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

Annual Consolidated Financial Statements

Years ended October 31, 2017 and 2016
(Stated in Canadian Dollars)

Heritage Cannabis Holdings Corp.
(formerly Umbral Energy Corp.)

Annual Consolidated Financial Statements

Years ended October 31, 2017 and 2016

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Heritage Cannabis Holdings Corp.
(formerly Umbral Energy Corp.)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Heritage Cannabis Holdings Corp. (formerly Umbral Energy Corp.), which comprise the consolidated statements of financial position as at October 31, 2017 and 2016 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Financial Reporting Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Heritage Cannabis Holdings Corp. (formerly Umbral Energy Corp.) as at October 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada *"Morgan & Company LLP"*

February 19, 2018 Chartered Professional Accountants

Heritage Cannabis Holdings Corp.
(formerly Umbral Energy Corp.)
Consolidated Statements of Financial Position
(Stated in Canadian Dollars)

	AS AT OCTOBER 31, **2017**	2016
Assets		
Current		
Cash	**$ 1,647,781**	$ 85,057
GST and accounts receivable	**35,927**	2,909
Prepaid expenses and deposits (Note 5)	**113,807**	96,231
Marketable securities at fair value (Note 6)	**97,500**	-
Total Current Assets	**1,895,015**	184,197
Intangible asset (Note 7)	**5,067,000**	-
Property and building (Note 8)	**1,114,330**	-
Investment in joint venture and advances (Note 9)	**-**	433,914
Exploration and evaluation assets (Note 10)	**-**	146,350
Total Assets	**$ 8,076,345**	$ 764,461
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 328,150**	$ 223,093
Provision for flow-through liability (Note 14)	**69,927**	69,927
Due to related parties (Note 12)	**-**	102,278
Total Liabilities	**398,077**	395,298
Equity		
Share capital (Note 11)	**11,420,360**	6,067,501
Share-based payment reserve (Note 11)	**1,063,882**	674,170
Shares reserved for issuance (Note 11)	**380,000**	-
Deficit	**(6,330,157)**	(6,372,508)
Equity attributable to shareholders	**6,534,085**	369,163
Non-controlling interest	**1,144,183**	-
Total equity	**7,678,268**	369,163
Total Liabilities and Equity	**$ 8,076,345**	$ 764,461

Nature of Operations and Going Concern (Note 1)
Subsequent Events (Note 17)

Approved on behalf of the Board of Directors:

"Jagdip Bal"	*"Clint Sharples"*
Director	**Director**

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

Heritage Cannabis Holdings Corp.
(formerly Umbral Energy Corp.)
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Stated in Canadian Dollars)

	YEARS ENDED OCTOBER 31 **2017**	2016
General and Administrative Expenses		
Advertising, travel and promotion	**$ 113,862**	$ 68,522
Amortization	**1,195**	-
Business investigation	**-**	13,215
Consulting fees (Note 12)	**567,988**	129,144
Management fees (Note 12)	**115,890**	91,333
Office expense and miscellaneous	**35,723**	7,428
Professional fees	**80,870**	66,744
Regulatory fees	**10,393**	8,813
Shareholder communications	**21,906**	6,665
Stock based compensation (Notes 11)	**1,080,207**	618,290
Transfer agent and shareholder information	**17,681**	14,787
Total general and administrative expenses	**(2,045,715)**	(1,024,941)
Other Items		
Equity loss on investment in joint venture (Note 9)	**(71,044)**	(4,752)
Gain on step acquisition (Note 4)	**2,211,000**	-
Loss on sale of mineral properties (Note 10)	**(68,827)**	-
Loss on sale of investment (Note 7)	**(3,880)**	-
Total Other Items	**2,067,249**	(4,752)
Net Income (Loss) and Comprehensive Income (Loss) For the Year	**$ 21,534**	$ (1,029,693)
Net Income (Loss) and Comprehensive Income (Loss) For the Year attributed to:		
Shareholders of the Company	**$ 42,351**	$ (1,029,693)
Non-Controlling Interest	**(20,817)**	-
Total Income (Loss) and Comprehensive Income (Loss) for the Year	**$ 21,534**	$ (1,029,693)
Basic and Diluted Earnings (Loss) Per Share (Note 11)	**$ 0.00**	$ (0.02)
Weighted Average Number Of Shares Outstanding – Basic	**82,956,690**	56,405,225
Weighted Average Number Of Shares Outstanding – Diluted	**83,708,537**	56,405,225

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

Heritage Cannabis Holdings Corp.
(formerly Umbral Energy Corp.)
Consolidated Statements of Changes in Equity
(Stated in Canadian Dollars)

Years Ended October 31, 2017 and 2016

	SHARE CAPITAL NUMBER	SHARE CAPITAL AMOUNT	SHARE-BASED PAYMENT RESERVE	SHARE SUBSCRIPTION RECEIVABLE	DEFICIT	NON-CONTROLLING INTEREST	TOTAL
Balance, October 31, 2015	51,966,972	$ 5,061,580	$ 461,841	$ (56,750)	$ (5,342,815)	$ -	$ 123,856
Issued for cash							
Share options exercised	8,085,000	846,011	(405,961)	-	-	-	440,050
Warrants exercised	1,790,174	107,410	-	-	-	-	107,410
Shares issued for acquisition	1,500,000	52,500	-	-	-	-	52,500
Stock based compensation	-	-	618,290	-		-	618,290
Share subscription receivable	-	-	-	56,750	-	-	56,750
Net loss for the year	-	-	-	-	(1,029,693)	-	(1,029,693)
Balance, October 31, 2016	63,342,146	6,067,501	674,170	-	(6,372,508)	-	369,163
Issued shares for cash							
Non-brokered private placement	43,700,000	2,622,000	-	-	-	-	2,622,000
Share options exercised	13,030,000	1,772,576	(890,076)	-	-	-	882,500
Warrants exercised	7,702,951	482,321		-	-	-	482,321
Share issue costs	-	(301,538)	199,580	-	-	-	(101,958)
Shares issued for acquisition	7,000,000	665,000	-	-	-	1,165,000	1,830,000
Shares issued for mineral property	1,500,000	112,500	-	-	-	-	112,500
Stock based compensation – options granted	-	-	935,402	-	-	-	935,402
Stock based compensation – RSU's granted	-	-	144,806	-	-	-	144,806
Shares subscribed/reserved for issuance (Note 11)	-	-	-	380,000	-	-	380,000
Net income (loss) for the year	-	-	-	-	42,351	(20,817)	21,534
Balance, October 31, 2017	**136,275,097**	**$ 11,420,360**	**$ 1,063,882**	**$ 380,000**	**$ (6,330,157)**	**$ 1,144,183**	**$ 7,678,268**

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

Heritage Cannabis Holdings Corp.
(formerly Umbral Energy Corp.)
Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)

	YEARS ENDED OCTOBER 31 2017	2016
Operating Activities		
Net income (loss) for the year	**$ 21,534**	$ (1,029,693)
Adjustments for non-cash expenses and income		
Amortization	**1,195**	-
Gain fair value revaluation of equity investment	**(2,211,000)**	-
Loss on investment in joint venture	**71,044**	4,752
Loss on sale of exploration and evaluation properties	**68,827**	-
Loss on sale of marketable securities	**3,880**	-
Stock based compensation	**1,080,207**	618,290
Changes in non-cash operating assets and liabilities		
GST receivable	**(12,877)**	2,523
Prepaid expenses	**(17,576)**	(49,199)
Accounts payable and accrued liabilities	**(24,234)**	24,030
Due to related parties	**(102,278)**	(7,812)
Cash Used In Operating Activities	**(1,121,278)**	(437,109)
Investing Activities		
Acquisition of property, plant and equipment	**(1,190,242)**	-
Acquisition of controlling interest, net of cash acquired	**(99,262)**	-
Proceeds from sale of marketable securities	**48,620**	-
Proceeds from sale of mineral properties	**50,000**	-
Mineral property acquisition and exploration costs	**(9,977)**	(93,850)
Cash Used In Investing Activities	**(1,200,861)**	(93,850)
Financing Activity		
Share capital proceeds, net of share issuance costs	**3,884,863**	604,210
Cash Provided By Financing Activity	**3,884,863**	604,210
Net Increase In Cash	**1,562,724**	73,251
Cash, Beginning Of Year	**85,057**	11,806
Cash, End Of Year	**$ 1,647,781**	$ 85,057
Supplementary Information		
Cash paid for interest	**$ -**	$ -
Cash paid for income taxes	**$ -**	$ -

Non-cash Investing and Financing Transactions (Note 13)

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

1. Nature of Operations and Going Concern

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 principally engaged in the acquisition of a Health Canada license under the Access to Cannabis for Medical Purposes Regulations ("ACMPR") for the purpose of entering the medical marijuana industry through its investment in PhyeinMed Inc, a 75% owned subsidiary of the Company.

Although the Company has started to invest resources for a medical marijuana business, there is no guarantee the Company will be awarded a license to grow medical marijuana. As the Company does not yet have cash flow from operations, 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 offering to institutional investors. The Company has historically raised operating capital from the sale of equity, and will continue to do so.

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes 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 ACMPR 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 and its progress on obtaining an ACMPR license. These factors may cast significant doubt on the Company's ability to continue as a going concern. Accordingly, the 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 consolidated financial statements.

2. Basis of Presentation

a) Statement of Compliance

The consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") applicable to the preparation of these consolidated financial statements.

The consolidated financial statements were authorized for issue by the Board of Directors on February 19, 2018.

2. Basis of Presentation (Continued)

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value.

In the opinion of management, all adjustments (including normal recurring accruals), considered necessary for a fair presentation have been included.

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

c) Critical Accounting Judgments and Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

Information about critical accounting judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

i) Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 11.

ii) Business combinations

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

2. Basis of Presentation (Continued)

c) Critical Accounting Judgments and Estimates (continued)

ii) Business combinations (continued)

The Company measures all the assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of this equity in the acquirer's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements.) The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquiree over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

iii) Flow-through Share Provision

Flow-through share provisions are comprised of the Company's various tax penalties and indemnification liabilities relating to the deficiencies in incurring the required amount of qualifying exploration expenditures related to past flow-through share issuances on a timely basis. The Company may also be required to indemnify the holders of such shares for any tax and other costs payable by them in the event the Company has not made exploration expenditures. Flow-through share provisions have been created based on internal estimates of the maximum penalties and indemnification liabilities the Company could be subject to.

Assumptions, based on the current tax regulations, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, 1005477 B.C. Ltd. and Umbral Energy LLC (Washington State) and a 75% interest in PhyeinMed Inc. The financial statements of the subsidiaries are prepared using consistent accounting policies and reporting dates of the Company. All inter-company transactions and balances are eliminated on consolidation.

Investments in joint ventures are accounted for using the equity method. Under this method, the Company's share of the investment's earnings or losses is included in the statement of comprehensive loss and the carrying amount of the investment is adjusted by this amount.

b) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. Significant Accounting Policies (Continued)

b) Business Combinations (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect additional information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

c) Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to insignificant risk of change and have maturities of three months or less from the date of acquisition, held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. The Company had no cash equivalents at October 31, 2017 and 2016.

d) Investment in Joint Ventures

A joint venture is a joint arrangement whereby the partners that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in a joint venture are accounted for using the equity method and are initially recognized at cost. The entire carrying amount of the investment is tested for impairment annually.

3. Significant Accounting Policies (Continued)

e) Intangible Assets

intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

f) Property and Building

Property and building are measured at cost less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis, using a half year of depreciation in the year of acquisition, over the following terms:

Building and improvements	20-40 years
Greenhouse and improvements	20-25 years

An asset's residual value, useful life and depreciation method are reviewed during each financial year and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of property and building.

Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in profit or loss.

Assets in process are transferred to when available for use and depreciation of the assets commences at that point.

g) Exploration and Evaluation Assets

<u>Pre-exploration costs</u>

Pre-exploration costs are expensed in the period in which they are incurred.

3. Significant Accounting Policies (Continued)

Exploration and evaluation costs

Once the legal right to explore a property has been acquired, exploration and evaluation expenditures are recognized and capitalized in addition to the acquisition costs. Exploration costs are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Once the technical feasibility and commercial viability of extraction of the mineral resources has been determined, the property is considered to be a property under development and is reclassified as such. Accordingly, costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while those costs for prospects abandoned are written off.

On an annual basis or when impairment indicators arise, the Company evaluates the future recoverability of its exploration and evaluation costs. Impairment losses or write-downs are recorded in the event the carrying amount of such assets exceeds the recoverable amount indicated in the future cash flows attributable to such assets.

The recoverability of the amounts capitalized for the undeveloped exploration and evaluation assets is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof. Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to its exploration and evaluation assets and, to the best of its knowledge, the title to its properties is in good standing.

Mineral exploration tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mineral tax credits are earned in respect to exploration costs incurred in Quebec, Canada and are recorded as a reduction of the related deferred exploration expenditures.

h) Impairment of Non-financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets, including exploration and evaluation assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

3. Significant Accounting Policies (Continued)

h) Impairment of Non-financial Assets (continued)

Where it is possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. Each of the Company's exploration and evaluation properties is considered to be a cash-generating unit for which impairment testing is performed.

Where an indicator of impairment exists, an estimate of the recoverable amount is made. Determining the recoverable amount requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Changes in circumstances may affect these estimates and the recoverable amount.

An impairment loss is recognized in the statement of operations, except to the extent they reverse gains previously recognized in other comprehensive income or loss.

i) Impairment of Financial Assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

j) Income Taxes

Income tax expense is comprised of current and deferred tax. Current and deferred income tax is recognized in the statement of comprehensive loss except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income. Current income taxes are the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the asset can be utilized.

At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Deferred income tax assets and liabilities are presented as non-current.

3. Significant Accounting Policies (Continued)

k) Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants and flow-through shares are classified as equity instruments.

Proceeds from the issue of units, consisting of common shares and share purchase warrants, are first allocated to common shares based on the quoted market value of the common shares at the time the units are priced, and the balance, if any, is allocated to the attached warrants. Broker warrants are compensation warrants issued to the brokers involved in the Company's financing efforts. Fair value is calculated at the grant date using the Black-Scholes option pricing model, with management's assumptions. Share issue costs are netted against share proceeds.

l) Share-based Payments

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense in the consolidated financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed using the graded vesting method over the vesting period based on the Company's estimate of shares that will eventually vest. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss over the remaining vesting period.

Compensation expense on stock options and restricted share units granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All equity-settled share-based payments are reflected in share-based payment reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserves is credited to share capital along with any consideration paid.

Where a grant of options or restricted share units is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

3. Significant Accounting Policies (Continued)

m) Provisions

Decommissioning Liabilities

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of tangible long-lived assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates is capitalized to the amount of the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as the related asset. The liability is progressively increased each period as the effect of the discounting unwinds, creating an expense recognition in the statement of comprehensive loss.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the rehabilitation provision.

The Company's estimates are reviewed at each reporting date for changes in regulatory requirements, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to the statement of comprehensive loss for the period. As at October 31, 2017 and 2016, the Company is not aware of any reclamation costs and no amounts have been recorded.

Provisions for Liabilities and Charges

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

n) Basic and Diluted Earnings (Loss) per Share

Basic loss per share is computed by dividing the net loss for the year by the weighted average number of common shares outstanding for the relevant year. Diluted loss per common shares is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

o) Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3. Significant Accounting Policies (Continued)

o) Financial Instruments (continued)

At initial recognition, the Company classifies its financial assets in the following categories depending on the purpose for which the instruments were acquired.

Financial assets are classified into one of four categories: Financial assets at fair value through profit or loss ("FVTPL"), Held-to-maturity investments, available for sale ("AFS") financial assets and loans and receivable.

Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income or loss until the instrument is derecognized or impaired. The Company has designated its investments in marketable securities as available-for-sale securities and reports them at fair value. The amounts by which fair values of these securities differ from written down cost represent unrealized gains and losses and are recognized in other comprehensive income (loss). All realized gains and losses are recognized in profit or loss in the period of disposition.

The Company has classified cash and cash equivalents and due from related party as loans and receivable.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. Financial assets are impaired when one or more events that occurred after the initial recognition of the financial asset have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of a trade receivable is reduced through the use of an allowance. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of comprehensive loss.

Impairment losses on loans and receivables carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL, or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value.

The Company's financial liabilities include accounts payables and accrued liabilities and amounts due to related parties. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

3. Significant Accounting Policies (Continued)

p) Accounting Standards Issued But Not Yet Applied

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date.

IFRS 9 Financial Instruments

IFRS 9, Financial instruments ("IFRS 9"), amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in Other Comprehensive Income ("OCI"), and guidance on financial liabilities and de-recognition of financial instruments. In July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9. IFRS 9 is applicable for periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

4. Business Combination

On December 9, 2014, the Company entered into a share exchange agreement for the acquisition of all the issued and outstanding shares of 1005477 B.C. Ltd., a holding company which owns 50% of the issued and outstanding common shares of PhyeinMed Inc. ("PhyeinMed"), an operating company incorporated in British Columbia which has submitted an application to Health Canada for a Marihuana for Medical Purposes Regulations license. Management had determined that the 50% interest in PhyeinMed was a joint venture under IFRS 11. Consequently, the investment in the joint venture was accounted for using the equity method.

On August 18, 2017 the Company acquired an additional 25% of the issued and outstanding common shares of PhyeinMed, through its wholly owned subsidiary 1005477 BC Ltd., which resulted in the Company obtaining control of PhyeinMed. The transaction was accounted for as a business combination achieved in stages in accordance with IFRS 3. The Company is considered the acquirer and PhyeinMed the acquiree.

As consideration for the acquisition the Company paid $120,000 cash and issued 7,000,000 common shares of the Company with a fair value of $665,000 (based on the Company's closing share price on the closing date). A further 4,000,000 common shares of the Company will also be transferred contingent upon the issuance of a ACMPR license, these shares have a fair value as at the acquisition date of $380,000 (based on the Company's closing share price on the closing date). The subsequent settlement of these shares will be accounted for within equity.

In connection with the acquisition the Company also issued 2,000,000 stock options and 4,000,000 restricted stock units (RSU's) to the former owner of PhyeinMed and consultants (Note 11). These awards were considered separate transactions and therefore were excluded from the business combination transaction.

(Stated in Canadian Dollars)

4. Business Combination (Continued)

As the transaction was accounted for as a business combination achieved in stages. On acquiring control of PhyeinMed, the Company revalued its previously held equity interest in PhyeinMed at the fair value on the date of control and recognized a gain on step acquisition.

Determination of the gain was as follows:

Fair value of 50% equity interest on August 18, 2017, prior to control	$	2,329,611
Carrying value of 50% equity interest prior to control (Note 9)		118,611
Gain on step acquisition	$	2,211,000

The fair value of the net assets acquired and the liabilities assumed have been determined on a provisional basis and are based on information that is currently available to the Company. Additional information is being gathered to finalize these provisional measurements, particularly with respect to intangible assets. Accordingly, the measurement of the assets and liabilities assumed may change upon finalization of the Company's valuations and completion of the purchase allocation, both of which are expected to occur no later than one year from the acquisition date. The following table summarizes the provisional fair values of the identifiable assets and liabilities at the date of the acquisition:

Net Assets Acquired		
Cash	$	20,738
GST Receivable		20,141
Property and Equipment		6,449
Intangible asset (i)		5,067,000
Accounts Payable		(40,247)
Advances payable		(414,470)
Total Purchase Price	$	4,659,611
Summary of Purchase Consideration		
Cash	$	120,000
7,000,000 common shares		665,000
4,000,000 shares issuable for ACMPR License		380,000
Fair value of 50% equity interest		2,329,611
Non-controlling interest		1,165,000
	$	4,659,611

(i) Excess consideration over net assets acquired allocated to license acquisition costs

The net cash outflow on acquisition was $99,262 ($120,000 consideration paid in cash, less $20,738 cash acquired).

PhyeinMed Inc. did not have any revenue and incurred a net loss of $83,269 from the date of the acquisition to October 31, 2017.

(Stated in Canadian Dollars)

5. Prepaid Expenses and Deposits

The Company's current prepaid expenses and advances consist mainly of ACMPR growing, marketing and distribution consulting fees paid in advance of services.

		October 31, 2017		October 31, 2016
ACMPR growing, marketing and distribution consulting fees	$	**97,917**	$	-
Digital marketing contract		**-**		95,931
Others		**15,890**		300
	$	**113,807**	$	96,231

6. Marketable Securities

During the year ended October 31, 2017, the Company received 2,000,000 common shares of Equitorial Exploration Corp. ("Equitorial") in accordance with the assignment agreement of the Tule Valley and Gerlach Projects (see Note 10). Prior to year-end the Company sold 700,000 of the Equitorial common shares for net proceeds of $48,620 resulting in a realized loss on sale of investment of $3,880. As at October 31, 2017, the Company held 1,300,000 common shares of Equitorial with a fair market value of $97,500.

7. Intangible Asset

		License Acquisition Costs
Cost		
As October 31, 2016	$	-
Acquired through business combination (Note 4)		5,067,000
As at October 31, 2017		**5,067,000**
Amortization		
As at October 31, 2016		-
Additions		-
As at October 31, 2017		-
Net Book Value as at October 31, 2016		-
Net Book Value as at October 31, 2017	**$**	**5,067,000**

(Stated in Canadian Dollars)

8. Property and Building

		Buildings		Land		Total
Cost						
As October 31, 2016	$	-	$	-	$	-
Additions		854,076		255,000		1,109,076
Acquired through business combination		6,449				6,449
As at October 31, 2017		**860,525**		255,000		**1,115,525**
Amortization						
As at October 31, 2016		-		-		-
Additions		1,195		-		1,195
As at October 31, 2017		1,195		-		1,195
Net Book Value as at October 31, 2016		-		-		-
Net Book Value as at October 31, 2017	**$**	**859,330**		**255,000**	**$**	**1,114,330**

9. Investment in Joint Venture and Advances

Prior to obtaining control of PhyeinMed, management determined that the 50% interest in PhyeinMed was a joint venture under IFRS 11 as the Company's management had joint control over strategic, financial, permitting, development or operating decisions of PhyeinMed. The investment in the joint venture was accounted for using the equity method.

The continuity of the investment of the joint venture and advances is as follows:

		Period ended August 18, 2017		Year ended October 31, 2016
Equity investment balance, beginning of the year	**$**	**189,654**	$	194,406
Equity loss on investment in joint venture		**(71,043)**		(4,752)
Equity investment balance, end of the year/period		**118,611**		189,654
Advances to joint venture		**414,470**		244,260
Elimination on acquisition of control		**(533,081)**		-
Balance, end of the year	**$**	**-**	$	433,914

(Stated in Canadian Dollars)

9. Investment in Joint Venture and Advances (Continued)

Summary financial information of the investment of the joint venture is as follows:

Statements of Financial Position	**As at August 18, 2017**	As at October 31, 2016
Total Assets	**$ 47,302**	$ 13,431
Current Liabilities	**40,247**	34,509
Due to related parties	**414,481**	373,759
Shareholders' Deficiency	**(407,426)**	(394,837)
Total liabilities and shareholders' deficiency	**$ 47,302**	$ 13,431

Statements of Comprehensive Loss	**Period ended August 18, 2017**	Year ended October 31, 2016
Expenses	**$ 142,087**	$ 9,502
Comprehensive loss for the period	**$ 142,087**	$ 9,502

Statements of Cash Flow	**Period ended August 18, 2017**	Year ended October 31, 2016
Comprehensive loss for the period	**$ (142,087)**	$ (9,502)
Changes in non-cash operating assets and liabilities		
GST receivable	**(6,710)**	(229)
Accounts payable and accrued liabilities	**5,738**	9,509
Cash Used in Operating Activities	**(143,059)**	(222)
Cash Used in Investing Activities	**(6,449)**	-
Cash Provided by Financing Activities	**170,246**	-
Change In Cash	**20,738**	(222)
Cash, Beginning Of Period	**-**	222
Cash, End Of Period	**$ 20,738**	$ -

(Stated in Canadian Dollars)

10. Exploration and Evaluation Assets

	Year ended October 31, 2017	Year ended October 31, 2016
Acquisition Costs:		
Balance, beginning of period	**$ 112,500**	$ -
Cash payment	**100,000**	60,000
Shares issued	**112,500**	52,500
Balance, end of period	**325,000**	112,500
Exploration Costs:		
Balance, beginning of period	**33,850**	-
Assaying and geochemical	**-**	975
Claim fees	**52,226**	6,964
Geological consulting, surveys and reports	**2,663**	14,930
Travel, supplies and field expenses	**-**	10,981
Balance, end of period	**88,739**	33,850
Less: Cash received	**194,912**	-
Deemed fair value of shares received	**150,000**	-
Total sale proceeds	**344,912**	-
Loss on sale of exploration and evaluation assets	**(68,827)**	-
Total Acquisition and Exploration Costs	**$ -**	$ 146,350

Tule Valley Project, Utah and Gerlach Project, Nevada

Pursuant to a property purchase agreement dated April 20, 2016, the Company was granted the right to acquire an undivided 100% interest in 26 contiguous mineral claims totaling 4,800 acres located in Millard County, Utah known as the Tule Valley Project and a further 89 contiguous mineral claims totaling 1,780 acres located in Washoe County, Nevada known as the Gerlach Project.

As consideration for the properties, the Company is required to make the following cash payments and issue the following shares:

	CASH PAYMENTS	**COMMON SHARES**
On signing of option agreement April 20, 2016 (cash paid, shares issued))	$ 10,000	1,500,000
On or before June 20, 2016 (cash paid)	20,000	Nil
On or before July 20, 2016 (cash paid)	30,000	Nil
On or before April 20, 2017 (cash paid, shares issued)	100,000	1,500,000
	$ 160,000	3,000,000

The properties are subject to a net smelter return royalty of 2%. The Company has an option to purchase 1% of the 2% net smelter return royalty for $1,000,000 at any time.

10. Exploration and Evaluation Assets (Continued)

Tule Valley Project, Utah and Gerlach Project, Nevada (continued)

On January 26, 2017, the Company entered into an assignment agreement with Equitorial Exploration Corp., an arm's length party, to assign the Company's right, title and interest of the Tule Valley and Gerlach Projects. Under the terms of the Assignment Agreement, Equitorial paid $150,000 plus claim staking costs of $44,611 and issued 2,000,000 common shares upon closing at a deemed value of $0.075 per common share (market price as at April 7, 2017, the date of closing). The Company recorded a $68,827 loss on the sale of the property.

11. Share Capital and Reserve

a) Authorized

Unlimited number of common shares without par value

b) Issued

Year ended October 31, 2017:

The Company issued 13,030,000 common shares for the exercise of 13,030,000 stock options between $0.05 and $0.08 per share for total proceeds of $878,500 which resulted in a transfer from share-based payment reserve to share capital of $890,076. The Company also issued 7,702,951 common shares for the exercise of 7,702,951 warrants at $0.06 and $0.10 per share for total proceeds of $482,321.

The Company issued 7,000,000 common shares in accordance with the share purchase agreement for the acquisition of an additional 25% interest in PhyeinMed Inc. The common shares had a fair value of $665,000 measured on the acquisition date. In accordance with the purchase agreement the seller entered a voluntary escrow agreement whereby the shares would be escrowed and released as to 10% on the acquisition date and 15% on the date that is every six months thereafter.

The Company completed a non-brokered private placement of 43,700,000 units for gross proceeds of $2,622,000. Each unit consists of one common share and one common share purchase warrant entitling the holder to purchase one additional common share at $0.10 per share for two years. A cash finders' fee of $90,459 was paid. The Company also issued 1,515,413 broker warrants exercisable at $0.10 per warrant for a period of two years from closing. The broker warrants were valued at $199,580 using a Black Scholes option pricing model using the following assumptions: dividend yield of $nil, a risk-free interest rate of 1.24%, annualized volatility of 224% and an expected life of two years. The Company also incurred a total of $11,499 in legal fees required to close the transaction.

(Stated in Canadian Dollars)

11. Share Capital and Reserve (Continued)

b) Issued (continued)

Year ended October 31, 2016:

The Company issued 8,085,000 common shares for the exercise of 8,085,000 stock options between $0.05 and $0.08 per share for total proceeds of $440,050 which resulted in a transfer from share-based payment reserve to share capital of $405,961. The Company issued 1,790,174 common shares for the exercise of 1,790,174 warrants at $0.06 per share for total proceeds of $107,410.

The Company issued 1,500,000 common shares with a fair value of $52,500 measured on the date of issuance in accordance with the option agreement the right to acquire an interest in the Tule Valley and Gerlach Lithium properties (Note 10).

c) Warrants

The following is a summary of the changes in warrants:

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, October 31, 2015	13,635,400	$0.06
Exercised	(1,790,174)	0.06
Balance, October 31, 2016	11,845,226	0.06
Granted	45,215,413	0.10
Exercised	(7,702,951)	0.06
Balance, October 31, 2017	**49,357,688**	**$0.10**

The following table summarizes the warrants outstanding and exercisable at October 31, 2017:

NUMBER OF WARRANTS	EXERCISE PRICE	EXPIRY DATE
1,115,600	$0.06	March 19, 2018
713,085	$0.10	March 19, 2018
975,989	$0.06	May 16, 2018
101	$0.10	May 16, 2018
1,337,500	$0.06	December 20, 2018
45,215,413	$0.10	August 30, 2019
49,357,688		

As at October 31, 2017, the weighted average remaining contractual life of all warrants outstanding was 1.73 years (2016 – 1.54 years).

(Stated in Canadian Dollars)

11. Share Capital and Reserve (Continued)

d) Stock Options

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 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. Further, 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.

During the year ended October 31, 2017, stock-based compensation in the amount of $744,971 (2016 – $618,290) was recognized on the issuance of stock options to directors, officers and consultants.

The continuity of options for the years ended October 31, 2017 and 2016 is summarized below:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, October 31, 2015	3,550,000	$0.05
Issued	9,300,000	0.06
Exercised	(8,085,000)	0.05
Balance, October 31, 2016	4,765,000	$0.08
Issued	13,280,000	0.07
Exercised	(13,030,000)	0.07
Cancelled	(1,815,000)	0.08
Balance, October 31, 2017	**3,200,000**	**$0.09**

The following table summarizes the options outstanding and exercisable at October 31, 2017:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY DATE
400,000	$0.08	May 30, 2021
800,000	$0.065	February 27, 2022
2,000,000	$0.10	August 16, 2022
3,200,000		

(Stated in Canadian Dollars)

11. Share Capital and Reserve (Continued)

d) Stock Options (continued)

As at October 31, 2017, the weighted average remaining contractual life of all options outstanding was 4.53 years (2016 – 4.58 years).

The Company uses the Black-Scholes option pricing model to estimate the fair value of the options granted using the following assumptions:

	2017	2016
Dividend yield	**Nil**	Nil
Annualized volatility	**175 - 225%**	208 - 214%
Risk-free interest rate	**0.70% - 1.49%**	0.61% - 0.73%
Expected life	**5 years**	5 years

e) Restricted Share Units

Subject to ratification by shareholders at the Company's next annual general meeting. The Company has adopted a restricted share unit 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, restricted share units ("RSU's"), provided that the number of common shares reserved will not exceed 10% of the issued and outstanding common shares of the Company. The Board of Directors of the Company will establish performance conditions for the vesting of RSU's granted based on the conditions of individual grants. RSU's will be settled as either one common share per vested RSU or a cash amount equal to the vesting date value at the discretion of the Board of Directors of the Company.

During the year ended October 31, 2017, the Company granted 4,000,000 RSU's to consultants of the Company. For equity-settled awards, the fair value of the RSUs is recognized as compensation expense over the period that related services are rendered with a corresponding increase in equity. The total amount expensed is recognized over a two-year vesting period on a tranche basis, which is the period over which all the specified vesting conditions should be satisfied. These RSUs had a grant-date fair value of $380,000. Compensation expenses related to these RSUs for the year was $144,806.

f) Earnings (Loss) Per Share

Basic earnings (loss) per share amounts are calculated by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated by dividing net income for the year by the weighted average number of common shares outstanding and all common shares that would be outstanding if potentially dilutive instruments were converted.

	YEARS ENDED OCTOBER 31,	
	2017	2016
Issued shares at beginning of year	**63,342,146**	51,966,972
Weighted average issuances	**19,614,544**	4,438,253
Basic weighted average common shares	**82,956,690**	56,405,225

(Stated in Canadian Dollars)

11. Share Capital and Reserve (Continued)

f) Earnings (Loss) Per Share (continued)

	YEARS ENDED OCTOBER 31,	
	2017	2016
Basic weighted average common shares	**82,956,690**	56,405,225
Shares issuable for dilutive instruments:		
Options	**653,379**	-
Warrants	**98,468**	-
Diluted weighted average common shares	**83,708,537**	56,405,225

g) Nature and Purpose of Reserve

The 'Share-based Payment Reserve' is used to recognize the fair value of stock option grants, RSU grants, and warrants prior to exercise, expiry or cancellation.

h) Share Subscriptions Receivable

During the year ended October 31, 2016, the Company received $56,750 relating to share subscriptions receivable.

i) Shares Reserved for Issuance

During the year ended October 31, 2017, the Company entered into a Share Purchase Agreement to issue 4,000,000 common shares at a deemed price of $0.095 per share upon final award of an ACMPR production license (Note 4).

12. Related Party Transactions

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 from or due to related parties other than specifically disclosed are non-interest bearing, unsecured and have no fixed terms of repayments.

a) Related party transactions with directors and companies with a director in common.

		2017		2016
Management fees	$	**115,890**	$	91,333
Consulting fees	$	**49,910**	$	4,150

b) Advances payable

		2017		2016
Advances from directors are unsecured, non-interest bearing and is repayable on demand	$	**-**	$	102,278

c) Management compensation

		2017		2016
Short-term employee benefits	$	**165,800**	$	95,483
Share-based payments	$	**239,831**	$	336,900

(Stated in Canadian Dollars)

13. Non-Cash Investing and Financing Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

Year ended October 31, 2017:

$890,076 was transferred from share-based payment reserves to share capital as a result of the exercise of 13,030,000 stock options.

In accordance with the Share Purchase Agreement to acquire an additional 25% controlling interest in PhyeinMed Inc., the Company:

- issued 7,000,000 common shares with a fair value of $665,000;
- agreed to issue 4,000,000 common shares at a deemed price of $0.095 per share upon ACMPR License receipt.

The Company issued 1,500,000 common shares of the Company with a fair value of $112,500 on the date of issuance under the option agreement to acquire an interest in the Tule Valley and Gerlach Lithium properties.

These transactions have been excluded from the statement of cash flows.

Year ended October 31, 2016:

$405,961 was transferred from share-based payment reserves to share capital as a result of the exercise of 8,085,000 stock options.

The Company issued 1,500,000 common shares of the Company with a fair value of $52,500 on the date of issuance under the option agreement to acquire an interest in the Tule Valley and Gerlach Lithium properties. This transaction was excluded from the statement of cash flows.

14. Income Taxes

The Company's provision for income taxes for the years ended October 31, 2017 and 2016 differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates to the loss as a result of the following:

	2017	2016
Statutory rates	**26%**	26%
Income tax recovery at statutory rate	**$ 6,000**	$ (268,000)
Non-deductible permanent differences	**(268,000)**	161,000
Financing fees charged to equity	**(28,000)**	-
Effect of rate change	**(49,000)**	-
Income tax benefits not recognized and other	**339,000**	107,000
Provision for income taxes	**$ -**	$ -

(Stated in Canadian Dollars)

14. Income Taxes (Continued)

The tax effects of temporary timing differences that give rise to significant components of the deferred tax assets were as follows:

	2017	2016
Deferred tax assets (liabilities)		
Non-capital loss carry forward	$ 1,014,000	$ 733,000
Investment in associate	-	14,000
Share issuance costs	23,000	4,000
Resource deductions	280,000	252,000
	1,317,000	1,003,000
Less: Tax assets not recognized	(1,317,000)	(1,003,000)
Net deferred income taxes	$ -	$ -

The Company has accumulated non-capital losses for Canadian tax purposes of approximately $3,754,000 which may be carried forward and used to reduce taxable income in future years. The accumulated non-capital losses expire as follows:

2028	$ 81,000
2029	148,000
2030	247,000
2031	267,000
2032	187,000
2033	422,000
2034	536,000
2035	504,000
2036	427,000
2037	935,000
	$ 3,754,000

The Company has cumulative Canadian exploration and development expenses in the amount of approximately $1,039,000, which can be carried forward indefinitely. No benefit has been recognized in respect of these amounts.

The Company is permitted, under Canadian income tax legislation, to renounce flow-through related resource expenditures to investors in advance of the Company incurring the expenditure. In accordance with this legislation, the Company has twelve months following the effective date of renunciation to incur the expenditures. The Company begins incurring interest charges for unspent funds after one month and fees for unspent funds at the end of the calendar year following the effective date of renunciation, and until such time as funds are fully expended.

The Company has estimated the potential shareholder liability in the amount of $69,927 as at October 31, 2017 and 2016. To estimate the potential indemnification liability, management used a combined tax rate of 38% of unspent flow-through funds raised. The accrued amounts are subject to measurement uncertainty due to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreements, which will not be known until potentially affected subscribers are reassessed for their tax positions by the Canada Revenue Agency and these amounts become known to the Company.

As at October 31, 2017 the Company’s accounts payable and accrued liabilities includes a liability for $15,728 (2016 - $13,728) in Part XII.6 taxes.

15. Financial Instruments and Risk Management

In common with all other businesses, 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 consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and process for managing those risks or the methods used to measure them from previous years unless otherwise stated in this note.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices and are comprised of foreign currency risk and interest rate risk.

b) 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.

c) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash equivalents is limited because of the short-term nature of the investments.

d) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consists primarily of cash and cash equivalents. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed upon demand. The Company considers this risk to be minimal.

e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections.

If future cash flows are fairly uncertain, the liquidity risk increases. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities and promissory notes are due within the current operating year.

(Stated in Canadian Dollars)

15. Financial Instruments and Risk Management (Continued)

e) Liquidity Risk (continued)

As at October 31, 2017, the Company had working capital of $1,565,059 (2016 – $211,101 working capital deficiency). The Company does not currently operate any producing properties and as such, may be dependent upon issuance of new equity to advance its exploration properties. If equity financing is required, failure to obtain financing on a timely basis may cause the Company to postpone exploration plans, reduce or terminate its operations.

Determination of Fair Value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The financial position carrying amounts for cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and promissory notes payable approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The Company's financial instruments are classified into the following categories:

		October 31, 2017		October 31, 2016	
	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Cash	1	**$ 1,647,781**	**$ 1,647,781**	$ 85,057	$ 85,507
Marketable securities	1	**$ 97,500**	**$ 97,500**	$ -	$ -

16. Management of Capital Risk

The Company manages its cash and cash equivalents, 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 its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

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 cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure 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.

In order to maximize ongoing development 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 with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

Management considers its approach to capital management approach 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.

17. Subsequent Events

Subsequent to October 31, 2017, the Company:

- granted 6,850,000 incentive stock options to directors, officers and consultants of the Company under the Company's Stock Option Plan exercisable at $0.14 per share expiring November 15, 2022;
- filed a Listing Statement with respect to a Fundamental Change of Business pursuant to Policy 8 of the CSE which included changing its name to Heritage Cannabis Holdings Corp. with no consolidation of capital;
- a Letter of Intent to acquire 20% of Stanley Park Digital Ltd, a blockchain developer based in Vancouver, BC for $500,000 in a combination of $250,000 cash (paid $125,000) and 250,000 shares, share price is based on the average of the closing price of the shares between January 10, 2018 and January 23, 2018. Additional terms include Heritage obtaining certain Rights of First Refusal on selected projects, and first priority on future funding rounds. Development on a proprietary cannabis supply chain management system is scheduled to begin late January;
- Committed to the Phase 2 construction on the two-story new build addition. The Company is targeting a completion date in late Spring 2018. Upon completion, PhyeinMed will have nearly 38,000 sq. ft. of growing space and grow rooms will be brought into production by June 2018;
- granted a total of 1,000,000 incentive stock options to directors/officers/employees and/or consultants under the Company's Stock Option Plan. The options are exercisable at $0.59 per share and will expire January 18, 2023;

17. Subsequent Events (Continued)

- completed an accepted offer to acquire over 100 acres of farmland in Clearview Township, near Collingwood, Ontario. Terms of the purchase include a total purchase price of $1.3 million with a targeted closing of June 30, 2018. The company has made a deposit of 10% of the purchase price, with the remainder due at closing;
- initiated the process to apply for three cannabis retail store licenses in Alberta;
- Issued 21,138,769 common shares for the exercise of 21,138,769 warrants at $0.06 and $0.10 per share for total proceeds of $2,025,877;
- Issued 5,120,000 common shares for the exercise of 5,120,000 options at prices ranging between $0.065 and $0.59 per share for total proceeds of $791,800 which resulted in a transfer from share-based payment reserve to share capital of $785,954.