

The Heritage Cannabis Holdings Corp. interim condensed consolidated financial statements for the three months ended January 31, 2019 and January 31, 2018 are being refiled to remove the "Notice of no Auditors' Review of Interim Condensed Consolidated Financial Statements" contained on the second page of the original document. There have been no other changes to the original document.

HERITAGE CANNABIS HOLDINGS CORP.

(Formerly Umbral Energy Corp.)

Interim Condensed Consolidated Financial Statements

Three Months Ended January 31, 2019 and

January 31, 2018

(Stated in Canadian Dollars)

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Interim Condensed Consolidated Statements of Financial Position
As at January 31, 2019 and October 31, 2018
(Stated in Canadian Dollars)

	Note	January 31, 2019	October 31, 2018
Assets			
Current			
Cash		\$ 1,020,748	\$ 1,174,600
Short-term investments	4	4,500,000	-
Sales tax recoverable		735,562	278,924
Prepaid expenses and deposits		415,328	339,693
Other current assets		86,546	-
		6,758,184	1,793,217
Deposits	5	386,104	250,000
Intangible assets	6	41,990,012	5,067,000
Property, plant and equipment	7	10,938,413	5,589,019
Total Assets		\$ 60,072,713	\$ 12,699,236
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 1,517,408	\$ 656,873
Due to related parties		-	55,458
Current portion of long-term debt	8	119,325	-
Current portion of contingent consideration payable	9	334,000	-
		1,970,733	712,331
Long-term debt	8	214,988	-
Contingent consideration payable	9	1,576,000	-
Total Liabilities		3,761,721	712,331
Shareholders' Equity			
Share capital	10	59,707,984	21,598,702
Contributed surplus	11	11,882,155	2,190,551
Share subscriptions	12	174,028	55,000
Accumulated deficit		(16,279,580)	(12,760,850)
Equity attributable to shareholders		55,484,587	11,083,403
Non-controlling interest		826,405	903,502
Total Equity		56,310,992	11,986,905
Total Liabilities and Equity		\$ 60,072,713	\$ 12,699,236

Going Concern (Note 1)
Commitments (Note 14)
Subsequent Events (Note 19)

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

Approved on behalf of the Board of Directors:

"Clint Sharples", CEO

"Graeme Staley"

Director

Director

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Interim Condensed Consolidated Statements of Operations and Comprehensive Loss
Three Months Ended January 31, 2019 and January 31, 2018
(Stated in Canadian Dollars)

	Note	Three Months Ended January 31,	
		2019	2018
Interest Income		\$ 18,883	\$ -
General and Administrative Expenses			
Advertising, travel and promotion		101,566	11,073
Amortization		195,156	2,375
Consulting fees	13(a)	391,912	224,742
Management fees	13(a)	45,000	40,000
Occupancy, office expense and other		322,670	44,718
Professional fees		187,593	55,029
Regulatory fees		18,344	17,856
Shareholder communications		62,283	9,690
Share-based payments	11(c)(ii)	2,032,968	1,530,577
Transfer agent and shareholder information		18,458	943
Salaries, wages and benefits		238,760	-
		3,614,710	1,937,003
Other Items			
Gain on sale of investment		-	53,650
		-	53,650
Net Loss and Comprehensive Loss		\$ (3,595,827)	\$ (1,883,353)
Net Loss and Comprehensive Loss attributed to:			
Shareholders of the Company		\$ (3,518,730)	\$ (1,845,276)
Non-Controlling Interest		(77,097)	(38,077)
		\$ (3,595,827)	\$ (1,883,353)
Weighted average number of outstanding shares, basic and diluted	15	351,713,933	138,838,998
Basic and diluted loss per share		\$ (0.01)	\$ (0.01)

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

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Interim Condensed Consolidated Statements of Changes in Equity
Three Months Ended January 31, 2019 and January 31, 2018
(Stated in Canadian Dollars)

	Note	Number of Shares	Share Capital	Contributed Surplus	Share Subscriptions	Accumulated Deficit	Non-controlling Interest	Total
Balance at October 31, 2017		136,275,097	\$ 11,420,360	\$ 1,063,882	\$ 380,000	\$ (6,330,157)	\$ 1,144,183	\$ 7,678,268
Issued shares for cash								
Share options exercised		4,520,000	1,497,277	(744,477)	-	-	-	752,800
Warrants exercised		15,659,970	1,640,242	(162,245)	-	-	-	1,477,997
Stock based compensation – options granted		-	-	1,530,577	-	-	-	1,530,577
Net loss for the period		-	-	-	-	(1,845,276)	(38,077)	(1,883,353)
Balance at January 31, 2018		156,455,067	\$ 14,557,879	\$ 1,687,737	\$ 380,000	\$ (8,175,433)	\$ 1,106,106	\$ 9,556,289
Balance at October 31, 2018		203,919,450	\$ 21,598,702	\$ 2,190,551	\$ 55,000	\$ (12,760,850)	\$ 903,502	\$ 11,986,905
Shares issued as purchase consideration								
CannaCure Corporation	Note 3(a)	131,548,575	30,256,174	-	-	-	-	30,256,174
Purefarma Solutions Inc.	Note 3(b)	33,333,333	6,000,000	-	-	-	-	6,000,000
Share-based payments - acquisition costs								
CannaCure Corporation	Note 3(a)	5,784,751	1,610,493	175,818	-	-	-	1,786,311
Purefarma Solutions Inc.	Note 3(b)	1,200,000	234,000	-	-	-	-	234,000
Shares issued for cash consideration								
Exercise of warrants	Note 11(a)	129,375	8,615	(852)	-	-	-	7,763
Exercise of options (shares reserved for issuance)	Note 12	-	-	(86,528)	174,028	-	-	87,500
Replacement options issued as purchase consideration								
CannaCure Corporation	Note 3(a)	-	-	1,577,863	-	-	-	1,577,863
Replacement warrants issued as purchase consideration								
CannaCure Corporation	Note 3(a)	-	-	240,544	-	-	-	240,544
Contingent consideration, equity-settled								
Purefarma Solutions Inc.	Note 14(g)	-	-	910,000	-	-	-	910,000
Share-based payments - vesting of employee options	Note 11(c)	-	-	12,657	-	-	-	12,657
Special Warrants issued for cash consideration	Note 11(b)	-	-	7,500,000	(55,000)	-	-	7,445,000
Special Warrants issuance costs	Note 11(b)	-	-	(637,898)	-	-	-	(637,898)
Net loss for the period		-	-	-	-	(3,518,730)	(77,097)	(3,595,827)
Balance at January 31, 2019		375,915,484	\$ 59,707,984	\$ 11,882,155	\$ 174,028	\$ (16,279,580)	\$ 826,405	\$ 56,310,992

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

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Interim Condensed Consolidated Statements of Cash Flows
Three Months Ended January 31, 2019 and January 31, 2018
(Stated in Canadian Dollars)

	Note	Three Months Ended January 31,	
		2019	2018
Operating Activities			
Net loss for the period		\$ (3,595,827)	\$ (1,883,353)
Items not affecting cash:			
Amortization		195,156	2,375
Loss on investment in joint venture		-	-
Gain on sale of marketable securities		-	(53,650)
Imputed interest expense on long-term debt		1,300	-
Share-based payments	11(c)(ii)	2,032,968	1,530,577
Acquiree's acquisition costs - non-equity-settled	3(a)	118,435	-
		(1,247,968)	(404,051)
Net changes in non-cash working capital, net of business combinations:			
Sales tax recoverable		155,246	(14,167)
Prepaid expenses and deposits		(4,133)	(345,192)
Other current assets		(40,667)	-
Accounts payable and accrued liabilities		(492,956)	155,356
Repayments to related parties		(55,458)	-
Cash Flows Used in Operating Activities		(1,685,936)	(608,054)
Investing Activities			
Acquisition of property, plant and equipment		(796,275)	(577,826)
Proceeds from sale of marketable securities		-	151,150
Cash acquired on business combinations		80,233	-
Deposits advanced		(30,000)	-
Purchase of short-term investments		(5,000,000)	-
Partial redemption of short-term investments		500,000	-
Issuance of advances, settled through business combination	3(b)	(89,983)	-
Cash Flows Used in Investing Activities		(5,336,024)	(426,676)
Financing Activities			
Proceeds from issuance of common shares, net of issuance costs		7,763	2,230,797
Proceeds from exercise of options (reserved for issuance)		87,500	-
Proceeds from issuance of Special Warrants, net of issuance costs		6,807,102	-
Repayment of long-term debt		(34,257)	-
Cash Flows Provided from Financing Activities		6,868,108	2,230,797
Net (Decrease) Increase in Cash During the Period		(153,852)	1,196,067
Cash, Beginning of Period		1,174,600	1,647,781
Cash, End of Period		\$ 1,020,748	\$ 2,843,848
The accompanying notes are an integral part of these interim condensed consolidated financial statements			
Supplementary information			
Interest received		\$ 1,370	\$ -

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three Months Ended January 31, 2019 and January 31, 2018
(Stated in Canadian Dollars)

Nature of Business

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

The Company is focused on becoming a vertically integrated cannabis business. Through its subsidiaries PhyeinMed Inc. and CannaCure Corporation, the Company holds licenses under the Cannabis Act (Canada) and its relevant regulations. PhyeinMed Inc., a holder of a cultivation, processing and medicinal sales license, operates out of a 15,500 square foot facility in Falkland, British Columbia. CannaCure Corporation, a holder of a cultivation license, operates out of a 122,000 square foot facility in Fort Erie, Ontario. Purefarma Solutions Inc., a wholly owned-subsiidiary, provides the Company with the experience and know-how necessary to develop and manufacture cannabis oils.

Although the Company was awarded licenses and has invested resources into its business, the Company does not yet have cash flow from operations and as such, it must rely on equity financing to fund operations. To date, the Company’s main source of funding has been the issuance of equity securities for cash through private placements to sophisticated investors and through public offerings to institutional investors. The Company has historically raised operating capital from the sale of equity, and will continue to do so.

1. Basis of Presentation

(a) Going concern

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

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three Months Ended January 31, 2019 and January 31, 2018
(Stated in Canadian Dollars)

1. Basis of Presentation (continued)

(b) Statement of compliance

The interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards 34, “Interim Financial Reporting” (“IAS 34”), using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements. The accounting policies and critical estimates used in preparing these interim condensed consolidated financial statements are the same as those applied in the Company’s annual consolidated financial statements as at and for the year ended October 31, 2018, except for the adoption of new accounting standards and policies described in Note 2.

These interim condensed consolidated financial statements were approved by the Board of Directors on March 28, 2019.

(c) Basis of measurement

These interim condensed consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for contingent consideration payable that is measured at fair value.

(d) Functional and presentation currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company, as determined by management.

(e) Basis of consolidation

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated on consolidation. Subsidiaries are those entities over which the Company has control. In turn, control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. As of January 31, 2019, major subsidiaries over which the Company has control are listed below.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three Months Ended January 31, 2019 and January 31, 2018
(Stated in Canadian Dollars)

1. Basis of Presentation (continued)

(e) Basis of consolidation (continued)

Subsidiaries	Ownership Percentage	Jurisdiction of Incorporation
CannaCure Corporation	100%	Ontario, Canada
Purefarma Solutions Inc.	100%	British Columbia, Canada
1190683 B.C. Ltd.	100%	British Columbia, Canada
Umbral Energy LLC	100%	Washington State, U.S.A
1005477 B.C. Ltd.	100%	British Columbia, Canada
PhyeinMed Inc.	75%	British Columbia, Canada
Mainstrain Markets Ltd.	75%	British Columbia, Canada

Certain subsidiaries are controlled, indirectly, through other subsidiaries.

(f) Estimates and critical judgements by management

The preparation of 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 interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The interim condensed consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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. Actual results could differ from those estimates. Significant items that require estimates as the basis for determining the stated amounts include but are not limited to the useful life of property, plant and equipment and intangible assets, goodwill and intangible asset impairment, the fair value of identifiable net assets acquired, the fair value of consideration paid in business combinations, the fair value of share-based payments, the fair value of share purchase warrants, and the fair value of financial instruments. While management believes the estimates are reasonable, actual results could differ materially from those estimates and may impact the future results of operations.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three Months Ended January 31, 2019 and January 31, 2018
(Stated in Canadian Dollars)

2. Significant Accounting Policies

2.1 Amendments to IFRSs that are Mandatorily Effective for the Current Period

The Company has adopted the following new or amended IFRS standards for the period beginning November 1, 2018.

(a) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The Company adopted IFRS 9 using the retrospective approach where the cumulative impact of adoption will be recognized in retained earnings as of November 1, 2018 and comparatives will not be restated.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income, or (iii) at fair value through profit or loss.

Amortized cost

Financial assets classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are measured using the effective interest method.

Fair value through other comprehensive income ("FVTOCI")

Financial assets classified and measured at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are SPPI.

This classification includes certain equity instruments where IFRS 9 allows an entity to make an irrevocable election to classify the equity instruments, on an instrument-by-instrument basis, that would otherwise be measured at FVTPL to present subsequent changes in FVTOCI.

Fair value through profit or loss ("FVTPL")

Financial assets classified and measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not SPPI or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell the financial asset.

HERITAGE CANNABIS HOLDINGS CORP.
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Notes to Interim Condensed Consolidated Financial Statements
Three Months Ended January 31, 2019 and January 31, 2018
(Stated in Canadian Dollars)

2.1 Amendments to IFRSs that are Mandatorily Effective for the Current Period (continued)

(a) IFRS 9 Financial Instruments (continued)

Consistent with IAS 39, financial liabilities under IFRS 9 are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost. The Company has contingent consideration payable arising from business combinations which are measured at fair value at initial recognition and subsequently at FVTPL.

The following table summarizes the classification of the Company's financial instruments under IAS 39 and IFRS 9:

Financial assets/liabilities	IAS 39 Classification	IFRS 9 Classification
Cash	Loans and receivables	Amortized cost
Short-term investments	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Other financial liabilities
Due to related parties	Other financial liabilities	Other financial liabilities
Long-term debt	Other financial liabilities	Other financial liabilities
Contingent consideration payable	FVTPL	FVTPL

The adoption of IFRS 9 did not have an impact on the Company's classification and measurement of financial assets and liabilities. Accordingly, on adoption of IFRS 9 on November 1, 2018, there was no change in the carrying value of the financial instruments on transition from IAS 39.

IFRS 9 uses an expected credit loss impairment model as opposed to an incurred credit loss model under IAS 39. The impairment model is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. Under this model, the Company measures expected credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and other factors. The carrying amount of financial assets measured at amortized cost is reduced for any expected credit losses through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations and comprehensive loss. At the point when the Company is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off. The adoption of the expected credit loss impairment model had a negligible impact on the carrying amounts of financial assets measured at amortized cost.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Notes to Interim Condensed Consolidated Financial Statements
Three Months Ended January 31, 2019 and January 31, 2018
(Stated in Canadian Dollars)

2.1 Amendments to IFRSs that are Mandatorily Effective for the Current Period (continued)

(b) IFRS 15 Revenue from Contracts with Customers

The IASB replaced IAS 18 Revenue in its entirety with IFRS 15 Revenue from Contracts with Customers. The Company adopted IFRS 15 using the modified retrospective approach where the cumulative impact of adoption will be recognized in retained earnings as of November 1, 2018 and comparatives will not be restated.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time or over time, the assessment of which requires judgment. The model features the following contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized:

1. Identifying the contract with a customer;
2. Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligation(s).

To date, the Company does not have any material revenue streams and as such, there is no material impact on the interim condensed consolidated financial statements as a result of adopting this standard.

2.2 Newly Adopted Accounting Policies

Share purchase warrants

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in private placements is determined to be the more easily measurable component and they are valued at their fair value, as determined by the closing quoted bid price on the measurement date. The remainder, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded in contributed surplus.

HERITAGE CANNABIS HOLDINGS CORP.
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Notes to Interim Condensed Consolidated Financial Statements
Three Months Ended January 31, 2019 and January 31, 2018
(Stated in Canadian Dollars)

2.3 Recently Issued Accounting Pronouncements Not Yet Adopted

(a) IFRS 16 Leases

In January of 2016, the IASB issued IFRS 16 Leases which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. The Company intends to adopt IFRS 16 on its effective date and is currently assessing the impact of this new standard on its interim condensed consolidated financial statements.

3. Business Combinations

(a) CannaCure Corporation

On November 5, 2018, the Company, through a wholly owned subsidiary ("TransactionCo"), entered into a three-cornered amalgamation transaction which resulted in the acquisition of all the issued and outstanding shares of CannaCure Corporation ("CannaCure"), a company incorporated in Ontario, Canada that holds a licence issued by Health Canada under the Cannabis Regulations. During the three months ended January 31, 2019, TransactionCo did not have any activity other than the transaction specified above. The Company acquired CannaCure as a strategic manoeuvre to advance its goal of becoming a vertically integrated cannabis producer.

As consideration for all 26,147,439 common shares in CannaCure, the Company issued 133,333,326 common shares with a fair value of \$30,666,667. Fair value was determined based on the closing share price of the Company on November 5, 2018. The amalgamation transaction resulted in the Company obtaining control of CannaCure. The transaction was accounted for as a business combination in accordance with IFRS 3, with the Company as the acquirer and CannaCure as the acquiree.

As part of the acquisition, the Company agreed to replace CannaCure's existing share-based payment awards, resulting in additional purchase consideration with a fair value of \$1,994,225, comprised of \$1,577,863 in stock options and \$416,362 in purchase warrants. The fair value of the replacement stock options and warrants were determined using a level 3 pricing model with the inputs and assumptions detailed in Note 11(c) and Note 11(a) respectively.

As consideration for acquisition-related services, including legal costs and finder's fees, the Company accrued a payable of \$11,883 and issued 4,000,000 common shares with a fair value of \$1,200,000, determined based on the fair value of the services received. Furthermore, of the total common shares and replacement warrants issued for purchase consideration, 1,784,751 common shares (fair value of \$410,493) and 764,893 warrants (fair value of \$175,818) are deemed to be reimbursements of the acquiree's acquisition costs. The Company is also deemed to have reimbursed the acquiree \$118,435 in other non-equity-settled acquisition costs.

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3. Business Combinations (continued)

(a) CannaCure Corporation (continued)

Management is in the process of gathering the relevant information that existed as at the acquisition date to determine the fair value of consideration paid as well as the composition and fair value of net identifiable assets acquired, including the value of CannaCure's Health Canada license currently included in goodwill. As such, the initial purchase price was provisionally allocated based on the Company's estimated fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date, and the estimated fair value of consideration paid. Management continues to work on finalizing the purchase price allocation for the fair value of net identifiable assets acquired, the fair value of consideration paid, and the resulting allocation to goodwill.

Total consideration paid

133,333,326 common shares	\$ 30,666,667
Replacement of share-based payment awards	1,994,225
Less: portion attributable to acquiree's acquisition costs	(704,746)
Net purchase consideration paid	31,956,146

Fair value of identifiable net assets acquired

Cash	22,829
Sales tax recoverable	611,884
Prepaid expenses and deposits	59,815
Non-current deposits (Note 5(ii))	106,104
Property purchase options (Note 6(b))	946,131
Property, plant and equipment (Note 7)	4,186,533
Accounts payable and accrued liabilities	(1,188,829)
	4,744,468
Goodwill	\$ 27,211,678

Following the measurement period, goodwill will represent expected synergies, future income and growth, and other intangibles that do not qualify for separate recognition. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The fair value of the sales tax recoverable balance acquired in the business combination is equal to the gross amounts receivable. The Company expects to collect the full balance.

For the three months ended January 31, 2019, CannaCure generated \$nil revenues and incurred a net and comprehensive loss of \$335,700 since November 5, 2018. If the acquisition had been completed on November 1, 2018, the financial impact would have been approximately the same.

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Three Months Ended January 31, 2019 and January 31, 2018
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3. Business Combinations (continued)

(b) Purefarma Solutions Inc.

On December 14, 2018, the Company acquired all the issued and outstanding shares of Purefarma Solutions Inc. ("Purefarma"), a company incorporated in British Columbia, Canada with expertise in the development of cannabis oils. The Company acquired Purefarma as a strategic manoeuvre to advance its goal of becoming a vertically integrated cannabis producer.

Purefarma's share capital, before and after the acquisition, is comprised of 1,000 Class A common shares. The Company acquired all 1,000 Class A common shares as follows:

(i) As consideration for 760 Class A common shares in Purefarma, the Company issued 33,333,333 common shares of the Company with a fair value of \$6,000,000. Fair value was determined based on the closing share price of the Company on December 14, 2018.

(ii) As consideration for 200 Class A common shares in Purefarma, the Company paid \$1 in cash plus a pro-rata earn-out, payable in common shares of the Company, based on Purefarma's ability to meet certain cumulative gross margin targets between December 14, 2018 and December 31, 2023. Details regarding the earn-out are specified in Note 14(g).

(iii) As consideration for 40 Class A common shares in Purefarma, the Company paid \$1 in cash plus contingent performance payments, payable in cash, based on Purefarma's ability to meet certain cumulative gross margin targets between December 14, 2018 and December 31, 2022. Details regarding the contingent performance payments are specified in Note 9.

The above transactions resulted in the Company obtaining control of Purefarma. The transaction was accounted for as a business combination in accordance with IFRS 3, with the Company as the acquirer and Purefarma as the acquiree.

Included in the purchase consideration was the settlement of advances that were formerly owed to the Company by Purefarma in the amount of \$89,983.

As consideration for acquisition-related services, including legal costs and finder's fees, the Company accrued a payable of \$37,969 and issued 1,200,000 common shares with a fair value of \$234,000, determined based on the fair value of the services received.

Management is in the process of gathering the relevant information that existed as at the acquisition date to determine the composition and fair value of net identifiable assets acquired, as well as the fair value of contingent consideration paid. As such, the initial purchase price was provisionally allocated based on the Company's estimated fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date, and the estimated fair value of contingent consideration paid. Management continues to work on finalizing the purchase price allocation for the fair value of net identifiable assets acquired, contingent consideration paid and the allocation to goodwill.

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3. Business Combinations (continued)

(b) Purefarma Solutions Inc. (continued)

Purchase consideration paid

Cash	\$ 2
33,333,333 common shares	6,000,000
Contingent consideration, equity-settled (Note 14(g))	910,000
Contingent consideration, cash-settled (Note 9)	1,910,000
Settlement of advances	89,983
	<u>8,909,985</u>

Fair value of identifiable net assets acquired

Cash	57,404
Prepaid expenses and deposits	11,688
Other current assets	45,879
Property, plant and equipment (Note 7)	467,135
Accounts payable and accrued liabilities	(164,662)
Long-term debt (Note 8)	(336,000)
	<u>81,443</u>
Goodwill	<u>\$ 8,828,541</u>

Goodwill represents expected synergies, future income and growth, and other intangibles that do not qualify for separate recognition. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

For the three months ended January 31, 2019, Purefarma generated \$nil revenues and incurred a net and comprehensive loss of \$187,771 since December 14, 2018. If the acquisition had been completed on November 1, 2018, the Company estimates it would have incurred a net and comprehensive loss of \$399,812, with no change in revenue, for the three months ended January 31, 2019.

4. Short-term Investments

Short-term investments held at January 31, 2019 consist of \$4,500,000 (October 31, 2018 - \$nil) in guaranteed investment certificates ("GICs") maintained with a Canadian chartered bank. The carrying value of these short-term investments approximate their fair value at January 31, 2019.

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5. Deposits

	As at January 31, 2019	As at October 31, 2018
Deposit on Stanley Park Digital Ltd. purchase (i)	\$ 280,000	\$ 250,000
Deposit for development costs (ii)	106,104	-
	\$ 386,104	\$ 250,000

- (i) During the year ended October 31, 2018, the Company signed a Letter of Intent (“LOI”) to acquire 20% of the issued and outstanding shares of Stanley Park Digital Ltd. (“SPD”), a blockchain developer based in Vancouver, British Columbia.

Pursuant to the terms of the LOI, the total purchase price is \$500,000, a portion of which is to be paid in cash while the remainder will be settled by way of the Company issuing common shares upon execution of a definitive share purchase agreement.

As at January 31, 2019, \$280,000 in cash had been advanced to SPD in relation to the LOI. The amount is non-refundable. A definitive share purchase agreement has yet to be executed and therefore no common shares of the Company have been issued.

- (ii) On February 16, 2018, the Company’s subsidiary, CannaCure, entered into an agreement with its municipality to conduct land development where its production facility is located. As part of this agreement, CannaCure deposited with the municipality a \$106,104 letter of credit to guarantee the completion of these land development costs. This letter of credit has been included in non-current deposits in the statement of financial position. In the event that the cost of the work is less than the letter of credit, the municipality shall return any excess funds. In the event that the cost of the work is more than the letter of credit, the Town may collect the deficiency on demand or in like manner as municipal taxes.

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6. Intangible Assets

	Licenses (a)	Property purchase options (b)	Goodwill	Total
Cost				
At November 1, 2017	\$ -	\$ -	\$ -	\$ -
Acquired through business combination	5,067,000	-	-	5,067,000
At October 31, 2018	\$ 5,067,000	\$ -	\$ -	\$ 5,067,000
Accumulated Amortization				
At November 1, 2017	\$ -	\$ -	\$ -	\$ -
Additions	-	-	-	-
At October 31, 2018	\$ -	\$ -	\$ -	\$ -
Net book value at October 31, 2018	\$ 5,067,000	\$ -	\$ -	\$ 5,067,000

	Licenses (a)	Property purchase options (b)	Goodwill	Total
Cost				
At November 1, 2018	\$ 5,067,000	\$ -	\$ -	\$ 5,067,000
Acquired through business combination (Note 3)	-	946,131	36,040,219	36,986,350
At January 31, 2019	\$ 5,067,000	\$ 946,131	\$ 36,040,219	\$ 42,053,350
Accumulated Amortization				
At November 1, 2018	\$ -	\$ -	\$ -	\$ -
Additions	63,338	-	-	63,338
At January 31, 2019	\$ 63,338	\$ -	\$ -	\$ 63,338
Net book value at January 31, 2019	\$ 5,003,662	\$ 946,131	\$ 36,040,219	\$ 41,990,012

(a) Licences

During the year ended October 31, 2018, Health Canada issued PhyeinMed a cultivation license under the Cannabis Act (Canada) and its relevant regulations. The Company had assessed that the license has an estimated useful life equal to the remaining useful life of the corresponding facility. At October 31, 2018, PhyeinMed's facility, estimated to have a remaining useful life of twenty years, was not yet available for use. Accordingly, the Company had not recorded any amortization in connection with the license. Amortization has since commenced on the license during the three months ended January 31, 2019 as, in management's option, the asset is available for use.

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6. Intangible Assets (continued)

(b) Property purchase options

(i) In October of 2016, the Company's subsidiary, CannaCure, entered into an option agreement with the owners of the land and premises (the "Optionor") where the Company conducts its business (the "Property"). The Optionor has granted CannaCure an irrevocable option to purchase the Property or all of the issued shares and rights to shares in the capital of the Optionor, exercisable at any time during the period of 3 years from the date of execution, for a purchase price of \$2.2 million plus applicable sales and land transfer taxes. In consideration for the option grant, the CannaCure has committed to pay an annual amount of \$200,000 plus HST in twelve equal monthly instalments commencing January 2018. The Company is also committed to pay for all operating costs associated with the Property. The payments will cease on the earlier of termination of the Option agreement or the date of the Company's acquisition of the Property. The payments associated with this agreement are included in the statement of operations and comprehensive loss under occupancy, office expense and other. The option expires on October 21, 2019.

The fair value of the property purchase option was determined at the time of the acquisition using the Black-Scholes option pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	2.21%
Expected life of the options (years)	0.96
Expected annualized volatility	5.75%
Exercise price	\$2,200,000
Fair value of property at grant date	\$3,100,000
Black Scholes value at grant date	\$946,131

Expected annualized volatility was estimated by using the average historical volatility of the underlying real property.

(ii) In August of 2017, the Company's subsidiary, CannaCure, entered into an option agreement with an arm's length party ("Greenhouse Optionor") to purchase a greenhouse property for a purchase price of \$66 million. The vendor agreed to grant the Company a vendor-take-back mortgage of up to \$5 million, maturing 4 years after the closing date, bearing interest at 4% per annum, payable in interest-only payments until maturity, with early principal repayment permitted. The option expires on August 30, 2019 and is non-transferrable. Due to the short remaining exercise period, financing required to exercise and other terms of the option agreement, management ascribed a nominal fair value to this intangible asset as part of the business combination detailed in Note 3(a).

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7. Property, Plant and Equipment

	Equipment	Buildings and leasehold improvements	Land	Total
Cost				
At November 1, 2017	\$ -	\$ 860,525	\$ 255,000	\$ 1,115,525
Additions	519,942	3,964,308	-	4,484,250
At October 31, 2018	\$ 519,942	\$ 4,824,833	\$ 255,000	\$ 5,599,775
Accumulated Amortization				
At November 1, 2017	\$ -	\$ 1,195	\$ -	\$ 1,195
Additions	-	9,561	-	9,561
At October 31, 2018	\$ -	\$ 10,756	\$ -	\$ 10,756
Net book value at October 31, 2018	\$ 519,942	\$ 4,814,077	\$ 255,000	\$ 5,589,019

	Equipment	Buildings and leasehold improvements	Land	Total
Cost				
At November 1, 2018	\$ 519,942	\$ 4,824,833	\$ 255,000	\$ 5,599,775
Acquired through business combinations (Note 3)	661,927	3,991,742	-	4,653,669
Additions	264,160	563,383	-	827,543
At January 31, 2019	\$ 1,446,029	\$ 9,379,958	\$ 255,000	\$ 11,080,987
Accumulated Amortization				
At November 1, 2018	\$ -	\$ 10,756	\$ -	\$ 10,756
Additions	33,167	98,651	-	131,818
At January 31, 2019	\$ 33,167	\$ 109,407	\$ -	\$ 142,574
Net book value at January 31, 2019	\$ 1,412,862	\$ 9,270,551	\$ 255,000	\$ 10,938,413

During the three months ended January 31, 2019, the Company made additions of \$451,020 to certain leasehold improvements that were unavailable for use at the end of the period. As at January 31, 2019, the total cost of leasehold improvements that are unavailable for use and for which no amortization has been recorded is \$1,324,040.

During the three months ended January 31, 2019, the Company acquired equipment with a cost of \$31,269 by way of assuming a term loan, as detailed in Note 10(i).

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8. Long-term Debt

	As at January 31, 2019	As at October 31, 2018
Term loan - non-interest bearing, principal-only payments of \$585 per month, 6-year term, maturing in January of 2025, with effective interest imputed as detailed in (i)	\$ 31,269	\$ -
Term loan - partially interest bearing, 4-year total term, with special payment terms and partial effective interest imputed as detailed in (ii)	303,044	
Less: current portion	(119,325)	-
Long-term portion	\$ 214,988	\$ -

(i) Effective interest at a rate of 10% per annum has been imputed on the term loan. The effective interest rate was determined based on the Company's incremental cost of borrowing. At January 31, 2019, the face value of the term loan was \$42,138 and the carrying value of the underlying equipment that serves as security for the loan was \$30,875.

(ii) The term loan has an initial interest-free term of 2 years, maturing in June of 2019. The agreement requires minimum monthly payments of \$5,250 for the first year and \$10,500 per month for the second year. At the end of the initial 2-year term, the Company is required to refinance the obligation at a face value of \$262,500 for a further 2 years. Any amounts paid over and above the monthly minimums during the initial term results in a 1-to-1 reduction in the refinanced face value of the loan for the second term. The debt obligation under the second term carries interest at 10% per annum and requires blended monthly payments of \$12,600, maturing in May of 2021. The term loan is secured by the underlying equipment.

Effective interest at a rate of 10% per annum has been imputed on the term loan and will continue up to the commencement of the second term, at which point the loan becomes contractually interest-bearing. The effective interest rate was determined based on the Company's incremental cost of borrowing. At January 31, 2019, the face value of the term loan was \$315,000 and the carrying value of the underlying equipment that serves as security for the loan was \$289,427.

9. Contingent Consideration Payable

As detailed in Note 3(b), the Company is required to make certain performance payments, payable in cash, to a company controlled by the former shareholders of Purefarma as additional purchase consideration. These payments are based on a fixed percentage of the gross margin generated by the extraction business, as follows:

- (a) 12% of extraction-generated gross margin for the 12-months ended December 31, 2019;
- (b) 9% of extraction-generated gross margin for the 12-months ended December 31, 2020;
- (c) 6% of extraction-generated gross margin for the 12-months ended December 31, 2021; and
- (d) 3% of extraction-generated gross margin for the 12-months ended December 31, 2022.

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9. Contingent Consideration Payable (continued)

Additional performance payments may be required based on certain geographical scope parameters.

Contingent consideration payable is measured at fair value at initial recognition and subsequently at FVTPL, with remeasurement at the end of each reporting period using a level 3 valuation technique, as detailed in Note 17(b).

10. Share Capital

(a) Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value.

(b) Issued share capital

During the three months ended January 31, 2019, the following share issuances took place:

As detailed in Note 3(a), on November 5, 2018, the Company issued a total of 137,333,326 common shares with a fair value of \$31,866,667 for purchase consideration and acquisition-related costs stemming from the CannaCure acquisition.

As detailed in Note 3(b), on December 14, 2018, the Company issued a total of 34,533,333 common shares with a fair value of \$6,234,000 for purchase consideration and acquisition-related costs stemming from the Purefarma acquisition.

Total acquisition-related costs settled in common shares and expensed in the period with respect to these two business combinations amounted to \$1,844,493.

The Company issued 129,375 common shares for the exercise of 129,375 warrants at \$0.06 per share for total proceeds of \$7,763 which resulted in a transfer from contributed surplus to share capital of \$852.

11. Contributed Surplus

(a) Warrants

Movements in the number of Warrants outstanding are as follows:

	Number of warrants	Weighted average exercise price
Balance at October 31, 2017	49,357,688	\$ 0.10
Exercised	(49,085,353)	0.10
Expired	(40,286)	0.10
Balance at October 31, 2018	232,049	\$ 0.08
Issued as purchase consideration (Note 3(a))	1,050,454	0.09
Issued for acquisition-related services (Note 3(a))	764,893	0.09
Exercised	(129,089)	0.06
Balance at January 31, 2019	1,918,307	\$ 0.09

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11. Contributed Surplus (continued)

(a) Warrants (continued)

As detailed in Note 3(a), warrants issued for acquisition-related services resulted in an expense of \$175,818, included in the statement of operations and comprehensive loss.

The following table summarizes the Warrants outstanding and exercisable at January 31, 2019:

Expiry date	Number of warrants	Exercise price
August 30, 2019	102,960	\$ 0.10
April 3, 2020	979,064	\$ 0.01
April 5, 2020	71,390	\$ 0.20
November 5, 2023	764,893	\$ 0.20

Each Warrant is exercisable into one common share of the Company.

The fair value of warrants issued during the period was determined at the time of issuance using the Black-Scholes option pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	2.21% to 2.27%
Expected life of the warrants (years)	1.41 to 5.00
Expected annualized volatility	303% to 347%
Expected annual dividend yield	0%
Expected forfeiture	0%
Exercise price	\$0.01 to \$0.20
Weighted average share price at grant date	\$0.23
Weighted average Black Scholes value at grant date	\$0.23

Expected annualized volatility was estimated by using the average historical volatility of the Company.

(b) Special Warrants

Movements in the number of Special Warrants outstanding are as follows:

	Number of warrants	Weighted average exercise price
Balance at October 31, 2017 and 2018	-	\$ -
Issued for cash consideration (i)	30,000,000	0.25
Issued as share-based payments (ii)	1,551,300	0.25
Balance at January 31, 2019	31,551,300	\$ 0.25

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11. Contributed Surplus (continued)

(b) Special Warrants (continued)

(i) As part of a private placement that took place during the quarter, the Company issued 30,000,000 Special Warrants at a price of \$0.25 per Special Warrant, for gross proceeds of \$7,500,000, \$55,000 of which was transferred from a pre-existing share subscription balance. Upon exercise or deemed exercise, each Special Warrant entitles its holder to receive one Unit in the Company at no additional cost. Each Special Warrant is deemed to be exercised on the earlier of three business days following the date that the Company successfully receives the receipt for the prospectus from the relevant provincial securities commissions and March 8, 2019. At January 31, 2019, neither exercise nor deemed exercise had occurred and as such, the full balance comprising the net proceeds from the private placement remained in contributed surplus. Deemed exercise took place subsequent to quarter end as detailed in Note 19.

Each Unit consists of 1.1 common shares of the Company and 1.1 common share purchase warrants. In turn, each purchase warrant entitles its holder to acquire, at an exercise price of \$0.35, one common share of the Company. The purchase warrants expire on May 7, 2021, subject to an acceleration clause.

(ii) In consideration for the completion of the private placement, the Company paid issuance costs, including commissions and legal fees, of \$637,898 and issued 1,551,300 Agent Special Warrants. The Agent Special Warrants are transferable into Agent Warrants for no additional consideration upon exercise or deemed exercise, as discussed above. Each Agent Warrant is exercisable into one Unit of the Company at an exercise price of \$0.25, expiring on May 7, 2021. The value of the Agent Special Warrants amounted to \$366,171, based on the fair value of the equity instruments granted. This issuance cost was recorded as both a debit and a credit to contributed surplus, resulting in a net impact of \$nil.

The fair value of Agent Warrants issued during the period was determined at the time of issuance using the Black-Scholes option pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	2.22%
Expected life of the warrants (years)	2.50
Expected annualized volatility	303%
Expected annual dividend yield	0%
Expected forfeiture	0%
Exercise price	\$0.25
Weighted average share price at grant date	\$0.24
Weighted average Black Scholes value at grant date	\$0.24

Expected annualized volatility was estimated by using the average historical volatility of the Company.

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11. Contributed Surplus (continued)

(c) Stock options

(i) Stock option plan details

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

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

Movements in the number of options outstanding are as follows:

	Number of options	Weighted average exercise price
Balance at October 31, 2017	3,200,000	\$ 0.09
Granted	11,050,000	0.27
Exercised	(8,559,000)	0.14
Balance at October 31, 2018	5,691,000	\$ 0.32
Granted as purchase consideration (Note 3(a))	7,139,003	0.13
Exercised (Note 12)	(250,000)	0.35
Cancelled	(400,000)	0.54
Balance at January 31, 2019	12,180,003	\$ 0.20

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11. Contributed Surplus (continued)

(c) Stock options (continued)

(i) Stock option plan details (continued)

The following table summarizes the options outstanding and exercisable at January 31, 2019:

Expiry date	Number of options	Exercise price
August 16, 2022	2,000,000	\$ 0.10
November 15, 2022	480,000	\$ 0.14
January 22, 2023	700,000	\$ 0.59
March 19, 2023	861,000	\$ 0.54
April 30, 2023	1,000,000	\$ 0.35
November 14, 2020	5,099,288	\$ 0.10
August 20, 2023	254,964	\$ 0.20
April 10, 2025	1,784,751	\$ 0.20

As at January 31, 2019, the weighted average remaining contractual life of all options outstanding and exercisable was 3.35 years (October 31, 2018 – 4.15 years).

The fair value of stock options granted during the period was determined at the time of grant using the Black-Scholes option pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	2.21% - 2.28%
Expected life of the options (years)	2.03 - 6.43
Expected annualized volatility	303% - 321%
Expected annual dividend yield	0%
Expected forfeiture	0%
Exercise price	\$0.10 to \$0.20
Weighted average share price at grant date	\$0.23
Weighted average Black Scholes value at grant date	\$0.23

Expected annualized volatility was estimated by using the average historical volatility of the Company.

(ii) Amounts arising from share-based payment transactions

During the three months ended January 31, 2019, the Company recognized an expense of \$12,657 relating to the vesting of options held by an employee (January 31, 2018 - \$1,530,577 relating to the vesting of options held by directors, officers and consultants). This amount, together with the expense of \$1,844,493 detailed in Note 10(b) and \$175,818 detailed in Note 11(a), results in total share-based payment expenditures of \$2,032,968 for the period.

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12. Share Subscriptions

During the three months ended January 31, 2019, the following share subscription transactions took place:

A pre-existing balance of \$55,000 reflecting funds advanced for Special Warrant subscriptions was transferred to contributed surplus upon the completion of the private placement (Note 11(b)).

In January of 2019, an option holder exercised 250,000 options at \$0.35 per share for total proceeds of \$87,500 which resulted in a transfer from contributed surplus to share subscriptions of \$86,528. As at January 31, 2019, these shares are due to be issued by the Company.

13. Related Party Transactions and Balances

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All amounts either due to or from related parties, other than specifically disclosed, are non-interest bearing, unsecured and due on demand.

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

	Three months ended January 31, 2019	Three months ended January 31, 2018
Management fees	\$ 45,000	\$ 40,000
Consulting fees	81,012	7,500
Rent	12,645	-
	\$ 138,657	\$ 47,500

(b) Management compensation

	Three months ended January 31, 2019	Three months ended January 31, 2018
Salary and short-term benefits	\$ 34,842	\$ 47,500
Share-based payments	-	519,074
	\$ 34,842	\$ 566,574

(c) Related party balances

	As at January 31, 2019	As at October 31, 2018
Included in prepaid expenses and deposits	\$ 4,800	\$ -
Included in accounts payable and accrued liabilities	\$ 58,610	\$ 55,458
Included in other current assets	\$ 33,532	\$ -

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14. Commitments

- (a) In July of 2018, the Company's subsidiary, CannaCure, entered into a separate agreement with the Greenhouse Optionor detailed in Note 6(b)(ii) wherein the Greenhouse Optionor will provide certain greenhouse management and consulting services if and when the Company exercises its option to purchase the property. Upon the Company exercising this option and purchasing the greenhouse property, the Greenhouse Optionor will be entitled to subscribe for 3,059,950 common shares of the Company for a nominal cash amount. The probability of the greenhouse option being exercised and the vesting period could not be estimated reliably by management. Accordingly, no amounts have been recognized in the records of the Company to reflect this agreement.
- (b) In October of 2018, the Company entered into a consulting agreement for certain investor relations services. As part of the agreement, the Company is required to pay a monthly sum of \$14,000 for a 12-month period. In addition, the Company is committed to providing the consultant with an option to purchase up to 1,000,000 common shares. These options vest over twelve months with a maximum of one quarter of the options vesting in any three-month period. As detailed in Note 19 below, the options were granted to the consultant subsequent to January 31, 2019.
- (c) In November of 2018, the Company's subsidiary, CannaCure, entered into a consulting agreement for certain production management services. As part of the agreement, the Company is required to issue 76,489 common shares to the consultant for each Health Canada approved cannabis cultivation, up to a maximum of 152,979 common shares. The agreement expires 18 months from its execution. As detailed in Note 19 below, the shares were granted to the consultant subsequent to January 31, 2019.
- (d) In October of 2014, the Company entered into an agreement with the non-controlling shareholder of PhyeinMed Inc. ("PhyeinMed"), under the terms of which the non-controlling shareholder has the right to require that the Company purchase from it certain preferred shares in PhyeinMed. The non-controlling shareholder has the ability to exercise this right upon PhyeinMed meeting certain licence procurement and cumulative EBITDA milestones. If all milestones were met and the non-controlling shareholder exercised its right, the Company would be required to purchase these shares for total consideration of \$550,000. As detailed in Note 19 below, the first milestone was met subsequent to January 31, 2019.

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14. Commitments (continued)

- (e) The Company has committed to a bulk trade purchase of industrial hemp grain for total cash consideration of \$500,000. As at January 31, 2019, the Company has advanced a deposit of \$200,000, included in prepaid expenses and deposits in the statement of financial position, with the remainder of \$300,000 to be paid in 6 equal monthly installments commencing on April 1, 2019.

The Company has also committed to a bulk trade purchase of industrial hemp biomass for total cash consideration of \$1,448,000. As at January 31, 2019, the Company has not advanced any funds pertaining to this commitment.

- (f) The Company is committed under lease agreements with respect to various office premises, facilities and warehouses located in Canada expiring between March 2019 and January 2020, as follows:

Period	Amount
Nine months ending October 31, 2019	\$ 88,406
Year ending October 31, 2020	7,350
	<u>\$ 95,756</u>

Certain operating leases contain renewal options ranging from three months to four years. The Company is also required to cover certain operating costs associated with the properties being leased.

- (g) As detailed in Note 3(b), the Company is required to make certain pro-rata earn-out payments, payable in shares, to the former shareholders of Purefarma as additional purchase consideration. These payments are based on Purefarma's ability to meet certain cumulative gross margin targets on a stand-alone basis, as follows:

Upon Purefarma achieving a cumulative gross margin of \$25,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 2,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of \$25,000,000 by December 31, 2019, an additional 1,250,000 common shares will be issued to the former shareholders of Purefarma;

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14. Commitments (continued)

Upon Purefarma achieving a cumulative gross margin of \$50,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 3,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of \$50,000,000 before December 31, 2020, an additional 1,400,000 common shares will be issued to the former shareholders of Purefarma;

Upon Purefarma achieving a cumulative gross margin of \$75,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 4,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of \$75,000,000 before December 31, 2021, an additional 1,350,000 common shares will be issued to the former shareholders of Purefarma; and

Upon Purefarma achieving a cumulative gross margin of \$100,000,000 for the period commencing on December 14, 2018 and ending on December 31, 2023, the Company will issue 5,500,000 common shares to the former shareholders of Purefarma; if Purefarma achieves such cumulative gross margin of \$100,000,000 before December 31, 2022, an additional 1,100,000 common shares will be issued to the former shareholders of Purefarma.

As at the acquisition date of December 14, 2018, the amount recognized with respect to equity-settled contingent consideration was \$910,000. This amount is included in contributed surplus and captures the discounted value of subsequent share issuances expected to occur between the acquisition date and December 31, 2023, based on management's best estimate of the probability of Purefarma meeting each of the specified gross margin targets. Over the contractual term, the total cumulative earn-out could range from nil shares (undiscounted value of \$nil) to 21,100,000 shares (undiscounted value of \$3,798,000).

15. Loss per Share

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

	Three months ended January 31, 2019	Three months ended January 31, 2018
Issued shares, beginning of period	203,919,450	136,275,097
Weighted average issuances	147,794,483	2,563,901
Weighted average common shares, end of period	351,713,933	138,838,998

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16. Financial Instruments

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these 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, 2018, 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 minimal exposure to credit risk from its cash and short-term investments. 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 instruments with highly rated Canadian financial institutions.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities as they come due. The Company manages liquidity risk through the management of its capital structure. As at January 31, 2019, the Company had working capital of \$4,787,451 (October 31, 2018 – \$1,080,886). The Company does not yet have cash flow from operations and as such, the Company may be dependent upon the issuance of new equity to advance its production efforts and meet its financial obligations. If equity financing is required, failure to obtain such financing on a timely basis may cause the Company to postpone, reduce or terminate its production plans. In addition to the commitments outlined in Note 14, the Company has the following gross contractual obligations subject to liquidity risk:

	< 1 year	1 - 3 years	> 3 years
Accounts payable and accrued liabilities	\$ 1,517,408	\$ -	\$ -
Long-term debt	147,723	215,268	21,069
Contingent consideration payable (probability adjusted)	427,634	2,447,506	607,269
	\$ 2,092,765	\$ 2,662,774	\$ 628,338

(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 does not have significant exposure to foreign exchange rate fluctuation.

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16. Financial Instruments (continued)

(c) Market risk (continued)

(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 have a fixed rate of interest. The Company's long-term debt is largely non-interest bearing contractually, with some imputed effective interest, as detailed in Note 8. At January 31, 2019, the Company had no hedging agreements in place.

(iii) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. As at January 31, 2019, the Company does not have a significant exposure to price risk as the Company does not possess financial instruments that are susceptible to a high degree of variability in the movements of equity or market prices.

17. Fair Value of Financial Instruments

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.

	Fair Value Method
Financial instruments measured at fair value	
Contingent consideration payable	Discounted cash flow model (level 3)
Financial instruments measured at amortized cost	
Cash	Carrying amount (approximates fair value due to short-term nature)
Short-term investments	Carrying amount (approximates fair value due to short-term nature)
Accounts payable and accrued liabilities	Carrying amount (approximates fair value due to short-term nature)
Due to related parties	Carrying amount (approximates fair value due to short-term nature)
Long-term debt	Carrying value at the effective interest rate which approximates fair value

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17. Fair Value of Financial Instruments (continued)

The carrying values of the Company's financial instruments at January 31, 2019 are summarized in the following table:

	Amortized Cost	FVTPL	Total
Financial Assets			
Cash	\$ 1,020,748	\$ -	\$ 1,020,748
Short-term investments	\$ 4,500,000	\$ -	\$ 4,500,000
Financial Liabilities			
Accounts payable and accrued liabilities	\$ 1,517,408	\$ -	\$ 1,517,408
Due to related parties	\$ -	\$ -	\$ -
Long-term debt	\$ 214,988	\$ -	\$ 214,988
Contingent consideration payable	\$ -	\$ 1,910,000	\$ 1,910,000

(a) Fair value hierarchy

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).

In these interim condensed consolidated financial statements, financial instruments measured at fair value are as follows:

Level 1 - none;

Level 2 - none; and

Level 3 - contingent consideration payable.

During the three months ended January 31, 2019 and January 31, 2018, there were no transfers of amounts between levels.

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17. Fair Value of Financial Instruments (continued)

(b) Contingent consideration payable

The following is a continuity of contingent consideration payable:

	CannaCure	Purefarma	Total
Balance at October 31, 2017 and 2018	\$ -	\$ -	\$ -
Additions from acquisitions (Note 3(b))	-	1,910,000	1,910,000
Unrealized gain (loss) from changes in fair value	-	-	-
Balance at January 31, 2019	\$ -	\$ 1,910,000	\$ 1,910,000

The Company's contingent consideration payable is measured at fair value based on unobservable inputs and is considered a level 3 financial instrument. The fair value of this liability is primarily driven by the Company's expectations of Purefarma achieving the gross margin targets specified in Note 9. The targets were assigned probabilities by management which were discounted to present value in order to derive the fair value of the contingent consideration. At January 31, 2019, the probability of achieving each target was estimated to range between 70% and 75%, and the discount rate was estimated to be 28%. If the probability of achieving the targets increased or decreased by 10%, the estimated fair value of the contingent consideration would increase or decrease by approximately \$270,000. If the discount rate increased by 5%, the estimated fair value of the contingent consideration would decrease by approximately \$170,000. If the discount rate decreased by 5%, the estimated fair value of the contingent consideration would increase by approximately \$180,000.

As there is no upper limit on the contingent performance payments, the total potential pay-out is unlimited over the contractual term.

18. Capital Management

The Company manages its cash, short-term investments, common shares, stock options and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of a cannabis production business and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk level.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and short-term investments on hand.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

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18. Capital Management (continued)

In order to maximize ongoing production efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments, selected with regards to the expected timing of expenditures from continuing operations.

Management considers its approach to capital management to be appropriate given the relative size of the Company. There were no changes in the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

19. Subsequent Events

- (a) On February 1, 2019, the Company successfully received a receipt from the relevant securities commissions for the prospectus relating to the Company's Special Warrants detailed in Note 11(b). On February 6, 2019, the 30,000,000 Special Warrants were deemed exercised into 30,000,000 Units of the Company, with each Unit containing 1.1 common shares of the Company and 1.1 common share purchase warrants. As such, the Company issued an aggregate of 33,000,000 common shares and 33,000,000 common share purchase warrants.
- (b) In February 2019, the Company granted 5,500,000 stock options to directors, officers, employees and consultants, including 500,000 options granted to the consultant detailed in Note 14(b). The options are exercisable at \$0.34 per share and will expire on February 8, 2024.
- (c) In February 2019, one of the Company's subsidiaries, 1190683 B.C. Ltd., changed its name to BriteLife Sciences Ltd.
- (d) In February 2019, the Company committed to purchase extraction equipment with a total cost of \$2,918,269.
- (e) In February 2019, the Company's subsidiary, CannaCure, completed its first Health Canada approved harvest. For the purposes of the consultant agreement detailed in Note 14(c), the Health Canada approved harvest qualified as two separate cultivations, resulting in the issuance of 152,979 common shares to the consultant.
- (f) In February and March 2019, the following additional common shares were issued as a result of option and other warrant exercises:

Description	Common Shares Issued	Proceeds
13,825,654 Warrants exercised	13,825,654	\$ 4,483,439
800,000 options exercised	800,000	236,000
1,241,040 Agent Warrants exercised	1,241,040	310,260
	15,866,694	\$ 5,029,699

Of the 800,000 options noted above, 250,000 pertain to common shares reserved for issuance at January 31, 2019 as detailed in Note 12.

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19. Subsequent Events (continued)

- (g) In March 2019, one of the Company's subsidiaries, PhyeinMed Inc., received its Standard Processing Licence and Medical Sales Licence from Health Canada. In doing so, the Company met the first milestone stipulated in the agreement detailed in Note 14(d). The non-controlling shareholder of PhyeinMed has exercised its right under the terms of the agreement, requiring the Company to pay cash consideration of \$150,000 for 150,000 preferred shares in PhyeinMed.
- (h) In March 2019, the Company disposed of one of its wholly owned subsidiaries, Umbral Energy LLC, for nominal cash proceeds. The impact of this transaction on the Company was negligible.
- (i) In March 2019, the Company entered into an operating lease agreement for certain premises for a period of one year, commencing on April 1, 2019. The Company is committed to monthly payments of \$2,600 in connection with this lease.