HERITAGE CANNABIS HOLDINGS CORP.

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS

QUARTERLY HIGHLIGHTS

For the Three- and Six-Month Periods Ended April 30, 2023

June 28, 2023

This Management Discussion and Analysis for Heritage Cannabis Holdings Corp. provides analysis of the Company's unaudited interim condensed consolidated financial results for the three- and six-month periods ended April 30, 2023. The following information should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements and related notes for the three- and six-month periods ended April 30, 2023, and the audited annual consolidated financial statements and related notes for the years ended October 31, 2021 and October 31, 2022.

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 unaudited condensed consolidated financial statements and related notes for the three- and six-month periods ended April 30, 2023 and the audited annual consolidated financial statements and related notes for the years ended October 31, 2022 and October 31, 2021, 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 June 28, 2023.

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; and
- the variability of hemp farming.

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

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 remains 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. To the extent that 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 ancillary 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 unaudited condensed consolidated financial statements and related notes for the three- and six-month periods ended April 30, 2023 and 2022, are the responsibility of Management. In the preparation of the accompanying unaudited interim condensed consolidated financial statements and related notes for the three- and six-months ended April 30, 2023, 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 unaudited condensed 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, Suite 600, Toronto, Ontario, M5S 1M2. At its August 9, 2019 annual general and special meeting of the shareholders of the Company, the shareholders approved a continuance into Ontario, which was effective on November 4, 2019.

Heritage is a 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, Adults Only, 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 Heritage Cannabis West Corporation ("Heritage West") and Heritage Cannabis East Corporation ("Heritage East"), both regulated under the Cannabis Act Regulations. Heritage West 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. Heritage West 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. Heritage East 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. Heritage East 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 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 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. On November 1, 2022, Purefarma Solutions Inc. ("Purefarma") and CALYX Life Sciences Inc. amalgamated, with Purefarma as the resulting amalgamated company. 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.

Adults Only

Adults Only targets the “high octane” consumer with a high quality cannabis experience and offers a large format cartridge. Initially launching with Canada’s first liquid diamond vape, the brand seeks to make the Canadian cannabis landscape more fun and entertaining.

Thrifty

Thrifty provides consumers with affordable, fun and effective products with the some of the most competitive pricing in Canada. As a brand, Thrifty embodies the values of thrifting, like social responsibility and reducing environmental impact, and enacts these values through the use of biodegradable packaging. Additionally, Heritage has introduced a new initiative with a portion of proceeds going directly to a charitable organization through Heritage Helps.

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.

Second 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

On February 6, 2023, the Company appointed Eoin Hegarty as Chief Operating Officer, and Cory Larsen as Chief Commercial Officer. Dan Phaure has retained his position as Chief Financial Officer, following his resignation from the role of Chief Operating Officer. Both Mr. Hegarty and Mr. Larsen are current employees of Heritage, and their promotions follow on their achievements in advancing the Company’s strategy to not only successfully expand across Canada, but also in Heritage’s entry into the United States.

Recreational and Med-Rec Products

Heritage has transitioned to a true product and brand company, creating “forever SKUs” that have seen solid uptake in the Canadian cannabis market. Now with in-house expertise in production, manufacturing, white labelling, pick and pack, and distribution, Heritage has developed several relationships to leverage this expertise. The Company has entered distribution relationships with a number of well-known companies and brands including Aurora Medical, Canopy Growth Corp, Violet Tourist, OMG, White Rabbit, Panacea, North 40, and Mad Hatter. To extend Heritage’s capabilities in the cannabis market, the Company will consider opportunities to extend in other areas of the supply chain that will provide vertical integration and positively impact margins.

On March 6, 2023, Heritage announced the receipt of a purchase order from a well-established Australian company for the supply of 15,000 units of Live Resin concentrate vape cartridges. Heritage recently received import permits allowing the Company to ship products to this growing market. The Australian market, while still in its infancy as a medical cannabis market, Heritage is the first company to ship Live Resin to Australia

On March 8, 2023, Heritage announced that the Missouri facility effectively began in the state of Missouri. Heritage, through its relationship with Como Health LLC, doing business as 3Fifteen Primo Cannabis (“3Fifteen”), has had products in market since legalization at 3Fifteen’s medical dispensaries in Missouri, including 12 stock keeping units (“SKUs”) on shelves. Already seeing strong sales on the medical side, the Missouri operation is poised to capture a piece of the newly minted recreational market.

On March 13, 2023, Heritage announced that it has met the regulatory requirements and achieved approval from the Brazil Health Authority (ANVISA) to import its first formulated CBD product into Brazil. Heritage has also achieved stability on two additional products that are awaiting final approval. In 2021, Health Canada granted Heritage with the first ever license to export cannabis products from Canada to Brazil, and Heritage successfully shipped products to enter the testing phase with ANVISA.

Corporate Developments Subsequent to the end of the Second Quarter

On May 8, 2023, the Company announced that it entered the recreational cannabis market in New York, with RAD branded vape and concentrate products becoming available to New York consumers this summer. Heritage continues to target the legal markets in the US with an asset light model and has signed a manufacturing and distribution agreement with a local partner that will primarily produce and sell products using Heritage's innovative formulations and flavours that have achieved success in other markets. The initial launch will be 6 SKUs and Heritage plans to add additional RAD products including live resin, rosin, and infused pre-rolls, as well as expand product offerings with additional Heritage brands.

On May 15, 2023, Heritage announced that it partnered with TobaRolling for centralized distribution and sales support in the province of Manitoba. TobaRolling is the leading distributor of cannabis products in the province, supplying every store in Manitoba with fast delivery times and a personal touch. Heritage has partnered with TobaRolling to increase sales and the penetration of Heritage products in the Manitoba market and lower the overall cost of shipping and administration associated with the distribution of products in the province.

On May 17, 2023, Heritage announced that it is entering the recreational cannabis-infused beverage market in Canada. Through a sales and distribution agreement with a leading producer of beverage products, BevCanna, Heritage will utilize its distribution channels and penetration with the provincial boards to bring some of the top performing beverages to market across the country.

On June 6 2023, Heritage announced it shipped its first purchase order from a well-established Australian company for the supply of 15,000 units of Live Resin concentrate vape cartridges.

On June 9, 2023, Heritage announced that at the Company's annual general meeting held on June 7, 2023, shareholders of the Company approved all of the items put forth, including:

- The election of David Schwede, Clinton Sharples, and Celine Arsenault as directors of the Company; and
- The appointment of Welch LLP as auditor of the Company.

Results of Operations

Selected financial highlights for the three and six-month periods ended April 30, 2023 and April 30, 2022 include the following:

	Three months ended		Six months ended	
(in $CDN)	Apr 30, 2023 $	Apr 30, 2022 $	Apr 30, 2023 $	Apr 30, 2022 $
Gross revenue	10,165,939	10,452,313	19,612,934	20,048,454
Net revenue (net of excise tax)	7,379,043	7,491,184	13,702,455	14,032,395
Cost of sales	4,074,385	4,306,378	8,346,636	8,962,828
Gross margin	3,304,658	3,184,806	5,355,819	5,069,567
General and administrative expenses	5,051,952	4,084,500	9,699,499	9,244,998
Other Income (Expenses)	(375,704)	(185,513)	(553,556)	8,367,299
Comprehensive Income (Loss)	(1,958,047)	(500,614)	(4,721,007)	5,756,599

The Company reported gross revenue of $10,165,939 for the three months ended April 30, 2023, a decrease of $286,374 compared to the gross revenue of $10,452,313 for the three months ended April 30, 2022. The decrease in gross revenue was primarily due to a continued rotation of the Company's SKUs at the provincial board level particularly through its flower vertical which was down 17% in the current quarter compared to the prior quarter while the impact of both the Thrifty launch and Adults Only brands are between load-in and initial replenishment stage and didn't have a full impact on the quarter end results.

The Company reported gross revenue of $19,612,934 for the six months ended April 30, 2023, a decrease of $435,520 compared to the gross revenue of $20,048,454 for the six months ended April 30, 2022. The decrease in gross revenue was primarily by a reduction in tincture sales and vape sales which were down 14% and 4% year over year and minimal contribution from the new brands which partially offset the SKU rotation.

See table below for additional details on total gross revenue.

	Three months ended			Six months ended		
(in $CDN)	Apr 30, 2023 $	Apr 30, 2022 $	Change %	Apr 30, 2023 $	Apr 30, 2022 $	Change %
Revenue Category						
Vape and Concentrates	7,521,847	7,869,693	(4%)	14,672,056	15,334,074	(4%)
Flower	1,412,623	1,703,674	(17%)	2,800,061	2,784,853	1%
Tincture Sales	768,064	679,568	13%	1,342,061	1,563,724	(14%)
Edibles	279,791	164,603	70%	640,672	279,119	130%
Other	183,614	34,775	428%	158,084	86,684	82%
Total Gross Revenue	10,165,939	10,452,313	(3%)	19,612,934	20,048,454	(2%)

Cost of sales for the three months ended April 30, 2023 was $4,074,385, a decrease of $231,993, compared to $4,306,378 for the three months ended April 30, 2022. The decrease represented a 1% improvement, as a percentage of sales, in the current period. As stated in previous quarters, the Company is continuously reviewing its processes for optimization either on the manufacturing side or through material costing which continued to positively impact the results in the current quarter.

Cost of sales for the six months ended April 30, 2023 was $8,346,636, a decrease of $616,192, compared to $8,962,828 for the six months ended April 30, 2022. The decrease represented a 2% improvement, as a percentage of sales, in the current period. The improvement was a result of continued production refinements to enable more efficient production.

Gross margin for the three months ended April 30, 2023 was $3,304,658 compared to gross margin of $3,184,806 for the three months ended April 30, 2022. The increase in gross margin of $119,852 was primarily a result of improved production efficiencies in addition to a lower excise rate of 27.4% compared to 28.3% in the prior period which was driven by increased bulk B2B sales which provides less exposure to excise taxes.

Gross margin for the six months ended April 30, 2023 was $5,355,819 compared to gross margin of $5,069,567 for the six months ended April 30, 2022. The increase in gross margin of $286,252 was primarily a result of improved production efficiencies over the course of the year given excise was flat period over period.

For the three months ended April 30, 2023, the Company recorded a comprehensive loss of $1,958,047 or $0.00 loss per share compared to a comprehensive loss of $500,614 or $0.00 loss per share for the three months ended April 30, 2022. The increase in comprehensive loss of $1,457,433 during this period was attributable to higher interest costs as a result of rising interest rates and unrealized losses on derivative liabilities as a result of revaluations.

For the six months ended April 30, 2023, the Company recorded a comprehensive loss of $4,721,007 or $0.01 loss per share compared to a comprehensive income of $5,756,599 or $0.01 income per share for the six months ended April 30, 2022. The increase in comprehensive loss of $10,477,606 during the period was driven by three key factors: the unrealized gain in the prior period relating to various unachieved acquisition milestones of $8,415,429, the gain related to the sale of Stanley Park digital of $608,000 and the impact of rising interest rates which increased the interest expense by $205,000 during this period.

General and administrative expenses for the three months ended April 30, 2023 were $5,051,952, an increase of $967,452 from $4,084,500 for the comparable period in 2022. General and administrative expenses for the six months ended April 30, 2023 were $9,699,499 an increase of $454,501 from $9,244,998 for the comparable period in 2022. The net changes in general and administrative expenses were attributable to the following:

a) Advertising, travel and promotion for the three months ended April 30, 2023 was $211,937, a decrease of $8,175 from $220,112 for the comparable period in 2022. Travel expenses were essentially flat over the period as travel was localized or slowed due to less requirements abroad. During the six months ended April 30, 2023, Advertising, travel and promotion was $476,640, an increase of $100,645 from $375,995 for the comparable period in 2022. The increase in advertising, travel and promotion was due to trade show travel costs and increased international travel earlier in the year.

b) Amortization expense for the three months ended April 30, 2023 was $576,351, a decrease of $688,570 from $1,264,921 for the comparable period in 2022. The decrease in amortization expense was due the impact of the intangible impairment in the fourth quarter of 2022 which decreased the overall depreciable asset base. Amortization expense for the six months ended April 30, 2023 was $1,060,112, a decrease of $1,484,543 from $2,544,655 for the comparable period in 2022. The decrease in amortization expense was due the impact of the intangible impairment in the fourth quarter of 2022 which decreased the overall depreciable asset base.

c) Management and consulting fees for the three months ended April 30, 2023 were $257,869, a decrease of $54,696 from $312,565 for the comparable period in 2022 as a result of a continued focus to oversee cost reductions to manage its cash position. Management and consulting fees for the six months ended April 30, 2023 were $521,466, a decrease of $97,975 from $619,441 for the comparable period in 2022 as a result of a continued focus to reduce costs to manage its cash position.

d) Occupancy, general and administrative expense for the three months ended April 30, 2023 was $1,205,587, an increase of $883,753 from $321,834 for the comparable period in 2022. The increase was primarily a result of higher auxiliary manufacturing expenses such as utilities, higher shipping costs, increased costs relating to Industry and Health Canada fees and less absorbed overhead as a result of increased efficiencies. Occupancy, general and administrative expense for the six months ended April 30, 2023 was $2,231,117, an increase of $265,119 from $1,965,998 for the comparable period in 2022. The increase was primarily a result of a higher absorbed overhead in the prior period, increased Health Canada fees and increased supplies in the current period.

e) Professional fees for the three months ended April 30, 2023 were $313,881, an increase of $215,849 from $98,032 for the comparable period in 2022. The increase in professional fees was primarily due to one-time items relating to settlements, funding set-up, and corporate structure changes. Professional fees for the six months ended April 30, 2023 were $413,773, an increase of $6,332 from $407,441 for the comparable period in 2022. Increased spending in the current period mentioned above was offset by a reduction in audit fees from the auditor change earlier in the year.

f) Share-based payments for the three months ended April 30, 2023 were $34,372, a decrease of $69,947 from $104,319 for the comparable period in 2022. The decrease was a result of minimal payments across the Company in the form of Common Shares instead of cash. Share-based payments for the six months ended April 30, 2023 were $453,578, an increase of $240,434 from $213,144 for the comparable period in 2022. The increase was a result of bonus payments across the Company in the form of Common Shares instead of cash that occurred earlier in the year.

g) Salaries, wages and benefits for the three months ended April 30, 2023, were $2,451,955, an increase of $689,238 from $1,762,717 for the comparable period in 2022. The increase is primarily a result of an extra pay period in the current period. Salaries, wages and benefits for the six months ended April 30, 2023, were $4,542,813, an increase of $1,424,489 from $3,118,324 for the comparable period in 2022. The increase is a result of increased head count which grew over 25% as the Company expanded its product offering, international platform, and built additional internal processes to keep up with regulations which occurred earlier in the year.

Other Income and Expenses

Interest and other income for the three months ended April 30, 2023 was $50,755, an increase of $12,569 compared to $38,186 for the same period in 2022. The interest and other income during the three months ended April 30, 2023 is comprised primarily of $60,705 in interest income on the notes receivable compared to $nil for the same period in 2022. Interest and other income for the six months ended April 30, 2023 was $143,643, an increase of $5,365 compared to $138,278 for the same period in 2022. This balance was essentially flat period over period.

Interest and finance expenses for the three months ended April 30, 2023 were $363,475, an increase of $87,856 compared to $275,619 for the same period in 2022. The increase was due to the Company carrying a higher debt balance as at in the three months ended April 30, 2023 compared to as at the three months ended April 30, 2022 as well as rising interest rates. Interest and finance expenses for the six months ended April 30, 2023 were $712,644, an increase of $207,528 compared to $505,116 for the same period in 2022. The increase was due to the Company carrying a higher debt balance as at April 30, 2023 compared to as at April 30, 2022.

The share of loss from investment in associate for the three months ended April 30, 2023 was $33,803, a decrease of $6,921 compared to $40,724 for the same period in 2022. The decrease was a result of an estimate based on previous results. The share of loss from investment in associate for the six months ended April 30, 2023 was $67,606, an increase of $15,553 compared to $52,053 for the same period in 2022. The increase was a result of a decline in EndoCanna's performance during the period based on an estimate of the current period based on recent results.

The unrealized gain on other investments for the six months ended April 30, 2023 was $nil compared to $608,649 for the same period in 2022. The decrease was due to the Stanley Park sale occurring in 2022 and the corresponding revaluation.

During the three months ended April 30, 2023, the Company had an unrealized gain on contingent consideration payable of $nil, an increase of $83,000 compared to unrealized loss of $83,000 for the comparable period in 2022. The decrease was due to the completion or expiration of the remaining milestones related to the Heritage West, Purefarma and Premium5 acquisitions. During the six months ended April 30, 2023, the Company had an unrealized gain on contingent consideration payable of $nil, a decrease of $8,415,429 compared to unrealized gain of $8,415,429 for the comparable period in 2022. The decrease was due to the completion or expiration of the remaining milestones related to the Heritage West, Purefarma and Premium5 acquisitions.

The unrealized loss on derivative liabilities for the three months ended April 30, 2023 of $29,181, a decrease of $204,825 compared to a gain of $175,644 for the same period in 2022. The decrease is mainly related to the revaluation of the promissory note and warrants issued to Merida Fund III**.** The unrealized loss on derivative liabilities for the six months ended April 30, 2023 was $83,051, a decrease of $320,939 compared to a gain of $237,888 for the same period in 2022. The decrease mainly related to the revaluation of the promissory note and warrants issued to Merida Fund III earlier in the year.

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. More details and explanations on each of the quarterly financial data below can be found in the corresponding Management Discussion and Analysis.

	April 30, 2023 $	January 31, 2023 $	October 31, 2022 $	July 31, 2022 $
Net revenues (1)	7,379,043	6,323,412	8,038,105	7,495,885
Comprehensive (loss) income	(1,958,047)	(2,762,960)	(26,895,045)	(2,799,327)
Basic and fully diluted (loss) income per share (2)	(0.00)	(0.00)	(0.03)	(0.00)

	April 30, 2022 $	January 31, 2022 $	October 31, 2021 $	July 31, 2021 $
Net revenues (1)	7,491,184	6,541,211	4,649,025	4,314,314
Comprehensive (loss) income	(500,614)	6,257,213	(42,685,990)	(6,637,449)
Basic and fully diluted (loss) income per share (2)	(0.00)	0.01	(0.06)	(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 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.

During the first quarter of 2022, the Company recorded its 5th consecutive sequentially quarterly growth period. The continued growth has been a combination of commercial focus to lead with product innovation and products as consumers want as well operational improvements to maintain quality.

During the second quarter of 2022, the Company recorded a 15% increase in net revenues as the Company continued to see increasing demands for its product lines as well the loss was reduced significantly compared to prior periods as cost control and improved efficiencies positively impacted the results.

During the third quarter of 2022, the Company continued to record sequential increased revenue albeit the increase was offset by higher excise tax in the current quarter, while the bottom line improved year over year as a result of improved efficiency and cost control.

During the fourth quarter of 2022, the Company continued its sequential revenue increase for the 8th consecutive quarter while the quarterly losses were primarily a result of the impairment charges for intangible assets and goodwill.

During the first quarter of 2023, the Company recorded revenues that were negatively impacted by provincial pricing movements which more than offset further cost control initiatives which created the loss for the period.

During the second quarter of 2023, the Company increased its revenues from the prior quarter as a result of the launch of its new brands and further production gains improved margins and reduced the overall loss for the period.

Outlook

The Company's launch of its latest brands, Thrifty and Adults Only have been well received by the market and it is anticipated to be a growing portion of its revenue base in the coming quarters. While regulatory changes did not occur for the sector, the Company is continuing to look at ways of minimizing its exposure to the current domestic tax environment and as a result of its production capabilities it has been increasing its presence in the B2B market, which will become a larger component of the revenue splits moving forward. This will also reduce its excise exposure which remain punitively high.

The Company continues to remain extremely focused on managing its costs and as such has been rewarded through the increased gross margin percentage achieved in the current quarter and lowering its overall EBITDA burn. The company is a continuous improvement cycle to maximize its output while minimizing manhours.

Heritage's U.S. strategy is performing well, with an initial amount to be paid of greater than $300,000. Both facilities have entered their markets with a strong foothold and are actively looking to grow its SKU count in both Missouri and West Virginia. The Company expects amounts to be paid growing and does not foresee significant additional capital in these markets.

As mentioned previously International markets remain a focus and the recent Australia announcement is an initial indication of success. The Company continued to review a number of international opportunities and anticipates being able to act on a few other initiatives.

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 was originally 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 is 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 Company and certain material subsidiaries (collectively, 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 certain subsidiaries guarantors of the Company 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.

As part of the First Amendment, the Company also issued 10,000,000 warrants to the lender. Each warrant is exercisable into one Heritage Common Share at an exercise price of $0.25 per share and has a term of 24 months expiring on October 8, 2023. These warrants were considered exchangeable into a fixed number of Heritage Common Shares, and thus were classified as equity.

Based on management's assessment, the modification of the loan resulted in a substantial change in the carrying amount of the loan, and therefore was accounted for as an extinguishment of the original loan and a recognition of the new loan. The Company initially valued the Loan at its fair value at the modification date, using the effective interest rate of 5.08% implicit in the Loan, with $nil residual value to the warrants. The difference between the fair value of the Loan and the original loan, as well as the transaction costs incurred as part of modification in the amount of $1,361,338 were recognized in profit or loss at the modification date.

On September 29, 2022, the Company amended the loan agreement for the 2nd time (the "Second Amendment") by establishing four credit facilities for a maximum amount of $19,760,000 (collectively hereinafter the "Loan") as follows:

(i) Facility 1: $7,175,000. The interest rate is a) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to July 31, 2023; b) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum;

(ii) Facility 2: $2,600,000. The interest rate is a) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to July 31, 2023; b) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum;

(iii) Facility 3: A revolving line of credit up to a maximum of $5,000,000. The interest rate is a) 15% per annum from October 1, 2022 to July 31, 2023; b) the greater of the Royal Bank of Canada rate plus 10% and 15% per annum from August 1, 2023 to November 30, 2024;

(iv) Facility 4: an additional loan of $4,985,000, inclusive of the loan amendment fee of $985,000. The interest rate is a) the Royal Bank of Canada rate minus 1.75% from October 1, 2022 to July 31, 2023; b) the Royal Bank of Canada rate plus 10% from August 1, 2023 to November 30, 2024, but in no case less than 14% or greater than 18% per annum.

The Loan due date was extended to November 30, 2024, with an option to extend to November 30, 2025. If the Company exercises its extension option, all facilities will bear an interest rate at the maximum of either the Royal Bank of Canada prime rate plus 10% or 15% per annum during the one-year extension period. As at October 31, 2022, the Company has received a total of $16,807,261 in principal, with the remaining line of credit $2,952,739 available for advance.

As part of the Second Amendment, the Company extended the expiry date of the initial 10,000,000 warrants, which are exercisable into one Heritage Common Share at an exercise price of $0.25 per share, from October 8, 2023 to February 28, 2025. The Company also issued another 50,000,000 warrants which are exercisable into one Heritage Common Share at an exercise price of $0.10 per share expiring on February 28, 2025. Provided that the Company exercises its option to extend the Loan by an extra 12 months, the expiry date of all 60,000,000 warrants shall be extended to February 28, 2026. The amendment to the initial 10,000,000 warrants was accounted for as a cancellation of old warrants and an issuance of new warrants. At the modification date, both the modified and newly issued warrants were considered exchangeable into a fixed number of Heritage Common Shares, and thus were classified as equity.

Based on management's assessment, the Second Amendment of the Loan resulted in a substantial change in the carrying amount of the Loan, and therefore was accounted for as an extinguishment of the original loan and a recognition of the new loan. The Company initially valued the Loan at its fair value at the modification date, using the effective interest rate of 12% per annum implicit in the Loan. The difference between the fair value of consideration and the original loan, as well as the transaction costs incurred as part of the Second Amendment in the amount of $1,793,251 (2021 - $1,361,338), including all 60,000,000 warrants issued as transaction costs with a value of $747,260 were recognized in profit or loss at the modification date.

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 April 30, 2023 and October 31, 2022.

	April 30, 2023 $	October 31, 2022 $
Current Assets	31,982,692	32,860,948
Current Liabilities	22,219,351	18,130,554
Working Capital	9,763,341	14,730,394

As at April 30, 2023, the Company had cash and short-term investments of $4,923,763 compared to $6,057,617 at October 31, 2022.

The table below summarizes the Company's use of cash for the three-month periods ended April 30, 2023 and April 30, 2022.

	Three-month periods ended	
	April 30, 2023 $	April 30, 2022 $
Cash Flows Provided by (Used in):		
Operating Activities	(1,075,935)	1,050,658
Investing Activities	(1,169,191)	(189,361)
Financing Activities	(38,864)	(20,150)

During the three month period ended April 30, 2023, cash flows used in operating activities was $1,075,935 compared to cash flows provided by operating activities of $1,050,658 for the comparable period in 2022. The outflows increased by $2,126,593 as the Company losses were greater than the prior period while the receivables grew compared to the preceding quarter.

During the six month period ended April 30, 2023, cash flows provided by operating activities was $998,309 compared to cash flows used in operating activities of $714,436 for the comparable period in2022. The inflows increased by $1,712,745 as the Company increased its receivable receipts while furthering matching its payment cycles to cash receipts.

During the three-month period ended April 30, 2023, cash flows used in investing activities were $1,169,191 compared to cash flows used in investing activities of $189,361 for the three months ended April 30, 2022. The increase was primarily a result further capital deployed in the US ventures.

During the six-month period ended April 30, 2023, cash flows used in investing activities were $2,058,468 compared to cash flows used in investing activities of $980,130 for the six months ended April 30, 2022. The increase was primarily a result of an equipment lease for pre-roll equipment and further investment in the US ventures.

During the three months ended April 30, 2023, cash used in financing activities was $38,864 compared to cash used in financing activities of $20,150 for the three months ended April 30, 2022. The decrease of $18,714 was primarily due to equipment financings occurring in the period.

During the six months ended April 30, 2023, cash used in financing activities was $73,695 compared to cash provided by financing activities of $2,018,148 for the six months ended April 30, 2022. The decrease of $2,091,843 was primarily due to financings occurring in the prior period.

The post 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

The combination of the current inflationary period and rising interest rate environment creates additional risks and pressures on the Company's liquidity and capital resources. The Company has $31,982,692 of current assets, which is primarily comprised of $4,923,763 in cash and short-term investments, $6,722,314 in accounts receivable and $17,363,469 in inventory with an additional $2,952,739 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 $17861,489 including $16,897,984 of long-term debt (as detailed under the "Long-Term Debt" heading of this MD&A), $854,179 of lease liabilities (as described more particularly under Note 11 of the interim condensed consolidated financial statements), and $109,326 relating to derivative liabilities issued as part of the consideration for the acquisition of Opticann and issued to Merida Fund III (as described more particularly under Note 14 of the interim condensed consolidated financial statements).

Outstanding Share Capital

The Company has the following shares outstanding as of June 28, 2023:

	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
Balance, October 31, 2021	**786,125,570**
Shares issued for warrant exercise	29,809
Shares issued for Premium 5 milestone	107,142,857
Balance, January 31, 2022	**893,301,236**
-	-
Balance, April 30, 2022	**893,301,236**
Indemnity Share Cancellation – Opticann	(933,333)
Shares issued for management performance	7,109,090
Balance, July 31, 2022	**899,476,993**
Shares issued for Heritage East and Purefarma settlements	16,728,762
Balance, October 31, 2022	**916,205,755**
Shares issued for corporate bonuses	7,253,985
Issuance of compensation shares	11,699,143
Balance, January 31, 2023	**935,158,883**
	-
Balance, June 28, 2023	**935,158,883**

Balance, June 28, 2023	**935,158,883**
Warrants	60,000,000
Outstanding Options	19,862,440
Balance including unexercised warrants and options, June 28, 2023	**1,015,021,323**

Pursuant to the terms of the equity line of credit agreement (the "Agreement") between the Company and Obsidian Global Partners, LLC (the "Investor"), there were 79,030,611 Common Shares advanced to the Investor in escrow. These Common Shares are subject to statutory lock up and the contractual escrow terms pursuant to the terms of the Agreement. Subsequent to the period ended April 30, 2023, 3,641,546 Common Shares were released to the Investor from escrow.

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 ended April 30, 2023 and April 30, 2022 are summarized as follows:

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

	Three months ended	
	April 30, 2023	April 30, 2022
	$	$
Management fees	15,000	5,000
Consulting fees	71,750	67,250
	86,750	72,250
Key Management Compensation		
Salary and short-term benefits	98,250	98,763
Share-based payments	12,030	36,089
	110,280	134,852

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

As at April 30, 2023 the Company was owed $Nil (April 30, 2022 - $48,831) from related parties and owed $21,000 (April 30, 2022 - $5,000) to related parties.

Critical Accounting Estimates

The preparation of these unaudited interim condensed 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 unaudited interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The unaudited interim condensed consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited interim condensed 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) 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.

(ii) Business combinations

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

(iii) 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. 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 assets 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 ("FVLCD") 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 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.

(iv) 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.

(v) Valuation of financial instruments

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

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

Income taxes and tax exposures recognized in the interim condensed 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.

(viii) 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. Determining cost requires the Company to make estimates surrounding capacity and to allocate both direct and indirect costs on a systematic basis.

(ix) 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.

(x) 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 unaudited interim condensed consolidated financial statements.

(xi) 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.

(xii) Discount rates and lease terms used in application of IFRS 16, Leases

The determination of the Company's lease liabilities and right-of-use assets depends on certain assumptions, which include the selection of the discount rate. The discount rate is set by reference to the Company's incremental borrowing rate. Management determines the incremental borrowing rate for each leased asset by taking into account the Company's credit standing, the guarantee, the term and the value of the underlying leased asset, as well as the economic environment in which the leased asset is operated. Incremental borrowing rates can be changed due to macroeconomic changes in the environment. To determine the appropriate lease term, management considers all relevant facts and circumstances that create an economic incentive for the Company to exercise a renewal option or not to exercise a termination option. The periods covered by the renewal options are included in the lease term only if management is reasonably certain it will renew the lease. Changes in the assumptions used may have a significant effect on the unaudited condensed consolidated financial statements.

Changes in Accounting Policies Including Initial Adoption

The following amendments were issued but not yet effective. The Company will adopt these amendments as of their effective dates. The Company is currently assessing the impacts of adoption.

(a) Amendment to IAS 1, Presentation of Financial Statements

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company's right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

In February 2021, the IASB issued 'Disclosure of Accounting Policies' with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

(b) Amendment to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the International Accounting Standards Board ("IASB") issued 'Definition of Accounting Estimates' to help entities distinguish between accounting policies and accounting estimates. The amendment is effective for annual reporting periods beginning on or after January 1, 2023. Earlier adoption is permitted.

(c) Amendments to IAS 12, Income Taxes
In May 2021, the IASB issued 'Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction' that clarifies how entities account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for year ends beginning on or after January 1, 2023.

(d) Amendments to IFRS 10, Consolidated Financial Statements and IAS 28, Investments in Associates and Joint Ventures

IFRS 10 and IAS 28 were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

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 interim condensed 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, 2021, unless otherwise stated.

(a) Credit risk

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

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

	April 30, 2023 $	October 31, 2022 $
Trade accounts receivable from customers	6,909,116	7,798,057
Expected credit losses	(188,410)	(353,420)
Net trade receivables	6,720,706	7,444,637
Interest and other receivables	1,608	43,480
Total	6,722,314	7,488,117

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 April 30, 2023, the Company identified certain accounts that may result in a credit loss on its accounts receivable, for which expected credit losses were recognized.

As at April 30, 2023, the Company has assessed that there is a concentration of credit risk, as 64% of the Company’s trade accounts receivable is due from three customers (as at October 31, 2022 - 68% of the balance due from three customers).

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

	April 30, 2023 $	October 31, 2022 $
Current (30 days or less)	3,588,639	4,371,452
31-60 days	1,393,299	1,152,874
61-90 days	207,814	57,804
Greater than 90 days	1,530,954	1,862,507
	6,720,706	7,444,637

(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 April 30, 2023, the Company had working capital of $9,763,341 (as at October 31, 2022 – $14,730,394). 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	18,418,696	-	-
Long-term debt	7,023	16,898,197	-
Derivative liabilities with cash settlement option	2,036,700	-	-
Total	20,462,419	16,898,197	-

(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 April 30, 2023 and October 31, 2022, 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:

	April 30, 2023 $	October 31, 2022 $
Cash	6,633	4,030
Accounts receivable	659	659
Accounts payable and other liabilities	36,010	24,459
Investment in associate	2,303,969	2,355,039
Derivative liabilities	1,832,766	1,721,190

A 10% strengthening of the Canadian dollar against the foreign currencies listed above would increase other comprehensive loss by $69,860 for the three-month period ended April 30, 2023 (for the year ended October 31, 2022 - $90,492). A 10% weakening of the Canadian dollar against the foreign currencies listed above would result in an equal, but opposite effect.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's short-term investments and finance lease earn fixed rates of interest in the range from 0.7% to 1.05% per annum and 10.00% per annum respectively. The Company is exposed to this risk on its long-term debt, part of which bears variable interest as detailed in Note 12. As at April 30, 2023 and October 31, 2022, the Company had no hedging agreements in place.

(iii) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. As at April 30, 2023 and October 31, 2022, the Company is exposed to this risk on its contingent consideration payable in Common Shares pursuant to the acquisition of Opticann, Purefarma and Premium 5, 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	
Notes receivable	Market value (Level 3)
Contingent consideration payable	Discounted cash flow (Level 3) or Black-Scholes model (Level 3)
Derivative liabilities	Market value (Level 3) or Black-Scholes model (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 period ended April 30, 2023 and 2022, 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) On May 3, 2023, the Company issued a Drawdown notice to the counterparty and released 1,209,428 common shares from escrow in exchange for $17,200, pursuant to the Agreement in Note 15(b)(i) of the financial statements.

(b) On May 12, 2023, the Company issued a Drawdown notice to the counterparty and released 2,432,118 Common Shares from escrow in exchange for $23,319.15, pursuant to the Agreement in Note 15(b)(i) of the financial statements.

(c) On May 15, 2023, the counterparty of the note receivable in Note 6(a) of the financial statements made a repayment in the amount of $300,000 USD ($390,891 CAD).

United States Operations and Regulatory Framework

As of October 31, 2022, the Company has material ancillary involvement in the United States cannabis industry and accordingly is subject to Staff Notice 51-352. The Company currently has immaterial ancillary exposure to US cannabis operations in connection with its non-controlling 30% ownership interest in EndoCanna and through its subsidiary, Opticann. The material ancillary involvement in the United States arises in connection with (a) its equipment loan and consulting agreement with Como Health LLC; and (b) the equipment purchase and service agreement with Harvest Care.

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 an agreement to use the patented VESIsorb® drug delivery system for absorption into the system. Opticann launched an eCommerce site for ArthroCBD, a CBD 25 mg softgel brand formulated using VESIsorb.

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 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 facility is now operational in the State of Missouri. As a result of an equipment and consulting arrangement with Como Health, the Company has material ancillary involvement in the U.S. cannabis industry and cannabis products from the facility financed by the Company are available for purchase in the U.S., including RAD distillate vapes, RAD live resin and live rosin.

Regulatory Cannabis Framework in Missouri

Missouri initially permitted medical cannabis with the passage of “Amendment 2” in 2018, which allowed qualifying patients to access medical cannabis in a variety of forms including flower. Its voters have further elected to allow adult-use cannabis sales by passage of “Amendment 3” in 2022. 60 cultivation, 84 manufacturing and 192 dispensary licenses were granted in 2019 and early 2020, numbers which have increased only slightly since. Vertical integration is permitted but not required, and the state limits the aggregate number of cannabis licenses which may be held by any given person. Local control is mostly limited beyond standard time, manner and place restrictions.

In 2023 and 2024, new “microbusiness” licenses will be granted to qualified persons, subject to limits of one per person of any type, with vertical integration prohibited. Two dispensary and four production licenses will be granted per congressional district in each of up to three tranches, subject to certain market and other factors. Primary regulatory authority is granted to the Division of Cannabis Regulation within the Department of Health and Senior Services.

Harvest Care has also commenced operations in the State of West Virginia in October, 2022. As a result of the the equipment purchase and service agreement with Harvest Care, the Company has material ancillary involvement in the U.S. cannabis industry.

Regulatory Medical Cannabis Framework in West Virginia

On April 19, 2017, West Virginia Governor Jim Justice signed into law Senate Bill 386, which created a medical cannabis program for West Virginia residents with serious medical conditions, and permits medical cannabis to be cultivated, processed, and dispensed to registered patients in the several forms including pills, oils, topical forms (gels, creams or ointments), a form medically appropriate for administration by vaporization or nebulization, dry leaf or plant form, tincture, liquid, or dermal patch. The program is administered by the West Virginia Department of Health and Human Resources’ Bureau for Public Health, Office of Medical Cannabis (“OCM”).

The OCM has authority to issue and oversee permits that authorize businesses to grow, process, dispense, and test medical cannabis in compliance with state law and regulations, register medical practitioners who certify patients as having qualifying serious medical conditions as defined by the state law, and register and oversee patients with qualifying conditions.

In addition to Senate Bill 386, codified in Chapter 16A of the West Virginia Code, the Office of Medical Cannabis has also promulgated regulations governing the activities of growers, processors, laboratories, dispensaries, and general provisions of West Virginia’s medical cannabis program in Title 64 of the Bureau for Public Health’s Legislative Rules which were most recently amended following 2022 statutory changes.

There is current legislation pending in the West Virginia State House that proposes to amend and expand the state’s medical cannabis program including permitting medical cannabis to be dispensed in edible form and medical patients to be permitted to smoke their medicine. There is another bill pending which would strike the list of qualifying serious medical conditions and otherwise grant authority to attending physicians to use their professional judgment to certify whether a patient’s serious medical condition would benefit from the use of medical cannabis. (See House Bills 2219, 2267, and 2318).

The Issuer is not aware of any non-compliance resulting from the operations of EndoCanna or its subsidiary Opticann.

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 2023 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, date and networks from attack, damage or unauthorized access is a priority. The inability to continue to enhance or prevent a failure of these internal processes, infrastructure or information technology systems could negatively impact the Company's ability to operate its business.

Intellectual Property Risk

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

Third Party Transportation

The Company is required to rely on third party transportation services. The Company is exposed to the inherent risks associated with relying on third party transportation service providers, including logistical problems, delays, loss or theft of product, and increased shipping costs. Any delay in transporting the product, breach of security or loss of product, could have material adverse effect on the Company's business, financial performance and results of operations. Moreover, any breach of security and loss of product during transport could affect the Company's status as a Licensed Producer, as such term is defined in the Cannabis Act.

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

The Cannabis Industry is Subject to Competition

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

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.

United States Federal Regulation of Hemp

The 2018 Farm Bill became Law on December 20, 2018. Prior to this Law, all non-exempt cannabis parts grown in the U.S. were scheduled as a controlled substance under the U.S. CSA, and as a result, the cultivation of Hemp for any purpose in the U.S. without a Schedule I registration with the DEA was illegal, unless exempted by the 2014 Farm Bill. The passage of the 2018 Farm Bill materially changed federal Laws governing Hemp by removing Hemp from the U.S. CSA and establishing a federal regulatory framework for Hemp production. Among other changes, the 2018 Farm Bill: (a) explicitly amended the U.S. CSA to exclude all parts of the cannabis plant (including cannabinoids, derivatives, and extracts) containing a THC of not more than 0.3% Delta-9 on a dry weight basis from the definition of cannabis; (b) allows the commercial production and sale of Hemp in interstate commerce; and (c) establishes the USDA as the primary federal agency regulating the cultivation of Hemp in the U.S., while allowing states to adopt their own plans to regulate the same. The 2018 Farm Bill also creates a specific exemption from the U.S. CSA for THC found in Hemp. By defining Hemp to include its "cannabinoids, derivatives, and extracts," the DEA no longer has regulatory authority to interfere with the interstate commerce of Hemp products, so long as the THC level of such products is at or below 0.3% Delta-9 and the Hemp and its derivatives were grown and processed by a person holding a license issued by either (i) USDA or a (ii) in a state with a USDA-approved Hemp plan, the applicable state agency.

Despite the passing of the 2018 Farm Bill, there remains some ambiguity as to which products are considered lawful under federal Laws in the United States, including, without limitation (i) products containing CBD; (ii) products containing, for example, 5 mg of Delta-9 per serving, but less than 0.3% THC on a "dry weight basis," and which may elicit psychoactive effects in consumers in the same manner as Delta-9 THC derived from cannabis; and (iii) products containing Delta-8. Much of this ambiguity is due to federal Laws and regulations other than the 2018 Farm Bill and/or the U.S. CSA, including, without limitation, the DEA IFR, FDCA, and Federal Analogue Act, and the enforcement priorities (or lack thereof) of the federal agencies tasked with enforcing such laws and regulations.

For example, on August 21, 2020, the DEA issued a DEA IFR concerning implementation of the 2018 Farm Bill. Even though the 2018 Farm Bill removed Hemp and THCs in Hemp from scheduling under the U.S. CSA, the DEA IFR purports to clarify that material that exceeds 0.3% THC remains controlled in Schedule I of the U.S. CSA. Additionally, the DEA IFR states that the 2018 Farm Bill does not impact the control status of synthetically derived THCs, for which the DEA claims that the amount of THC is not a determining factor in whether the material is a controlled substance. "Synthetically derived" is not defined in the DEA IFR. It is worth noting that many States have defined "synthetically derived" to include Delta-8.

In addition, under the Federal Analogue Act, chemicals that are "substantially similar" to controlled substances and which have a "stimulant, depressant, or hallucinogenic effect on the central nervous system (CNS) that is substantially similar to or greater than" the controlled substance, are treated as controlled under U.S. federal law."

Finally, although the 2018 Farm Bill removes "Hemp" from the U.S. CSA, the 2018 Farm Bill does preserve the authority and jurisdiction of the FDA, under the FDCA, to regulate the manufacture, marketing, and sale of food, drugs, dietary supplements, and cosmetics, including products that contain Hemp extracts and derivatives, such as CBD. The FDCA will therefore continue to apply to Hemp-derived food, drugs, dietary supplements, cosmetics, and devices introduced, or prepared for introduction, into interstate commerce. As a producer and marketer of Hemp-derived products, the Company must comply with FDA regulations applicable to manufacturing and marketing of certain products, including food, dietary supplements, and cosmetics. However, the FDA has taken the position that it is unlawful to sell or market a dietary supplement or food containing CBD.

However, the FDA's enforcement actions to date have been limited to warning letters. Moreover, the FDA's warning letters citing FDA's prohibition on the sale or marketing of dietary supplements or foods containing CBD have primarily been sent to CBD companies who manufacture or sell CBD products that create severe health and safety risks by making egregious disease claims (i.e., claims suggesting that a product is intended to treat, cure, or prevent diseases and ailments and/or affect the structure or function of the body) or structure/function claims (i.e., intended to affect the structure or any function of the body), such as a product's purported ability to treat or cure serious diseases and conditions like COVID-19, cancer, or diabetes. By contrast, the FDA has not generally enforced against CBD companies with respect to companies whose CBD products are devoid of such claims. The FDA has sent similar letters to companies for selling products containing Delta-8.

In addition, the FDA has issued policy statements expressing concerns about Delta-8's psychoactive and intoxicating effects; noting that products containing Delta-8 have not been evaluated or approved by the FDA for safe use and may be marketed in ways that put the public health at risk; and highlighting that it has received adverse event reports involving products containing Delta-8.

In sum, despite the positive changes brought by the 2018 Farm Bill, there remain a number of considerations, potential changes in regulation, and uncertainties regarding the cultivation, sourcing, production and distribution of Hemp and products containing Hemp derivatives. Applicable Laws and regulations in the U.S. remain subject to change as there are different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses with respect to the treatment of the importation of derivatives from exempted portions of the cannabis plant, the scope of operation of the 2014 Farm Bill and the 2018 Farm Bill, and the authorizations granted to 2018 Farm Bill-compliant Hemp growers and licensed Hemp-derived CBD producers. These different federal, state, and local agency interpretations touch on, among other things, the regulation of cannabinoids by the DEA, FDA and/or the FTC. These uncertainties likely cannot be resolved without further federal and state legislation, regulation or a definitive judicial interpretation of existing legislation and rules, and in the interim period, there continue to be several legal barriers to selling Hemp-derived products, including, but not limited to barriers arising from, (i) the fact that Hemp and cannabis are both derived from the cannabis plant, (ii) the rapidly changing patchwork of state Laws governing Hemp and Hemp-derived products, (iii) the lack of FDA approval for CBD as a Lawful food ingredient, food additive or dietary supplement, and (iv) the uncertain legal status of Delta-8 products, as well as products containing, for example, 5 mg of Delta-9 per serving, but less than 0.3% THC on a "dry weight basis," and which may elicit psychoactive effects in consumers in the same manner as Delta-9 THC derived from cannabis.

In addition to the above federal considerations, many States have enacted Laws and regulations prohibiting the production, distribution, and/or sale of certain Hemp-derived products.

Sessions Memorandum

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 and his call for scheduling review and pardons for marijuana possession, 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. The provision, which must be renewed annually, has been extended to September 30, 2023. 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 has yet to be passed 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

June 28, 2023