, the Company continued to experience record sales growth with the net revenues being partially offset by an accrual catch up for excise taxes. Increased losses were primarily due to impairment charges for intangible assets and goodwill.

Outlook

The Company continued to grow its market share across Canada experiencing significant growth from the first quarter ending January 31, 2021 to the fourth quarter ending October 31, 2021. Based on the planned product launches and continued market penetration of the current SKU portfolio, the Company expects to see continued strong growth over the coming quarters. The successful launch into the flower market is allowing the Company to access 100% of the market versus only operating in the Cannabis 2.0 market.

While the Company continues to focus on growth, it has allow undertaken a reduction of costs either in non-core areas or through increased operational efficiency as the Company remains committed to achieving cash flow operations without tampering off its growth engine.

Heritage's U.S. strategy continued to solidify throughout the year with the funding of the Company's Missouri operations and the Company is looking to leverage additional partnerships to access additional markets with the success of the Canadian operations. While delays in constructing the Missouri occurred due to Covid-19 constraints, the Company is committed ensuring operation early in the 2022.

In the U.S., Heritage has slowed its medical launch given the uncertain market conditions and capital constraints while discussions with national retailers remain on-going.

As the Company continues to execute its Canadian and U.S. strategies, the potential impact of COVID-19 and the continued sector volatility could have a negative impact on production efficiency and product launches.

Long Term Debt

On March 31, 2021, the Company entered into a refinance agreement with BJK Holdings Ltd. (the "BJK Loan Agreement") in the amount of \$7,000,000, with an implicit interest rate of 10%. Pursuant to the BJK Loan Agreement, BJK Holdings Ltd. advanced the Company \$7,000,000 on April 1, 2021. The loan is payable in full upon maturity of the loan, on October 1, 2022, with monthly interest only payments made based on the outstanding balance of the loan, calculated monthly, in arrears. Monthly interest will be calculated at the Royal Bank of Canada prime lending rate plus 1.25% per annum. A one-time setup fee of \$965,000 was paid to BJK Holdings Ltd. on April 1, 2021. The loan may be prepaid in full at any time without penalty. The loan is secured by the following:

- (i) A promissory note in the amount of \$7,000,000;
- (ii) mortgages and assignments of rents over certain properties owned by the Company;
- (iii) an environmental indemnity agreement;
- (iv) an encumbrance and charge of all of the Borrowers' right, title and interest in the Borrowers' present and future personal property and assets by way of a general security agreement;
- (v) an assignment of proceeds from the Borrowers' sales;
- (vi) assignments and postponements of creditors' claims from creditors of the Borrowers;
- (vii) joint and several unlimited guarantees inclusive of assignments and postponements of creditors' claims from each of the guarantors, including five of the Company's remaining subsidiaries (together the "Guarantors");
- (viii) general security agreements from the Borrowers and Guarantors inclusive of serial specific

registration on certain assets;

(ix) a pledge by the Company, each of its subsidiaries and all the investees in which the Company holds interests;

(x) an assignment of material contracts and insurance agreements granted by the Company and each guarantor; and (xi) solicitors' opinions for Borrowers.

Furthermore, on March 31, 2021, the Company repaid the outstanding balance of its term loan with Trichome Financial Corp. (the "Trichome Credit Facility") of \$4,863,163 in full.

On October 6, 2021, the Company amended the loan agreement by establishing three credit facilities for a maximum amount of \$14,775,000 (collectively the "Loan") as follows:

(i) Facility 1: the initial loan is increased from \$7,000,000 to \$7,175,000, with the increase of \$175,000 to be used by the Company to pay to the lender an extension fee of \$175,000 to extend the due date to February 1, 2023;

(ii) Facility 2: an additional loan \$2,600,000 will be advanced at the Royal Bank of Canada prime rate plus 1.25% per annum;

(iii) Facility 3: a revolving line of credit up to maximum of \$5,000,000 shall be established at an interest rate of 18% per annum.

The Loan is due on February 1, 2023. If the Loan is repaid in its entirety on or before October 1, 2022, the lender will repay the \$175,000 extension fee for Facility 1 to the Company. As at October 31, 2021, the Company has advanced total of \$10,822,261 in principal, with the remaining line of credit \$3,952,739 available for advance.

Liquidity

Managing the Company's liquidity and capital structure requires maintaining sufficient working capital 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, 2021 and October 31, 2020.

	October 31, 2021	October 31, 2020
	\$	\$
Current Assets	29,281,960	14,895,641
Current Liabilities	8,977,054	3,505,107
Working Capital	20,304,906	11,390,534

As at October 31, 2021, the Company had cash and short-term investments of \$4,713,577 compared to \$7,495,659 as at October 31, 2020.

The table below summarizes the Company's use of cash for the three-month period and year ended October 31, 2021, and the comparable three-month period and year ended October 31, 2020.

	Three-month periods ended		Years ended	
	October 31, 2021	October 31, 2020	October 31, 2021	October 31, 2020
	\$	\$	\$	\$
Cash Flows Provided by (Used in):				
Operating Activities	(3,658,258)	(2,751,953)	(20,126,192)	(6,976,071)
Investing Activities	1,203,005	67,462	4,450,565	1,602,905
Financing Activities	4,055,863	(8,067)	17,993,545	4,332,359

During the three-month period ended October 31, 2021, cash flows used in operating activities was \$3,658,258 compared to cash flows used of \$2,751,953 for the three-month period ended October 31, 2020. The outflows of \$906,305 was due to increased spending as the Company remains in a significant growth cycle.

During the year ended October 31, 2021, cash flows used in operating activities was \$20,126,192 compared to \$6,976,071 for the year ended October 31, 2020. The increase of \$13,150,121 was primarily due to the losses incurred by the Company as it continued its product launch in the current compared to 2020 with increased spending to build up inventories was a difference of increase in inventory spending of \$9,590,289 and prepaid expenses of \$1,620,012 from 2020 levels, while the prior period was also positively impacted by an accounts payable recovery of \$6,699,077.

During the three-month period ended October 31, 2021, cash flows provided by investing activities was \$1,203,005 compared to cash flows provided by investing activities of \$67,462 for the three-month period ended October 31, 2020. The increase in cash of \$1,135,543 was primarily due to the redemption of short-term investments which were partially offset acquisition of manufacturing equipment.

During the year ended October 31, 2021, cash flows provided by investing activities was \$4,450,565 compared to cash flows provided by investing activities of \$1,602,905 for the year ended October 31, 2020. The increase in cash flows of \$2,847,660 was a result of the addition of cash from redemption of short-term investments and cash acquired from Premium 5 acquisition, which was offset by the acquisition of manufacturing equipment during the quarter.

During the three-month period ended October 31, 2021, cash provided by financing activities was \$4,055,863 compared to cash used in financing activities of \$8,067. The increase of \$4,063,930 was primarily due to a long-term debt issuance and proceeds from a convertible debt issuance.

During the year ended October 31, 2021, cash provided by financing activities was \$17,993,545 compared to cash provided by financing activities of \$4,332,359. The increase of \$13,661,186 was primarily due to proceeds from a long-term debt issuance and proceeds from an equity raise which was partially offset by debt repayment completed by the Company during the current period.

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 continued 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 is looking into all possible actions that could minimize the impact of the COVID-19 pandemic.

The Company completed an equity raise that provided net cash of \$12.5 million during the second quarter of 2021 and sourced an incremental \$4,474,589 of long-term debt in addition to approximately \$4 million of an available line of credit. If the Company assumes zero growth, the combination of the Company's usual net working capital and the funds received is sufficient to fund the Company's operations. The combination of continued growth and/or the impact of COVID-19 constraints could require additional capital resources.

At the reporting date, the Company had long-term financial debts amounting to \$28,984,572, including \$10,836,359 of long-term debt (as detailed under the "Long-Term Debt" heading of this MD&A), \$729,744 of lease liability (as described more particularly under Note 14 of the consolidated financial statements), \$15,940,000 relating to contingent consideration payable to the former shareholders of Purefarma, Voyage and Premium 5 (as described more particularly under Note 16 of the consolidated financial statements), and \$1,478,469 relating to warrant liabilities issued as part of the consideration for the acquisition of Opticann and issued to Merida Fund III (as described more particularly under Note 17 of the Consolidated Financial Statements).

Outstanding Share Capital

The Company has the following shares outstanding as of March 28, 2022:

	Number of shares outstanding
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	496,136,722
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, January 31, 2021	653,762,994
Shares issued for public offering	98,900,000
Shares issued for acquisition (net working capital) – Premium 5 Ltd.	30,156,643
Shares issued for BJK facility – broker fee	170,000
Balance, April 30, 2021	782,989,637
Shares issued for advisory services – Merida Capital	495,049
Balance, July 31, 2021	783,484,686
Shares issued for marketing services – Zoomer Media Ltd.	1,250,000
Shares issued for Merida loan – commitment fee	1,393,884
Shares issued for warrant exercise	29,809
Shares issued for Premium 5 milestone	107,142,857
Balance, May 4, 2022	893,301,236
Warrants	134,408,891
Outstanding options	24,763,440
Balance including unexercised warrants and options, May 10, 2022	1,052,473,567

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 pertain to compensation of Management. The related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Management compensation transactions for the three-month periods and years ended October 31, 2021 and October 31, 2020 are summarized as follows:

Transactions with directors, officers and companies controlled by directors, officers and/or their families. ⁽¹⁾

	Three-month periods ended		Years ended	
	October 31, 2021	October 31, 2020	October 31, 2021	October 31, 2020
	\$	\$	\$	\$
Management fees	22,000	45,000	194,000	180,000
Consulting fees	67,250	143,500	391,311	697,574
Key Management Compensation				
Salary and short-term benefits	98,762	76,102	432,299	309,384
Share-based payments	(236,564)	-	116,511	156,356

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

During the year ended October 31, 2021, the Company issued 5,076,628 restricted common shares to key Management, partly as settlement of unpaid compensation and partly as compensation bonus. The Company also issued 13,875,000 options, of which 4,800,000 options were issued to key Management.

As at October 31, 2021 the Company was owed \$48,831 (October 31, 2020 - \$48,831) from related parties and owed \$27,229 (October 31, 2020 - \$338,906) 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 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, 2021, management performed an annual impairment test on goodwill and related cash generating unit, and certain intangible assets with finite useful lives as impairment indicators became known.

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. These estimates are utilized noted in Note 19 of the consolidated financial statements.

(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 valuers. 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. These estimates are noted 12 and note 13 of the consolidated financial statements.

(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 ("FVLCS") and value in use ("VIU"), management must consider factors such as economic and market conditions, estimated future cash flows, discount rates and asset-specific risks. Impairment was recognized on certain intangible assets with finite useful lives as impairment indicators became known during the year ended October 31, 2021 as stated in Note 12 and 13 of the consolidated financial statements.

(vi) Impairment of goodwill

The impairment test for cash generating units ("CGUs") to which goodwill is allocated is based on the higher of VIU and FVLCD 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. As at October 31, 2021, the Company performed its annual impairment test on the goodwill and recognized an impairment as stated in note 12 of the consolidated financial statements.

(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, as described further herein this MD&A, under the heading "Fair Value of Financial Instruments". 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. These estimates are stated in Note 21 of the consolidated financial statements.

(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. These are stated in Note 7 of the consolidated financial statements.

(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. These are stated in Note 25 of the consolidated financial statements.

(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. This is addressed in Note 1 of the consolidated financial statements.

(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. All obligations are noted in the liability section of the consolidated financial statements.

Changes in Accounting Policies Including Initial Adoption

(a) Adoption of Amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

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. The Company has adopted these amendments as of November 1, 2020 and has assessed no significant impact as a result of adoption.

(b) Amendment to IAS 1, Presentation of Financial Statements, Issued but not Yet Effective

IAS 1 was amended in January 2020 to address inconsistencies with how entities apply the standard over classification of current and non-current liabilities. The amendment serves to address whether, in the statement of financial position, debt and other liabilities with an uncertain settlement should be classified as current or non-current. The amendment is effective for annual reporting periods beginning on or after January 1, 2023. Earlier adoption is permitted. The Company will adopt this amendment as of the effective date, and is currently assessing the impacts on adoption.

(c) Amendment to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, Issued but not Yet Effective

IAS 37 was amended in May 2020 to clarify the costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. Earlier adoption is permitted. The Company will adopt the amendment as of the effective date and is currently assessing the impacts on adoption.

(d) Amendment to IAS 16, Property, Plant and Equipment, Issued but not Yet Effective

IAS 16 was amended in May 2020 to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by Management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. Earlier adoption is permitted. The Company will adopt the amendment as of the 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 the 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, 2020, unless otherwise stated.

HERITAGE CANNABIS HOLDINGS CORP.
MANAGEMENT DISCUSSION AND ANALYSIS

(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, 2021	October 31, 2020
	\$	\$
Trade accounts receivable from customers	4,621,574	948,367
Expected credit losses	(91,194)	(358,250)
Net trade receivables	4,530,380	590,117
Interest and other receivables	242,905	473,651
	4,773,285	1,063,768

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, 2021, 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 77% of the Company's trade accounts receivable is due from three customers as at October 31, 2021 (as at October 31, 2020 - 91% of the balance due from two customers).

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

	October 31, 2021	October 31, 2020
	\$	\$
Current (30 days or less)	2,397,231	495,414
31-60 days	1,558,194	6,482
61-90 days	93,189	8
Greater than 90 days	481,766	88,213
	4,530,380	590,117

(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, 2021, the Company had working capital of \$20,304,906 (as at October 31, 2020 – \$11,390,534). 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 \$	2-5years \$	> 5 years \$
Accounts payable and accrued liabilities	7,785,461	-	-
Long-term debt	7,023	10,838,063	-
Derivative liabilities with cash settlement option	-	816,816	-
Contingent consideration payable	645,176	-	-
Total	8,437,660	11,654,879	-

(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 and through its derivative liabilities denominated in USD. As at October 31, 2021 and October 31, 2020, 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, 2021 \$	October 31, 2020 \$
Cash	3,579	3,724
Accounts receivable	659	-
Other current assets	-	-
Accounts payable and other liabilities	39,484	204,658
Investment in associate	2,459,747	2,645,529
Derivative liabilities	663,526	-

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by \$382,481 for the year ended October 31, 2021 (for the year ended October 31, 2020 - \$324,839). A 10% weakening of the Canadian dollar against the foreign currencies listed above would result in an equal, but opposite effect.

(i) 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 is exposed to this risk on its long-term debt, part of which bears interest at a Canadian prime rate plus 1.25% per annum. As at October 31, 2021 and October 31, 2020, the Company had no hedging agreements in place.

(ii) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. As at October 31, 2021 and October 31, 2020, the Company is exposed to this risk on its contingent consideration payable in Common Shares pursuant to the acquisition of Opticann and Purefarma, and the derivative liabilities payable in Common Shares.

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) or Black-Scholes model (Level 3)
Convertible promissory note receivable	Amount due on demand (Level 3)
Derivative liabilities	Market value (Level 3) or 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 three-month and twelve-month periods ended October 31, 2021 and 2020, 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. As of the date of this MD&A, no conflict of interest has been disclosed by the Company's directors and officers, or identified by the Company.

Subsequent Events

(a) Sale of interest in SPD

On March 30, 2022, the Company announced it had sold its interest in SPD for total cash proceeds of \$608,649. Proceeds from the sale paid to the Company were in two tranches, with the first amount for \$444,489 already received and the remaining \$164,160 anticipated to take place within six months.

(b) Subsequent issuance of convertible promissory notes and warrants

Subsequent to October 31, 2021, the Company received the remaining three tranches of \$840,000 USD in total from two lenders pursuant to the Agreement as described in Note 17(b). Upon its cash receipt of each tranche, the Company issued a Note and Warrant to the respective lender. See Note 17(b) for the terms of the Notes and Warrants.

United States Operations and Regulatory Framework

As of October 31, 2021, the Company did not have any direct, indirect or material ancillary involvement in the United States cannabis industry and accordingly is not currently subject to 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.; (c) its subsidiary, Opticann; and (d) its equipment loan with Como Health LLC.

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, may be convertible into 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. Within this joint venture, 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 under this joint venture has been delayed due to the impact of the COVID-19 pandemic on travel, in particular, which has 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 developed 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 operationalized the site in May 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 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 and on March 22, 2021, the final rule (the "Final Rule") implementing the Farm Bill became effective. The Final Rule established 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, 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. Since the passage of the Farm Bill, the FDA has issued numerous warning letters to companies for illegally selling CBD products in interstate commerce.

Como Health LLC is not currently operational as Como Health LLC is building its operational facility and processing activities have not begun.

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. 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 or may ever face. 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 Act Regulations, including any failure to apply for and secure the requisite licenses from Health Canada and maintain the Company's existing 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 the subsidiaries 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, as is the Company's ability to outfit its existing facilities 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, its financial condition, and the results of its 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.

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.

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 Act Regulations, the Narcotic Control Regulations, and other applicable laws. Any applicant seeking to become a licensed cultivator, producer and/or seller under the Cannabis Act 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.

Force Majeure Events - COVID 19

In December 2019, the novel coronavirus COVID-19 was reported to have surfaced in Wuhan, China. On March 11, 2020, the World Health Organization declared this outbreak a global pandemic. Major health issues and pandemics, such as 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 Company'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 declare an event of *force majeure* under certain existing contracts and 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.

Management of Growth

The Company may be subject to growth-related risks arising from expansion of its operations and further acquisitions. Such growth-related risks include capacity constraints and increased pressure on the Company's 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 general 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 its Fraud Prevention Policy and 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.

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, data 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.

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 successfully 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, as such term is defined in the Cannabis Act.

Risks related to operating in the Cannabis Industry

The Cannabis Industry is Subject to Competition

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

As noted previously under the sub-heading entitled "*Licensing Requirements Under the Cannabis Regulations,*" 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. As noted previously under the sub-heading entitled “*Reliance on Licenses*,” 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.

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 on Cannabis Legalization and Regulation 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 on Cannabis Legalization and Regulation completed its review and published a report outlining its recommendations. On April 13, 2017, the Canadian Federal Government released Bill C-45, which proposed 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.

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.

Vulnerability to Rising Energy Costs

The Company's cannabis growing operations consume considerable energy and produce certain carbon emissions, particularly as the Company cultivates its products in indoor facilities, making the Company vulnerable to rising energy costs and any regulation regarding carbon pricing. Rising or volatile energy costs and regulation regarding carbon pricing may adversely impact the business of the Company and its ability to operate profitably.

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.

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 and may require a

substantial change in the Company's manufacturing process.

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 the Company 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 with regard 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. Nevertheless, while Attorney General Barr did not initiate any criminal prosecutions against state-legal cannabis companies, he did launch multiple antitrust investigations related to several cannabis mergers during 2020. Currently, the post of Attorney General is held by Merrick Garland who has repeatedly stated that he feels the Department of Justice should not be using its limited resources to go after state-legal cannabis businesses.

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 position on cannabis falls short of full legalization, he campaigned on a platform of relaxing enforcement of cannabis proscriptions, including decriminalization generally, though the specific timeframe under which such decriminalization will occur is unknown. 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. Recent steps taken by the Biden Administration and Congress have spurred some hope of drug policy change. Notably, President Biden appointed known medical cannabis advocate Dr. Rahul Gupta as the director of the Office of National Drug Control Policy. Further, on July 14, 2021, United States Senators Cory Booker, Ron Wyden and Chuck Schumer, released a draft of their long-awaited comprehensive cannabis reform legislation, the Cannabis Administration and Opportunity Act, which would effectively decriminalize cannabis in the United States by removing it from the CSA and which would empower states to implement their own cannabis laws ("Senate Cannabis Act"). However, while industry observers are hopeful that the Senate Cannabis Act will spur helpful discussions related to decriminalization, strong Republican opposition makes it difficult for any assurances to be made regarding its passage. 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. On September 23, 2021, the U.S. House of Representatives approved a defense spending bill (the National Defense Authorization Act) including an amendment that contained cannabis banking reform. However, the Senate text of the bill does not contain the same language, which means the discrepancy would need to be settled in a bicameral conference committee after the Senate passes its version of the legislation.

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.

Additional Information

Additional information relating to the Company, including the Company's annual information form, may be found on the Company's website at www.heritagecann.com, the SEDAR website located at www.sedar.com or the Canadian Stock Exchange website located at www.thecse.com/en.

BY ORDER OF THE BOARD

Heritage Cannabis Holdings Corp.

"David Schwede"

CEO and Director

May 10, 2022