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

Interim Condensed Consolidated Financial Statements
Three and Six Months Ended April 30, 2019 and
April 30, 2018

(Stated in Canadian Dollars)
(Unaudited)

HERITAGE CANNABIS
Holdings Corp

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

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

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

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

HERITAGE CANNABIS HOLDINGS CORP.

HERITAGE CANNABIS HOLDINGS CORP.
(Formerly Umbral Energy Corp.)
Interim Condensed Consolidated Statements of Financial Position
As at April 30, 2019 and October 31, 2018
(Stated in Canadian Dollars, Unaudited)

	Note		April 30, 2019		October 31, 2018
Assets					
Current					
Cash		$	3,597,956	$	1,174,600
Short-term investments	4		6,500,000		-
Sales tax recoverable and other receivables			405,586		278,924
Prepaid expenses and deposits			1,275,752		339,693
Loans receivable	5		319,871		-
Other current assets			184,958		-
			12,284,123		1,793,217
Deposits	6		446,104		250,000
Intangible assets	7		41,608,631		5,067,000
Property, plant and equipment	8		13,077,668		5,589,019
Total Assets		$	67,416,526	$	12,699,236
Liabilities					
Current					
Accounts payable and accrued liabilities		$	3,305,755	$	656,873
Due to related parties			-		55,458
Current portion of long-term debt	9		287,648		-
Current portion of contingent consideration payable	10		378,000		-
			3,971,403		712,331
Long-term debt	9		26,469		-
Contingent consideration payable	10		1,682,000		-
Total Liabilities			5,679,872		712,331
Shareholders' Equity					
Share capital	11		76,209,807		21,598,702
Contributed surplus	12		4,690,136		2,190,551
Share subscriptions	13		-		55,000
Accumulated deficit			(19,870,763)		(12,760,850)
Equity attributable to shareholders			61,029,180		11,083,403
Non-controlling interest			707,474		903,502
Total Equity			61,736,654		11,986,905
Total Liabilities and Equity		$	67,416,526	$	12,699,236

Going Concern (Note 1)
Commitments (Note 15)
Subsequent Events (Note 20)

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 and Six Months Ended April 30, 2019 and April 30, 2018
(Stated in Canadian Dollars, Unaudited)

	Note	Three Months Ended April 30, 2019	Three Months Ended April 30, 2018	Six Months Ended April 30, 2019	Six Months Ended April 30, 2018
Interest and Other Income		$ 63,013	$ -	$ 81,899	$ -
General and Administrative Expenses					
Advertising, travel and promotion		166,732	7,010	268,299	18,083
Amortization		409,399	2,376	763,195	4,751
Consulting fees	14(a)	542,262	167,476	922,587	392,218
Management fees	14(a)	45,000	50,000	90,000	90,000
Occupancy, office expense and other	14(a)	489,415	51,673	812,091	96,391
Professional fees		108,147	64,812	295,740	119,841
Regulatory fees		20,738	2,005	39,081	19,861
Shareholder communications		174,806	(408)	237,089	9,282
Share-based payments	11(b) & 12(a),(c),(d)	816,669	1,446,342	2,849,636	2,976,919
Transfer agent and shareholder information		6,279	6,150	24,737	7,093
Salaries, wages and benefits		535,039	-	785,385	-
		3,314,486	1,797,436	7,087,840	3,734,439
Other Items					
Gain on sale of investment		-	-	-	53,650
Unrealized loss on contingent consideration payable	18	(150,000)	-	(150,000)	-
		(150,000)	-	(150,000)	53,650
Net Loss and Comprehensive Loss		$ (3,401,473)	$ (1,797,436)	$ (7,155,941)	$ (3,680,789)
Net Loss and Comprehensive Loss attributed to:					
Shareholders of the Company		$ (3,282,542)	$ (1,758,444)	$ (6,959,913)	$ (3,603,720)
Non-controlling Interest		(118,931)	(38,992)	(196,028)	(77,069)
		$ (3,401,473)	$ (1,797,436)	$ (7,155,941)	$ (3,680,789)
Weighted average number of outstanding shares, basic and diluted	16	418,676,720	165,123,517	384,640,386	151,614,637
Basic and diluted loss per share		$ (0.01)	$ (0.01)	$ (0.02)	$ (0.02)

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
Six Months Ended April 30, 2019 and April 30, 2018
(Stated in Canadian Dollars, Unaudited)

	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		5,820,000	1,772,464	(882,664)	-	-	-	889,800
Warrants exercised		26,178,553	2,713,565	(199,709)	-	-	-	2,513,856
Stock based compensation – options granted		-	-	2,976,919	-	-	-	2,976,919
Broker warrants expired		-	2,229	(2,229)	-	-	-	-
Shares reserved for issuance		-	-	-	250,000	-	-	250,000
Net loss for the period		-	-	-	-	(3,603,720)	(77,069)	(3,680,789)
Balance at April 30, 2018		168,273,650	$ 15,908,618	$ 2,956,199	$ 630,000	$ (9,933,877)	$ 1,067,114	$ 10,628,054
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 12(a)	24,475,716	8,643,863	(712,154)	-	-	-	7,931,709
Exercise of options	Note 12(c)	3,349,644	1,297,595	(811,475)	-	-	-	486,120
Replacement warrants and options issued as purchase consideration								
CannaCure Corporation	Note 3(a)	-	-	1,818,407	-	-	-	1,818,407
Contingent consideration, equity-settled								
Purefarma Solutions Inc.	Note 15(f)	-	-	910,000	-	-	-	910,000
Share-based payments - vesting of options	Note 12(c)	-	-	725,696	-	-	-	725,696
Share-based payments - vesting of restricted shares	Note 12(d)	-	-	27,122	-	-	-	27,122
Share-based payments - issuance of shares	Note 11(b)	153,265	76,507	-	-	-	-	76,507
Issuance and exercise of Special Warrants	Note 12(b)	33,000,000	6,492,473	366,171	(55,000)	-	-	6,803,644
Transaction with non-controlling interest	Note 15(c)	-	-	-	-	(150,000)	-	(150,000)
Net loss for the period		-	-	-	-	(6,959,913)	(196,028)	(7,155,941)
Balance at April 30, 2019		436,764,734	$ 76,209,807	$ 4,690,136	$ -	$ (19,870,763)	$ 707,474	$ 61,736,654

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
Six Months Ended April 30, 2019 and April 30, 2018
(Stated in Canadian Dollars, Unaudited)

	Note	Six Months Ended April 30, 2019	Six Months Ended April 30, 2018
Operating Activities			
Net loss for the period		$ (7,155,941)	$ (3,680,789)
Items not affecting cash:			
Amortization		763,195	4,751
Non-cash items included in interest and other income		(31,796)	-
Gain on sale of marketable securities		-	(53,650)
Imputed interest expense on long-term debt	9	9,458	-
Share-based payments	11(b) & 12(a),(c),(d)	2,849,636	2,976,919
Acquiree's acquisition costs - non-equity-settled	3(a)	118,435	-
Unrealized loss on contingent consideration payable	18	150,000	-
		(3,297,013)	(752,769)
Net changes in non-cash working capital, net of business combinations:			
Sales tax recoverable and other receivables		485,222	(131,900)
Prepaid expenses and deposits		(864,557)	(174,189)
Other current assets		(102,702)	-
Accounts payable and accrued liabilities		1,295,391	427,611
Repayments to related parties		(55,458)	-
Cash Flows Used in Operating Activities		(2,539,117)	(631,247)
Investing Activities			
Acquisition of property, plant and equipment		(3,145,624)	(2,241,868)
Proceeds from sale of marketable securities		-	151,150
Cash acquired from business combinations		80,233	-
Deposits advanced		(90,000)	(250,000)
Purchase of short-term investments		(7,500,000)	-
Partial redemption of short-term investments		1,000,000	-
Issuance of loans receivable		(319,871)	-
Issuance of advances, settled through business combination	3(b)	(89,983)	-
Cash Flows Used in Investing Activities		(10,065,244)	(2,340,718)
Financing Activities			
Proceeds from exercise of warrants		7,931,709	2,513,856
Proceeds from exercise of options		486,120	889,800
Proceeds from issuance of Special Warrants, net of issuance costs		6,803,644	-
Repayment of long-term debt		(43,756)	-
Cash paid to non-controlling interest		(150,000)	-
Cash Flows Provided from Financing Activities		15,027,717	3,403,656
Net Increase in Cash During the Period		2,423,356	431,691
Cash, Beginning of Period		1,174,600	1,647,781
Cash, End of Period		$ 3,597,956	$ 2,079,472

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

Supplementary information			
Interest received		$ 2,889	$ -

Nature of Business

Heritage Cannabis Holdings Corp. (formerly Umbral Energy Corp.) ("the Company") is a 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 Street, Vancouver, British Columbia, Canada, V6E 4N7.

The Company is focused on becoming a vertically integrated cannabis business. Through its subsidiaries, Voyage Cannabis Corp. (formerly PhyeinMed Inc.) and CannaCure Corporation, the Company holds licenses under the Cannabis Act (Canada) and its relevant regulations. Voyage Cannabis Corp., 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, processing and medicinal sales license, operates out of a 122,000 square foot facility in Fort Erie, Ontario. Purefarma Solutions Inc., a wholly owned-subsidiary, provides the Company with the experience and know-how necessary to develop and manufacture cannabis oils. On December 18, 2018, BriteLife Sciences Ltd., a wholly-owned subsidiary, was incorporated to create products and services aimed at providing an integrative approach to cannabinoid therapy for healthcare consumers and healthcare practitioners.

Although the Company was awarded licenses and has invested resources into its business, the Company does not yet have any significant 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.

1. Basis of Presentation (continued)

(a) Going concern (continued)

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.

(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 June 27, 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 April 30, 2019, major subsidiaries over which the Company has control are listed below.

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
BriteLife Sciences Ltd. (formerly 1190683 B.C. Ltd.)	100%	British Columbia, Canada
1005477 B.C. Ltd.	100%	British Columbia, Canada
Voyage Cannabis Corp. (formerly PhyeinMed Inc.)	75%	British Columbia, Canada
Mainstrain Markets Ltd.	75%	British Columbia, Canada

Certain subsidiaries are controlled, indirectly, through other subsidiaries.

In March of 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.

(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, 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.

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) 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.

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 measured 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
Loans receivable	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 upon transitioning 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.

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

(a) 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.

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. Between November 1, 2018 and the date of amalgamation, November 5, 2018, 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 12(c) and Note 12(a) respectively.

As consideration for acquisition-related services, including legal costs and finder's fees, the Company paid $61,883 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.

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. 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 6(ii))	106,104
Property purchase options (Note 7(b))	946,131
Licenses (Note 7)	26,320,000
Property, plant and equipment (Note 8)	4,186,533
Accounts payable and accrued liabilities	(1,188,829)
	31,064,468
Goodwill	$ 891,678

Following the measurement period, goodwill will represent expected synergies, future income and growth potential, 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 has collected the full balance subsequent to the acquisition.

For the six months ended April 30, 2019, CannaCure generated $36,377 in revenues and incurred a net and comprehensive loss of $811,244 since November 5, 2018. If the acquisition had been completed on November 1, 2018, the financial impact would have been approximately the same.

During the three months ended April 30, 2019, management revised the preliminary acquisition date fair values disclosed in the interim condensed consolidated financial statements for the three months ended January 31, 2019. Goodwill decreased by $26,320,000 from $27,211,678 to $891,678. Licenses increased by $26,320,000 from $nil to $26,320,000. Amortization expense for the three months ended January 31, 2019 increased by $158,641 from $195,156 to $353,797.

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 pro-rata earn-out are specified in Note 15(f).

(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 a fixed percentage of the gross margin generated from the extraction business between December 14, 2018 and December 31, 2022. Details regarding the contingent performance payments are specified in Note 10.

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 paid $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.

During the three months ended April 30, 2019, there were no changes to preliminary acquisition date fair values.

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 15(f))		910,000
Contingent consideration, cash-settled (Note 10)		1,910,000
Settlement of advances		89,983
		8,909,985
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 8)		467,135
Accounts payable and accrued liabilities		(164,662)
Long-term debt (Note 9)		(336,000)
		81,443
Goodwill	$	8,828,541

Goodwill represents expected synergies, future income and growth potential, 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 six months ended April 30, 2019, Purefarma generated $nil revenues and incurred a net and comprehensive loss of $661,848 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 $873,888, with no change in revenue, for the six months ended April 30, 2019.

4. Short-term Investments

Short-term investments held at April 30, 2019 consist of $6,500,000 (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 April 30, 2019.

5. Loans Receivable

	As at April 30, 2019	As at October 31, 2018
Loan receivable earning interest at the greater of 2% per annum and the Bank of Canada's overnight rate target, maturing on June 30, 2019, and secured by the debtor's shareholdings in the Company	$ 65,463	$ -
Loan receivable from a director of the Company (Note 14), earning interest at the greater of 2% per annum and the Bank of Canada's overnight rate target, maturing on September 30, 2019, and secured by the debtor's shareholdings in the Company	254,408	
	$ 319,871	$ -

The carrying value of the loans receivable approximate their fair value at April 30, 2019.

6. Deposits

	As at April 30, 2019	As at October 31, 2018
Deposit on Stanley Park Digital Ltd. purchase (i)	$ 340,000	$ 250,000
Deposit for development costs (ii)	106,104	-
	$ 446,104	$ 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 April 30, 2019, $340,000 in cash has been advanced to SPD in relation to the LOI. The amount is non-refundable.

(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 municipality may collect the deficiency on demand or in like manner as municipal taxes.

7. 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 combinations (Note 3)	26,320,000	946,131	9,720,219	36,986,350
At April 30, 2019	$ 31,387,000	$ 946,131	$ 9,720,219	$ 42,053,350
Accumulated Amortization				
At November 1, 2018	$ -	$ -	$ -	$ -
Additions	444,719	-	-	444,719
At April 30, 2019	$ 444,719	$ -	$ -	$ 444,719
Net book value at April 30, 2019	**$ 30,942,281**	**$ 946,131**	**$ 9,720,219**	**$ 41,608,631**

(a) Licences

During the year ended October 31, 2018, Health Canada issued Voyage Cannabis Corp. ("Voyage", formerly PhyeinMed Inc.) a cultivation license under the Cannabis Act (Canada) and its relevant regulations. The Company assessed that the license has an estimated useful life equal to the remaining useful life of the corresponding facility. At October 31, 2018, Voyage'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 six months ended April 30, 2019 as, in management's opinion, the asset has become available for use.

7. Intangible Assets (continued)

(a) Licences (continued)

CannaCure's cultivation, processing and medicinal sales licenses (Note 3(a)) were assessed to have an estimated useful life equal to the useful life of the corresponding facility. As such, the licenses are being amortized on a straight-line basis over a 20-year period, commencing from the date of CannaCure's acquisition by the Company.

(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, 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 date that CannaCure was acquired (Note 3(a)) 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	2.00%
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 using available data of comparable commercial properties in the same geographic area.

As detailed in Note 20, the option to purchase the Property was exercised subsequent to April 30, 2019.

8. 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	2,104,729	1,048,727	-	3,153,456
At April 30, 2019	$ 3,286,598	$ 9,865,302	$ 255,000	$ 13,406,900
Accumulated Amortization				
At November 1, 2018	$ -	$ 10,756	$ -	$ 10,756
Additions	120,615	197,861	-	318,476
At April 30, 2019	$ 120,615	$ 208,617	$ -	$ 329,232
Net book value at April 30, 2019	**$ 3,165,983**	**$ 9,656,685**	**$ 255,000**	**$ 13,077,668**

During the six months ended April 30, 2019, the Company made additions of $802,813 to buildings and leasehold improvements that were unavailable for use at the end of the period. As at April 30, 2019, assets included in buildings and leasehold improvements that were unavailable for use and had no amortization taken amounted to $1,675,833.

During the six months ended April 30, 2019, the Company acquired equipment with a cost of $31,269 by way of assuming a term loan, as detailed in Note 9(i).

9. Long-term Debt

	As at April 30, 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)	$ 30,617	$ -
Former term loan, extinguished in April of 2019, currently due, as detailed in (ii)	283,500	
Less: current portion	(287,648)	-
Long-term portion	$ 26,469	$ -

(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 April 30, 2019, the face value of the term loan was $40,382 and the carrying value of the underlying equipment that serves as security for the loan was $30,494.

(ii) As part of the business combination detailed in Note 3(b), the Company assumed a term loan for the financing of certain production equipment in December 2018. The term loan was partially interest-bearing, had a total term of 4 years, and was due to mature in May 2021. The term loan was extinguished in April 2019 as a result of modifications to the original debt terms. Under the new terms, the face value of the loan became due as at April 30, 2019. The loan is secured by the underlying equipment with a carrying value of $285,853.

10. 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 Purefarma's fiscal year 2019;
(b) 9% of extraction-generated gross margin for Purefarma's fiscal year 2020;
(c) 6% of extraction-generated gross margin for Purefarma's fiscal year 2021; and
(d) 3% of extraction-generated gross margin for Purefarma's fiscal year 2022.

Prior to the acquisition, the fiscal year of Purefarma had been December 31st. Purefarma's fiscal year has since been changed to coincide with that of the Company. As a result, a pro-rated catch-up payment is required in December of 2022.

10. 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 measured at FVTPL, with remeasurement at the end of each reporting period using a level 3 valuation technique, as detailed in Note 18(b).

11. 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 six months ended April 30, 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.

During the period, the Company issued 3,349,644 common shares for the exercise of 3,349,644 options at prices ranging from $0.10 to $0.35 per share. Total proceeds of $486,120 was credited to share capital in addition to a transfer from contributed surplus of $811,475.

During the period, the Company issued 24,476,002 common shares for the exercise of 24,476,002 warrants at prices ranging from $0.01 to $0.35 per share. Total proceeds of $7,931,726 was credited to share capital in addition to a transfer from contributed surplus of $712,154.

On March 14, 2019, the Company issued 153,265 common shares to a technical consultant following the completion of CannaCure's first Health Canada approved harvest. The value of the issuance amounted to $76,507, determined based on the fair value of the equity instruments granted.

On February 6, 2019, the Company issued 33,000,000 common shares on the deemed exercise of 30,000,000 Special Warrants, as detailed in Note 12(b). This resulted in a net transfer of $6,492,473 from contributed surplus to share capital, compromised of original proceeds of $7,500,000, less cash and non-cash issuance costs totaling $1,007,527.

As at April 30, 2019, there are 3,150,000 common shares in voluntary escrow (October 31, 2018 - 4,200,000). These securities were originally deposited in escrow on August 18, 2017 in connection with the acquisition of Voyage Cannabis Corp. (formerly PhyeinMed Inc.). 1,050,000 common shares are released in February and August of each year, until the escrowed shares are fully released in August 2020.

12. 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	0.02
Issued for acquisition-related services (Note 3(a))	764,893	0.20
Issued upon deemed exercise of Special Warrants (Note 12(b))	33,000,000	0.35
Issued upon deemed exercise of Agent Special Warrants (Note 12(b))	1,551,300	0.25
Issued upon exercise of Agent Warrants (i)	1,241,040	0.35
Exercised	(24,475,716)	0.32
Balance at April 30, 2019	13,364,020	$ 0.35

(i) During the six months ended April 30, 2019, 1,241,040 Agent Warrants were exercised, resulting in the issuance of 1,241,040 Units. As detailed in Note 12(b), each Unit is comprised of 1 common share and 1 common share purchase warrant. As such, through the exercise of 1,241,040 Agent Warrants, 1,241,040 common share purchase warrants were issued as components of Units.

The following table summarizes the warrants outstanding and exercisable at April 30, 2019:

Expiry date	Number of warrants	Weighted average exercise price
August 30, 2019	87,760	$ 0.10
May 7, 2021	13,276,260	$ 0.35
	13,364,020	$ 0.35

The fair value of warrants issued during the period for purchase consideration and acquisition-related services 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% - 2.27%
Expected life of the warrants (years)	1.41 - 5.00
Expected annualized volatility	303% - 347%
Expected annual dividend yield	0%
Expected forfeiture	0%
Exercise price	$0.01 - $0.20
Weighted average share price at grant date	$0.23
Weighted average Black Scholes value at grant date	$0.23

12. Contributed Surplus (continued)

(a) Warrants (continued)

Expected annualized volatility was estimated using the average historical volatility of the Company. Each warrant is exercisable into one common share of the Company.

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.

(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	-	$	-
Special Warrants issued for cash consideration (i)	30,000,000		0.25
Agent Special Warrants issued as share-based payments (ii)	1,551,300		0.25
Deemed exercise of Special Warrants	(30,000,000)		0.25
Deemed exercise of Agent Special Warrants	(1,551,300)		0.25
Balance at April 30, 2019	-	$	-

(i) As part of a private placement that took place in January 2019, 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 received the receipt for the prospectus from the relevant provincial securities commissions and March 8, 2019.

Each Unit consisted 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.

Deemed exercise of all 30,000,000 Special Warrants occurred on February 6, 2019, resulting in the issuance of 33,000,000 common shares (Note 11) and 33,000,000 common share purchase warrants (Note 12(a)).

(ii) In consideration for the completion of the private placement, the Company paid issuance costs, including commissions and legal fees, of $641,356 and issued 1,551,300 Agent Special Warrants. The Agent Special Warrants were 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 a reduction in share capital and an increase in contributed surplus on the date of deemed exercise of the Agent Special Warrants, as detailed below.

12. Contributed Surplus (continued)

(b) Special Warrants (continued)

Deemed exercise of all 1,551,300 Agent Special Warrants occurred on February 6, 2019, resulting in the issuance of 1,551,300 Agent Warrants (Note 12(a)).

The fair value of Agent Special 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 Special 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 using the average historical volatility of the Company.

(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.

12. Contributed Surplus (continued)

(c) Stock options (continued)

(i) Stock option plan details (continued)

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
Granted as share-based payments	5,500,000		0.34
Exercised	(3,349,644)		0.15
Cancelled	(400,000)		0.54
Balance at April 30, 2019	14,580,359	$	0.27

In February 2019, the Company granted 5,500,000 stock options to employees, directors, officers and consultants as consideration for their services. The stock options carry an exercise price of $0.34 per share, have a variety of vesting terms, and expire on February 8, 2024.

The following table summarizes the options outstanding and exercisable at April 30, 2019:

Expiry date	Number of options outstanding	Number of options exercisable	Weighted average exercise price	
August 16, 2022	2,000,000	2,000,000	$	0.10
November 15, 2022	280,000	280,000	$	0.14
January 22, 2023	700,000	700,000	$	0.59
March 19, 2023	861,000	861,000	$	0.54
April 30, 2023	850,000	850,000	$	0.35
November 14, 2020	2,549,644	2,549,644	$	0.10
August 20, 2023	254,964	63,741	$	0.20
April 10, 2025	1,784,751	1,784,751	$	0.20
February 8, 2024	5,300,000	300,000	$	0.34
	14,580,359	9,389,136	$	0.27

As at April 30, 2019, the weighted average remaining contractual life of all options outstanding was 3.97 years (October 31, 2018 – 4.15 years).

12. Contributed Surplus (continued)

(c) Stock options (continued)

(i) Stock option plan details (continued)

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	1.80% - 2.28%
Expected life of the options (years)	2.03 - 6.43
Expected annualized volatility	223% - 321%
Expected annual dividend yield	0%
Expected forfeiture	0%
Exercise price	$0.10 - $0.34
Weighted average share price at grant date	$0.23 - $0.34
Weighted average Black Scholes value at grant date	$0.23 - $0.34

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

(ii) Amounts arising from share-based payment transactions

During the six months ended April 30, 2019, the Company recognized an expense of $725,696 relating to the vesting of options held by employees, directors, officers and consultants (April 30, 2018 - $2,976,919).

(d) Restricted shares

During the six months ended April 30, 2019, the Company granted 500,000 restricted common shares, subject to certain vesting requirements, to a director. These restricted shares vest over a period of 1 year from the grant date. The issuance was valued at $112,500, determined based on the fair value of the equity instruments granted.

During the six months ended April 30, 2019, the Company recorded share-based payments of $27,122 (April 30, 2018 - $nil) for the vesting of restricted shares.

13. Share Subscriptions

During the six months ended April 30, 2019, the following share subscription transaction 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 12(b)(i)).

14. Related Party Transactions and Balances

All amounts either due to or from related parties, unless disclosed otherwise, are non-interest bearing, unsecured and due on demand. Transactions undertaken with related parties during the three and six months ended April 30, 2019 are as follows:

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

	Three months ended April 30, 2019	Three months ended April 30, 2018
Management fees	$ 45,000	$ 50,000
Consulting fees	221,353	22,500
Rent	24,000	-
Loans advanced	254,408	-
Cash paid to non-controlling interest (Note 15(c))	150,000	-
	$ 694,761	$ 72,500

	Six months ended April 30, 2019	Six months ended April 30, 2018
Management fees	$ 90,000	$ 90,000
Consulting fees	302,365	30,000
Rent	36,645	-
Loans advanced	254,408	-
Cash paid to non-controlling interest (Note 15(c))	150,000	-
	$ 833,418	$ 120,000

(b) Management compensation

	Three months ended April 30, 2019	Three months ended April 30, 2018
Salary and short-term benefits	$ 81,709	$ -
Share-based payments	409,398	327,388
	$ 491,107	$ 327,388

	Six months ended April 30, 2019	Six months ended April 30, 2018
Salary and short-term benefits	$ 116,551	$ -
Share-based payments	409,398	846,462
	$ 525,949	$ 846,462

14. Related Party Transactions and Balances (continued)

(c) Related party balances

		As at April 30, 2019		As at October 31, 2018
Included in prepaid expenses and deposits	$	-	$	-
Included in accounts payable and accrued liabilities	$	149,957	$	55,458
Included in sales tax recoverable and other receivables	$	83,512	$	-
Included in loans receivable (Note 5)	$	254,408	$	-

15. Commitments

(a) In July of 2018, the Company's subsidiary, CannaCure, entered into a separate agreement with the Greenhouse Optionor detailed in Note 7(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. The monthly sum was subsequently increased to $28,000 effective June 1, 2019. 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 at April 30, 2019, 500,000 of these options have been granted to the consultant and are included in Note 12(c).

(c) In October of 2014, the Company entered into an agreement with the non-controlling shareholder of Voyage Cannabis Corp. ("Voyage"), under the terms of which the non-controlling shareholder has the right to require that the Company purchase from it certain preferred shares in Voyage. The non-controlling shareholder has the ability to exercise this right upon Voyage 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. During the period, the first milestone of the agreement was reached and the Company was required to purchase 150,000 preferred shares in Voyage from the non-controlling shareholder for total proceeds of $150,000. This was treated as a transaction with a non-controlling interest and, accordingly, was recognized in equity as an increase in accumulated deficit in the amount of $150,000.

15. Commitments (continued)

(d) The Company has committed to a bulk trade purchase of industrial hemp grain for total cash consideration of $500,000. As at April 30, 2019, the Company has advanced a deposit of $250,000, included in prepaid expenses and deposits in the statement of financial position, with the remainder of $250,000 to be paid in equal monthly installments from May 2019 through August 2019.

(e) The Company has committed to a bulk trade purchase of industrial hemp biomass for total cash consideration of $1,448,000. As at April 30, 2019, the Company has advanced a deposit of $230,000, included in prepaid expenses and deposits in the statement of financial position. The Company's obligation to fulfill this commitment is contingent on the receipt of acceptable certificates of analysis at the time of delivery.

(f) The Company has committed to the purchase of certain production equipment for total cash consideration of $1,172,027. As at April 30, 2019, the Company has advanced a deposit of $99,999, included in prepaid expenses and deposits in the statement of financial position.

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

Period	Amount
Six months ending October 31, 2019	$ 63,300
Year ending October 31, 2020	23,250
	$ 86,550

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.

(h) 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;

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;

15. Commitments (continued)

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).

16. 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 amounts are the same as there are no instruments that have a dilutive effect.

	Three months ended April 30,	
	2019	2018
Issued shares, beginning of period	351,713,933	156,455,067
Weighted average issuances	66,962,787	8,668,450
Weighted average common shares, end of period	418,676,720	165,123,517

	Six months ended April 30,	
	2019	2018
Issued shares, beginning of period	203,919,450	136,275,097
Weighted average issuances	180,720,936	15,339,540
Weighted average common shares, end of period	384,640,386	151,614,637

17. 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, short-term investments and loans 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 instruments with highly rated Canadian financial institutions. The risk for loans receivable is mitigated through the security detailed in Note 5.

(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, 2019, the Company had working capital of $8,312,720 (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 15, the Company has the following undiscounted contractual obligations subject to liquidity risk:

	< 1 year	1 - 3 years	> 3 years
Accounts payable and accrued liabilities	$ 3,305,755	$ -	$ -
Long-term debt	290,523	14,046	19,313
Contingent consideration payable (probability adjusted)	427,634	2,261,548	653,868
	$ 4,023,912	$ 2,275,594	$ 673,181

(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 fluctuations.

17. 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, while the Company's loans receivable earn interest at the lower of a fixed rate and a variable rate, as detailed in Note 5. The Company's long-term debt is non-interest bearing contractually, with some imputed effective interest, as detailed in Note 9. At April 30, 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 April 30, 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.

18. 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)
Loans receivable	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

18. Fair Value of Financial Instruments (continued)

The carrying values of the Company's financial instruments at April 30, 2019 are summarized in the following table:

	Amortized Cost	FVTPL	Total
Financial Assets			
Cash	$ 3,597,956	$ -	$ 3,597,956
Short-term investments	$ 6,500,000	$ -	$ 6,500,000
Loans receivable	$ 319,871	$ -	$ 319,871
Financial Liabilities			
Accounts payable and accrued liabilities	$ 3,305,755	$ -	$ 3,305,755
Due to related parties	$ -	$ -	$ -
Long-term debt	$ 314,117	$ -	$ 314,117
Contingent consideration payable	$ -	$ 2,060,000	$ 2,060,000

(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 and six months ended April 30, 2019 and April 30, 2018, there were no transfers of amounts between levels.

18. 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 loss (gain) from changes in fair value	-	150,000	150,000
Balance at April 30, 2019	$ -	$ 2,060,000	$ 2,060,000

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 10. 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 April 30, 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 $290,000. If the discount rate increased by 5%, the estimated fair value of the contingent consideration would decrease by approximately $140,000. If the discount rate decreased by 5%, the estimated fair value of the contingent consideration would increase by approximately $160,000.

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

19. 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 its 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 its 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.

19. 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.

20. Subsequent Events

(a) In May and June 2019, the following additional common shares were issued:

Description	Common Shares Issued	Gross Proceeds
Public offering of 32,660,000 Units (i)	32,660,000	$ 17,309,800
Exercise of 500,500 warrants	500,500	175,350
Exercise of 892,275 stock options	892,275	175,000
	34,052,775	$ 17,660,150

(i) In May 2019, as part of a public offering, the Company issued 32,660,000 Units at a price of $0.53 per Unit for gross proceeds of $17,309,800. In turn, each Unit is comprised of one common share in the capital of the Company and one-half of one common share purchase warrant. The common share purchase warrants bear an exercise price of $0.70 per warrant and expire in October 2021.

(b) In May 2019, the Company signed a Letter of Intent ("LOI") to acquire a 30% interest in Endocanna Health Inc., a Los Angeles-based developer of cannabinoid-related testing systems.

(c) In May 2019, CannaCure, one of the Company's subsidiaries, exercised the property purchase option detailed in Note 7(b)(i). In doing so, CannaCure took title of the production facility located in Fort Erie, Ontario at a price of $2.2 million, plus applicable sales and land transfer taxes.

(d) In May 2019, the Company signed a processing and supply term sheet with Canntab Therapeutics Limited ("Canntab"), whereby the Company will process hemp supplied by Canntab in connection with the production and planned roll out of ingestible oral cannabis products.