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

Consolidated Financial Statements

Years Ended October 31, 2019 and 2018

(Stated in Canadian Dollars)

HERITAGE CANNABIS
Holdings Corp

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

Consolidated Financial Statements

Years Ended October 31, 2019 and 2018

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Heritage Cannabis Holdings Corp. (formerly Umbral Energy Corp.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at October 31, 2019 and October 31, 2018, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at October 31, 2019 and October 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company reported a net loss $13,155,560 during the year ended October 31, 2019 and, as of that date, the Company had an accumulated deficit of $25,344,005. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 26 to the consolidated financial statements, which explains that certain comparative information for the year ended October 31, 2018 has been restated. Our opinion is not modified in respect of this matter.

The consolidated financial statements for the year ended October 31, 2018 excluding the adjustments that were applied to restate certain comparative information were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 27, 2019.

As part of our audit of the consolidated financial statements for the year ended October 31, 2019, we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended October 31, 2018. Accordingly, we do not express an opinion or any other form of assurance on those consolidated financial statements taken as a whole.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Shaila Rani Mehta.

MNP LLP

Mississauga, Ontario | Chartered Professional Accountants

February 27, 2020 | Licensed Public Accountants

MNP

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

	Note		October 31, 2019		October 31, 2018
					(Restated, see Note 28)
Assets					
Current					
Cash		$	2,486,466	$	1,174,600
Short-term investments	4		9,050,000		-
Sales tax and accounts receivable	22(a)		1,554,037		278,924
Inventories	5		5,517,717		-
Prepaid expenses and deposits	6		773,159		339,693
Other current assets	13		49,255		-
			19,430,634		1,793,217
Deposits	7		276,104		250,000
Investment in associate	8		3,923,505		-
Intangible assets	9		49,510,047		6,438,635
Property, plant and equipment	10		19,349,263		5,589,019
Total Assets		$	92,489,553	$	14,070,871
Liabilities					
Current					
Accounts payable and accrued liabilities	11	$	6,748,939	$	656,873
Due to related parties			-		55,458
Deferred revenue			991,861		-
Current portion of long-term debt	12		4,360		-
Current portion of contingent consideration payable	13		-		150,000
			7,745,160		862,331
Long-term debt	12		24,235		-
Contingent consideration payable	13		4,684,000		-
Deferred tax liability	18		6,554,300		967,528
Total Liabilities			19,007,695		1,829,859
Shareholders' Equity					
Share capital	14		93,191,673		21,598,702
Contributed surplus	15		5,048,986		2,190,551
Share subscriptions	16		-		55,000
Accumulated deficit			(25,344,005)		(12,570,270)
Equity attributable to shareholders			72,896,654		11,273,983
Non-controlling interest	17		585,204		967,029
Total Equity			73,481,858		12,241,012
Total Liabilities and Equity		$	92,489,553	$	14,070,871

Going Concern (Note 1)
Commitments (Note 20)
Subsequent Event (Note 27)

The accompanying notes are an integral part of these 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.)
Consolidated Statements of Operations and Comprehensive Loss
Years Ended October 31, 2019 and 2018
(Stated in Canadian Dollars)

	Note	Years Ended October 31, 2019	Years Ended October 31, 2018 (Restated, see Note 28)
Revenue	25	$ 3,563,623	$ -
Cost of Sales	5	4,072,626	-
Gross Profit Before Fair Value Adjustments		(509,003)	-
Unrealized change in fair value of biological assets		186,247	-
Realized change in fair value of inventory sold		-	-
		186,247	-
Gross Profit		(322,756)	-
General and Administrative Expenses			
Advertising, travel and promotion		443,193	83,495
Amortization		1,843,028	9,561
Consulting fees	19(a)	2,193,309	1,165,856
Management fees	19(a)	180,000	200,000
Occupancy, office expense and other	19(a)	1,807,528	215,544
Professional fees		722,983	310,132
Regulatory fees		43,603	26,064
Shareholder communications		861,224	59,377
Share-based payments	14(b) & 15(a),(c),(d)	3,714,983	4,652,116
Transfer agent and shareholder information		87,910	34,906
Salaries, wages and benefits		1,722,465	77,211
		13,620,226	6,834,262
Other Income (Expense)			
Interest and other income		192,773	-
Share of loss from investment in associate	8	(115,597)	-
Gain on write-off of debt		-	109,238
Gain on sale of investment		-	53,650
Unrealized loss on contingent consideration payable	23	(676,974)	-
Impairment losses	24	(317,415)	-
		(917,213)	162,888
Loss Before Taxes		(14,860,195)	(6,671,374)
Income tax expense (recovery)			
Current		-	-
Deferred	18	(1,704,635)	(254,107)
		(1,704,635)	(254,107)
Net Loss and Comprehensive Loss		$ (13,155,560)	$ (6,417,267)
Net Loss and Comprehensive Loss attributed to:			
Shareholders of the Company		$ (12,773,735)	$ (6,240,113)
Non-controlling Interest	17	(381,825)	(177,154)
		$ (13,155,560)	$ (6,417,267)
Weighted average number of outstanding shares, basic and diluted	21	428,174,008	167,750,236
Basic and diluted loss per share		$ (0.03)	$ (0.04)

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
Years Ended October 31, 2019 and 2018
(Stated in Canadian Dollars)

	Note	Number of Shares	Share Capital	Contributed Surplus	Share Subscriptions	Accumulated Deficit	Non-controlling Interest	Total
Balance at October 31, 2017		136,275,097	$ 11,420,360	$ 1,063,882	$ 380,000	$ (6,330,157)	$ 1,144,183	$ 7,678,268
Issued shares for cash								
Share options exercised		8,559,000	2,978,287	(1,481,927)	-	-	-	1,496,360
Warrants exercised		49,085,353	5,000,055	(223,520)	-	-	-	4,776,535
Shares issued for acquisition	Note 14(b)	4,000,000	380,000	-	(380,000)	-	-	-
RSU's vested		6,000,000	1,820,000	(1,820,000)	-	-	-	-
Share subscriptions		-	-	-	55,000	-	-	55,000
Stock based compensation – options granted		-	-	2,976,922	-	-	-	2,976,922
Stock based compensation – RSU's granted		-	-	1,675,194	-	-	-	1,675,194
Net loss for the year		-	-	-	-	(6,240,113)	(177,154)	(6,417,267)
Balance at October 31, 2018 (Restated, see Note 28)		203,919,450	$ 21,598,702	$ 2,190,551	$ 55,000	$ (12,570,270)	$ 967,029	$ 12,241,012
Balance at October 31, 2018 (Restated, see Note 28)		203,919,450	$ 21,598,702	$ 2,190,551	$ 55,000	$ (12,570,270)	$ 967,029	$ 12,241,012
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	163,643	-	-	-	1,774,136
Purefarma Solutions Inc.	Note 3(b)	1,200,000	234,000	-	-	-	-	234,000
Replacement warrants and options issued as purchase consideration								
CannaCure Corporation	Note 3(a)	-	-	1,591,447	-	-	-	1,591,447
Contingent consideration, equity-settled								
Purefarma Solutions Inc.	Note 13(a)	-	-	18,974	-	-	-	18,974
Shares issued for cash								
Exercise of warrants	Note 15(a)	25,166,216	8,772,957	(619,398)	-	-	-	8,153,559
Exercise of options	Note 15(c)	4,241,919	1,664,674	(1,003,554)	-	-	-	661,120
Private placements								
Issuance and exercise of Special Warrants - February 2019	Note 15(b)	33,000,000	6,621,589	237,055	(55,000)	-	-	6,803,644
Issuance of Units - May 2019	Note 14(b)	32,660,000	14,974,804	839,927	-	-	-	15,814,731
Share-based payments - vesting of options	Note 15(c)	-	-	1,546,505	-	-	-	1,546,505
Share-based payments - vesting of restricted shares	Note 15(d)	-	-	83,836	-	-	-	83,836
Share-based payments - issuance of shares	Note 14(b)	153,265	76,506	-	-	-	-	76,506
Shares issued in Endocanna share exchange transaction	Note 8	2,710,515	1,381,774	-	-	-	-	1,381,774
Net (loss) income for the year		-	-	-	-	(12,773,735)	(381,825)	(13,155,560)
Balance at October 31, 2019		473,718,024	$ 93,191,673	$ 5,048,986	$ -	$ (25,344,005)	$ 585,204	$ 73,481,858

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
Years Ended October 31, 2019 and 2018
(Stated in Canadian Dollars)

	Note	Years Ended October 31, 2019	Years Ended October 31, 2018
Operating Activities			
Net loss for the year		$ (13,155,560)	$ (6,417,267)
Items not affecting cash:			
Depreciation on property, plant and equipment		773,306	9,561
Amortization on intangible assets		1,228,386	-
Deferred income tax recovery		(1,704,635)	(254,107)
Non-cash items included in interest and other income		4,579	-
Gain on sale of marketable securities		-	(53,650)
Gain on write-off of debt		-	(109,238)
Imputed interest expense on long-term debt	12	10,948	-
Share-based payments	14(b) & 15(a),(c),(d)	3,714,983	4,652,116
Acquiree's acquisition costs - non-equity-settled	3(a)	118,435	-
Unrealized loss on contingent consideration payable	23	676,974	-
Share of loss from investment in associate	8	115,597	-
Impairment losses	24	317,415	-
		(7,899,572)	(2,172,585)
Net changes in non-cash working capital, net of business combinations:			
Sales tax and accounts receivable		(663,229)	(242,997)
Inventories		(5,517,717)	-
Prepaid expenses and deposits		(509,379)	(225,886)
Other current assets		(3,376)	-
Accounts payable and accrued liabilities		4,738,575	368,034
Due to related parties		(55,458)	55,458
Deferred revenue		991,861	-
Cash Flows Used in Operating Activities		(8,918,295)	(2,217,976)
Investing Activities			
Acquisition of property, plant and equipment		(8,915,049)	(4,484,250)
Proceeds from sale of marketable securities		-	151,150
Cash acquired from business combinations	3(a),(b)	80,233	-
Deposits advanced		(90,000)	(250,000)
Purchases of short-term investments		(22,550,000)	-
Redemptions of short-term investments		13,500,000	-
Issuance of loans receivable		(322,421)	-
Repayment of loans receivable		322,421	-
Issuance of advances, settled through business combination	3(b)	(89,983)	-
Purchase of investment in associate	8	(2,657,328)	-
Cash Flows Used in Investing Activities		(20,722,126)	(4,583,100)
Financing Activities			
Proceeds from exercise of warrants	14(b)	8,153,559	4,776,535
Proceeds from exercise of options	14(b)	661,120	1,496,360
Proceeds from issuance of Special Warrants, net of issuance costs	14(b)	6,803,644	-
Proceeds from issuance of Units, net of issuance costs	14(b)	15,814,731	-
Proceeds from share subscriptions	16	-	55,000
Repayment of long-term debt		(330,767)	-
Cash paid to non-controlling interest	13(c)	(150,000)	-
Cash Flows Provided from Financing Activities		30,952,287	6,327,895
Net Increase (Decrease) in Cash During the Year		1,311,866	(473,181)
Cash, Beginning of Year		1,174,600	1,647,781
Cash, End of Year		$ 2,486,466	$ 1,174,600

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

Supplementary information			
Interest received		$ 60,718	$ -

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 Suite 600-77 Bloor Street West, Toronto, Ontario, Canada, M5S 1M2 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 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 manufacture, refine and formulate cannabis oils. On December 18, 2018, CALYX Life Sciences Corp. (formerly 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.

1. Basis of Presentation

(a) Going concern

Although the Company was awarded licenses and has invested resources into its business, the Company is not yet generating positive cash flow from operations and as such, it must rely, in part, on equity and debt 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.

The 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 operating cash flow and financing, will be available to cover general and administrative expenses necessary for the maintenance of a public company. For the year ended October 31, 2019 the Company incurred a net loss of $13,155,560 and had an accumulated deficit of $25,344,005. 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 material uncertainty on the Company's ability to continue as a going concern.

1. Basis of Presentation (continued)

(a) Going concern (continued)

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.

(b) 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.

These consolidated financial statements were approved by the Board of Directors on February 27, 2020.

(c) Basis of measurement

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for biological assets and acquisition-related contingent consideration which are measured at fair value.

(d) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars unless otherwise noted. With regard to functional currencies, Heritage US Holdings Corp., Heritage (US) Cali Corp. and Endocanna Health, Inc. use the U.S. dollar. All remaining entities use the Canadian dollar as their functional currency.

(e) Basis of consolidation

These 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 October 31, 2019, 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
CALYX Life Sciences Corp. (formerly BriteLife Sciences Ltd.)	100%	British Columbia, Canada
1005477 B.C. Ltd.	100%	British Columbia, Canada
Voyage Cannabis Corp. (formerly PhyeinMed Inc.)	75%	British Columbia, Canada
Mainstrain Market Ltd.	75%	British Columbia, Canada
333 Jarvis Realty Inc.	100%	Ontario, Canada
Heritage US Holdings Corp.	100%	Delaware, United States
Heritage (US) Cali Corp.	100%	California, United States

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. During the year, the Company incorporated four new subsidiaries: 333 Jarvis Realty Inc., Heritage US Holdings Corp., Heritage (US) Cali Corp. and BriteLife Sciences Ltd. (subsequently renamed to CALYX Life Sciences Corp.).

(f) Estimates and critical judgements by management

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 disclosures of contingent assets and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods. Actual results could differ from those estimates. Significant items that require estimates as the basis for determining the stated amounts are identified below. While management believes that the estimates are reasonable, actual results could differ materially from those estimates and may impact the future results of operations.

1. Basis of Presentation (continued)

(f) Estimates and critical judgements by management (continued)

(i) Share-based payment transactions

Certain equity-settled transactions are measured by reference to the fair value of the equity instruments granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the share option or warrant, volatility and dividend yield, and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Notes 14 and 15.

(ii) Business combinations

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

(iii) Estimated useful lives and depreciation of property, plant and equipment and intangible assets

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives and when the asset is available for use, which are determined through the exercise of judgment.

(iv) Impairment of property, plant and equipment and intangible assets

The assessment of any impairment on property, plant and equipment and intangible assets is dependent upon estimates of recoverable amounts. As the recoverable amount is the higher of fair value less costs of disposal and value in use, management must consider factors such as economic and market conditions, estimated future cash flows, discount rates and asset-specific risks.

(v) Impairment of cash generating units, investments and goodwill

The impairment test for cash generating units ("CGUs") to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based on assumptions including, but not limited to, the cash flow growth rate and the discount rate. Management has identified a sole and single CGU that consists of the extraction business.

1. Basis of Presentation (continued)

(f) Estimates and critical judgements by management (continued)

(vi) Control, joint control, or significant influence

In determining the appropriate basis of accounting for the Company's interests in investees, judgment is applied regarding the degree to which the Company has the ability to control or exert significant influence over, directly or indirectly, the investees' financial and operating activities.

(vii) Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses for income tax purposes, it assesses the probability of taxable income being available in the future based on its forecasts. These forecasts are adjusted to take into account certain non-taxable income and non-deductible expenses and specific rules on the use of unused credits and tax losses. When forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for deductible temporary differences.

(viii) Biological assets and inventory

Biological assets, consisting of cannabis plants, are measured at fair value less costs to sell. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell. As a result, critical estimates related to the valuation of biological assets are also applicable to inventory. Determining the fair value less costs to sell requires the Company to make various assumptions including the expected harvest yield, estimated selling prices and attrition rates, among other inputs. The Company's estimates are, by their nature, subject to change.

Inventory is valued at the lower of cost and net realizable value. Determining net realizable value requires the Company to make assumptions about estimated selling prices in the ordinary course of business, the estimated costs of completion and the estimated variable costs to sell.

(ix) Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECLs") for all debt financial assets not held at fair value requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses. These assumptions are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

2. Significant Accounting Policies

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

(a) 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 (if any) over the net of the acquisition date amounts of identifiable assets acquired and liabilities assumed. If, after reassessment, the net of the acquisition date amounts of 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.

2. Significant Accounting Policies (continued)

(a) 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 those items for which the accounting is incomplete. The provisional amounts are adjusted during the measurement period, or additional assets or liabilities may be 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.

(b) Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents comprises short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an 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 the end of the reporting periods.

(c) 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 the assets' estimated useful lives.

Health Canada licenses	20 years
Intellectual property	10 years
Brand	3 years

Estimated useful lives and amortization methods 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.

2. Significant Accounting Policies (continued)

(c) Intangible Assets (continued)

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 thereafter 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.

(d) Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided for on a straight-line basis, using a half-year of depreciation in the year the asset becomes available for use, over the following terms:

Buildings and leasehold improvements	20 years
Equipment	10 years

An asset's residual value, useful life and depreciation method are reviewed at the end of each reporting period and adjusted if appropriate. When parts of an item of plant, property and equipment have different useful lives, they are accounted for as separate items (major components).

During their construction, property, plant and equipment are not subject to depreciation. When the asset is available for use, depreciation commences.

Gains and losses on the 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.

(e) Impairment of Non-financial Assets

Impairment tests on goodwill and intangible assets with indefinite useful lives are undertaken annually at the financial year-end. For other long-lived assets, the Company reviews their carrying amounts at the end of each reporting period to determine whether there is any indication that the carrying amount is not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the carrying value of an asset exceeds its recoverable amount, the asset is written down accordingly.

The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows resulting from the asset's use and eventual disposition are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

2. Significant Accounting Policies (continued)

(e) Impairment of Non-financial Assets (continued)

When an individual asset does not generate independent cash flows, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An impairment loss is recognized in the statement of operations, except to the extent that it reverses a gain previously recognized in other comprehensive income or loss.

(f) Income Taxes

Income tax expense is comprised of current and deferred tax. Current and deferred income tax are recognized in the statement of operations except to the extent that they relate 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 taxes payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustments to taxes 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 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.

2. Significant Accounting Policies (continued)

(g) 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, share options and restricted share units ("RSUs") are classified as equity instruments.

(h) Share-based Payments

Equity-settled share-based payments to directors, officers and employees are measured at the fair value of the equity instruments at the grant date and are recognized as an expense over the relevant vesting periods with a corresponding credit to contributed surplus.

Equity-settled share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments granted, if it is determined that the fair value of the goods or services received cannot be reliably measured. The fair value of equity-settled share-based payments to non-employees is recorded as an expense at the date the goods or services are received with a corresponding credit to contributed surplus.

The number of equity instruments expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. After the vesting date, amounts recorded for forfeited or expired instruments are transferred within equity in the year of forfeiture or expiry.

In the case of stock options, proceeds received from stock option holders are recorded as an increase to share capital upon exercise and the related reserve balance in contributed surplus is transferred to share capital. In the case of RSUs, the related reserve balance in contributed surplus is transferred to share capital upon release of the underlying restrictions.

(i) Provisions

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.

(j) Basic and Diluted 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 share 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.

2. Significant Accounting Policies (continued)

(k) 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.

(l) Investments in Associates

Significant influence is the power to participate in the financial and operating policy decisions of the associate without control or joint control over those policies. Significant influence is presumed to exist if the Company holds between 20% and 50% of the voting rights, unless evidence exists to the contrary. The Company has assessed that it has significant influence over Endocanna Health, Inc. Associates in which the Company has significant influence are accounted for using the equity method. The Company's interest is initially recorded at cost, including transaction costs, and is subsequently adjusted for the Company's share of the associate's profit or loss and other comprehensive income, less any impairment in the value of individual investments, less any dividends received. Where the Company transacts with an associate, profits and losses are eliminated to the extent of the Company's interest in that associate. If the Company’s share of losses equals or exceeds its interest in the associate, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

(m) Biological Assets

In accordance with IAS 41, the Company measures biological assets at fair value less costs to sell. Agricultural produce is measured at fair value less costs to sell at the point of harvest, which becomes the basis for the cost of inventory after harvest. Gains and losses arising from changes in fair values less costs to sell are included in net income or loss for the related period. All costs incurred during the grow cycle up to the point of harvest are expensed as incurred.

(n) Inventories

Inventories are initially valued at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest which becomes the deemed cost. Subsequent post-harvest costs, including direct costs attributable to processing and related overheads, are capitalized to inventory to the extent that the aggregate cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis.

2. Significant Accounting Policies (continued)

(o) Revenue Recognition

Revenue is recognized at the amount of the transaction price that is allocated to the performance obligation. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

Regarding the cannabis concentrate sales, the Company has two revenue streams: White label production, which includes bulk sales of crude oil, and tolling services. White label production requires the Company to purchase dried cannabis either through long-term supply agreements or through spot purchases. The Company extracts, and depending on the requirements of the Licensed Producers ("LP"), may also purify, formulate and/or package the oil. The Company sells the cannabis concentrates to the LP customers at wholesale prices. Revenue from white label production is recognized when control of the product is transferred, that being when the product is delivered to the LP customer or in certain cases when delivery is deemed to have occurred. Deemed delivery occurs in situations where the white label contract has two deliverables – an initial sale and transfer of wholesale bulk crude oil, and, at the option of the customer, a subsequent sale of post-extraction refinement, formulation and packaging services. In this case, upon completion of the initial bulk oil extraction, the Company provides a formal notification to its customer of completion, readiness for delivery and timing of title transfer. At the request of the customer, the bulk oil may be held by the Company and undergo further refinement services, essentially taking on the characteristics of tolling services. Tolling services work by LP partners supplying the Company with dried cannabis flower and the Company receives a tolling fee for producing cannabis concentrates. Revenue from tolling services is recognized when delivered or deemed delivered, in the case of a bill-and-hold arrangement, to the LP partner. Under tolling service agreements, the Company does not have any inventory risk as control over the inventory stays with the LP and the Company's consideration is in the form of a fee.

In certain cases, the Company has collected cash in advance of commencing the contract. In such cases, the Company does not recognize revenue until the cannabis oil is delivered or deemed to be delivered to the customer.

A receivable is recognized when the goods are delivered or deemed to be delivered as this is the point in time that title and control is transferred and the consideration is unconditional because only the passage of time is required before the payment is due.

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

2. Significant Accounting Policies (continued)

(o) Revenue Recognition (continued)

Remaining Performance Obligations

The Company's outstanding performance obligations in relation to customer contracts as at October 31, 2019 will be competed upon transfer of ownership (or deemed transfer) of extracts and as services are rendered. The Company's payment terms require payment without penalty to be made within 30 days after the customer accepts transfer of ownership or a notice of completion.

The performance obligations at year end require the Company to (i) deliver crude cannabis extracts and (ii) provide post extraction refinement, formulation, and packaging services. Revenue in the amount of $803,824 is expected to be earned in the 2020 fiscal year from contracts and orders in place as at October 31, 2019.

The contract to manufacture includes a standard limited warranty which holds the company to certain assurances surrounding manufacturing practices and compliance with the Cannabis Act and its Regulations as well as other applicable laws.

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 ("OCI"), 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.

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

(a) IFRS 9 Financial Instruments (continued)

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.

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 is measured at fair value at initial recognition and subsequently measured at FVTPL.

The classification of the Company's financial instruments under IAS 39 and IFRS 9 are as follows:

Financial assets/liabilities	IAS 39 Classification	IFRS 9 Classification
Cash	Loans and receivables	Amortized cost
Short-term investments	Loans and receivables	Amortized cost
Accounts receivable, excluding taxes 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.

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

(a) IFRS 9 Financial Instruments (continued)

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, 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. 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 this impairment model had a negligible impact on the carrying amounts of financial assets measured at amortized cost.

(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 is recognized in retained earnings as of November 1, 2018 and comparatives are not 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 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).

The Company did not have any material revenue streams on or prior to IFRS 15 adoption and, as such, there is no material impact on the consolidated financial statements as a result of adopting this standard.

2.2 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 is 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.

2.2 Recently Issued Accounting Pronouncements Not Yet Adopted (continued)

(a) IFRS 16 Leases (continued)

The initial date of adoption for the Company is November 1, 2019. The Company has elected to adopt IFRS 16 using the modified retrospective approach. Under this approach, the Company will not restate its comparative figures but will recognize the cumulative effect of adopting IFRS 16 as an adjustment to opening retained earnings at the date of initial adoption. On transition to IFRS 16, the Company will elect to apply the practical expedient to grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 Leases will not be reassessed for whether a lease exists. The Company will elect to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company will also account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. The Company does not expect significant adjustments to opening retained earnings at the date of initial adoption.

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 licenses 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 under 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 $1,755,090, comprised of $1,357,560 in stock options and $397,530 in share 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 15(c) and Note 15(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 $163,643) are deemed to be reimbursements of the acquiree's acquisition costs. The Company is also deemed to have reimbursed the acquiree $118,435 for other non-equity-settled acquisition costs.

3. Business Combinations (continued)

(a) CannaCure Corporation (continued)

The fair value of replacement share-based payment awards was determined at the time of issuance using the Black-Scholes pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	2.71% - 3.12%
Expected life of the award (years)	1.41 - 6.43
Expected annualized volatility	142% - 156%
Expected annual dividend yield	0%
Exercise price	$0.10 - $0.20
Weighted average share price at grant date	$0.23
Weighted average Black-Scholes value at grant date	$1.02

Total consideration paid	
133,333,326 common shares	$ 30,666,667
Replacement of share-based payment awards	1,755,090
Less: portion attributable to acquiree's acquisition costs	(692,571)
Net purchase consideration paid	31,729,186
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 7(ii))	106,104
Property purchase options (Note 9(b))	957,000
Licenses (Note 9(a))	23,170,000
Property, plant and equipment (Note 10)	4,186,533
Accounts payable and accrued liabilities	(1,188,829)
Net assets, excluding deferred taxes	27,925,337
Purchased goodwill	3,803,849
Deferred tax liability	5,182,707
Goodwill recognized	$ 8,986,556

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.

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.

3. Business Combinations (continued)

(a) CannaCure Corporation (continued)

For the year ended October 31, 2019, CannaCure generated $1,591,828 in trade revenues, $186,560 in other income, and incurred a net and comprehensive loss of $1,632,599 since November 5, 2018. If the acquisition had been completed on November 1, 2018, the financial impact would have been approximately the same.

(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 manufacture, refinement and formulation of cannabis oils. The Company acquired Purefarma as a strategic plan 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 13(a).

(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 13(b).

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 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 in cash and issued 1,200,000 common shares with a fair value of $234,000, determined based on the fair value of the services received.

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 13)	826,000
Contingent consideration, cash-settled (Note 13)	3,200,000
Settlement of advances	89,983
	10,115,985
Fair value of identifiable net assets acquired	
Cash	57,404
Prepaid expenses and deposits	11,688
Other current asset	45,879
Intellectual property (Note 9(c))	7,250,000
Brand (Note 9(d))	560,000
Property, plant and equipment (Note 10)	467,135
Accounts payable and accrued liabilities	(164,662)
Long-term debt (Note 12)	(336,000)
Net assets, excluding deferred taxes	7,891,443
Purchased goodwill	2,224,541
Deferred tax liability	2,108,700
Goodwill	$ 4,333,241

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 year ended October 31, 2019, Purefarma generated $nil in trade revenues, incurred $1,580 in other losses, and incurred a net and comprehensive loss of $1,897,050 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 $2,109,091, with no change in trade revenue or other losses, for the year ended October 31, 2019.

4. Short-term Investments

Short-term investments held at October 31, 2019 consist of $9,050,000 (October 31, 2018 - $nil) in guaranteed investment certificates ("GICs") maintained with a Canadian chartered bank. The carrying value of these short-term investments approximates their fair value at October 31, 2019. Of the total balance, $50,000 is restricted and held as security against the Company's corporate credit card.

5. Inventories

	As at October 31, 2019	As at October 31, 2018
Supplies and packaging materials	$ 80,789	$ -
Dried cannabis and hemp	4,172,512	-
Manufacturing work in progress	1,252,233	-
Other	12,183	-
	$ 5,517,717	$ -

During the year ended October 31, 2019, inventories expensed to cost of goods sold was $4,072,626 (October 31, 2018 - $nil).

6. Prepaid Expenses and Deposits

	As at October 31, 2019	As at October 31, 2018
Inventory deposits	$ 358,250	$ -
Prepaid insurance and consulting	121,688	-
Other prepaid expenses	293,221	339,693
	$ 773,159	$ 339,693

7. Deposits

	As at October 31, 2019	As at October 31, 2018
Deposit on Stanley Park Digital Ltd. purchase (i)	$ 170,000	$ 250,000
Deposit for development costs (ii)	106,104	-
	$ 276,104	$ 250,000

7. Deposits (continued)

(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 October 31, 2019, $340,000 in cash had been advanced to SPD in relation to the LOI. The amount is non-refundable. Due to some uncertainty surrounding the recoverability of the deposit, a valuation allowance of $170,000 was taken during the year, as detailed in Note 24.

(ii) On February 16, 2018, one of the Company's subsidiaries, 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.

8. Investment in Associate

On July 26, 2019, the Company acquired a 30% strategic interest in Endocanna Health, Inc. ("Endocanna"), a company based in California, U.S.A. that develops saliva collection kits used in identifying genetic variants to facilitate cannabinoid formulation and dosing decisions. Through two of its wholly-owned subsidiaries, Heritage US Holdings Corp. and Heritage (US) Cali Corp., the Company invested $2,000,000 USD (equivalent to $2,636,400 CAD) in exchange for a 20% interest in Endocanna. The Company then issued 2,710,515 common shares to certain principals of Endocanna in exchange for a further 10% interest. The share exchange transaction was valued at $1,381,774 CAD, determined based on the fair value of the common shares issued. The Company incurred transaction costs of $20,928.

8. Investment in Associate (continued)

A reconciliation of the carrying amount of the investment is detailed below:

Balance at October 31, 2018	$	-
Additions		4,018,174
Transaction costs		20,928
Dividends received		-
Share of net loss		(115,597)
Share of other comprehensive loss		-
Balance at October 31, 2019	$	3,923,505

The following table summarizes, in aggregate, the balance sheet information of Endocanna as at October 31, 2019 and income statement amounts for the period from July 26, 2019 through October 31, 2019.

		October 31, 2019
Cash and cash equivalents	$	2,189,186
Current assets	$	2,401,130
Non-current assets	$	393,818
Current liabilities	$	124,583
Non-current liabilities	$	-
Revenue	$	145,950
Interest income	$	6
Depreciation and amortization expense	$	72,676
Loss from continuing operations	$	385,322
Total comprehensive loss	$	385,322

9. Intangible Assets

	Licenses (a)	Property purchase options (b)	Intellectual property	Brand	Goodwill (c)	Total
Cost (as restated, see Note 28)						
At November 1, 2017	$ 5,067,000	$ -	$ -	$ -	$ 1,371,635	$ 6,438,635
Acquired through business combination	-	-	-	-	-	-
At October 31, 2018	$ 5,067,000	$ -	$ -	$ -	$ 1,371,635	$ 6,438,635
Accumulated Amortization						
At November 1, 2017	$ -	$ -	$ -	$ -	$ -	$ -
Additions	-	-	-	-	-	-
At October 31, 2018	$ -	$ -	$ -	$ -	$ -	$ -
Net book value at October 31, 2018	**$ 5,067,000**	**$ -**	**$ -**	**$ -**	**$ 1,371,635**	**$ 6,438,635**

	Licenses (a)	Property purchase options (b)	Intellectual property	Brand	Goodwill (c)	Total
Cost						
At November 1, 2018	$ 5,067,000	$ -	$ -	$ -	$ 1,371,635	$ 6,438,635
Acquired through business combinations (Note 3)	23,170,000	957,000	7,250,000	560,000	13,319,798	45,256,798
Exercise of property purchase option	-	(957,000)	-	-	-	(957,000)
At October 31, 2019	$ 28,237,000	$ -	$ 7,250,000	$ 560,000	$ 14,691,433	$ 50,738,433
Accumulated Amortization						
At November 1, 2018	$ -	$ -	$ -	$ -	$ -	$ -
Additions	826,253	-	319,795	82,338	-	1,228,386
At October 31, 2019	$ 826,253	$ -	$ 319,795	$ 82,338	$ -	$ 1,228,386
Net book value at October 31, 2019	**$ 27,410,747**	**$ -**	**$ 6,930,205**	**$ 477,662**	**$ 14,691,433**	**$ 49,510,047**

9. Intangible Assets (continued)

In accordance with IFRS 3 - Business Combinations, acquisition date fair values assigned to intangible assets have been adjusted, within the applicable measurement period, where new information is obtained about facts and circumstances that existed at the acquisition date (Note 3). Related amortization amounts have also been adjusted to reflect the outcomes of the finalized business combination purchase price allocations.

The details of individually material intangible assets as at October 31, 2019 are as follows:

Description	Carrying Amount	Remaining Amortization Period
Voyage cultivation, processing and sales licenses	$ 4,813,650	19 years
CannaCure cultivation, processing and sales licenses	$ 22,597,098	19 years
Purefarma intellectual property	$ 6,930,205	9 years

(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 on the license. Amortization has since commenced on the license during the year ended October 31, 2019 as, in management's opinion, the asset has become available for use.

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 over a 20-year period.

(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 building (the "Optionor") where the Company conducts its business (the "Property"). The Optionor had 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 a 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 occupancy of the building, CannaCure committed to pay an annual amount of $200,000 plus HST in twelve equal monthly instalments commencing January 2018. The Company also committed to pay for all operating costs associated with the Property. These payments would cease on the earlier of the date of expiry, October 21, 2019, and the date of settling the purchase price of exercise. The payments associated with this agreement are included in the statement of operations and comprehensive loss under occupancy, office expense and other.

9. Intangible Assets (continued)

(b) Property purchase options (continued)

The fair value of the property purchase option was determined at the CannaCure acquisition date (Note 3(a)) using the Black-Scholes option pricing model with the following inputs, assumptions and results:

Risk-free annual interest rate	2.71%
Expected life of the option (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	$957,000

Expected annualized volatility was estimated using available data of comparable commercial properties in the same geographic area. The option to purchase the Property was exercised on June 28, 2019, resulting in a transfer of $957,000 from intangible assets to property, plant and equipment (Note 10).

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

(c) Goodwill

Refer to Note 28 regarding restatements made in the prior period that impact goodwill. As at October 31, 2019, all of the $14.69 million goodwill balance was allocated to the extraction business, the Company's sole cash generating unit ("CGU"). The Company assesses whether there are events or changes in circumstances that would more likely than not reduce the fair value of its CGU to below its carrying value and, therefore, require goodwill to be tested for impairment at the end of each reporting period.

As at October 31, 2019, the Company performed its annual impairment test on the goodwill pertaining to the extraction business using the value-in-use method. The key assumptions used in the calculation of the recoverable amount relate to future cash flows, weighted average cost of capital, and growth rates. These key assumptions were based on historical data from internal sources as well as industry and market trends. The Company estimated the recoverable amount of goodwill based on discounted cash flows. The discount rate used was 25% and the growth rates ranged from 10% to 30%.

As the recoverable amount exceeded the carrying value at October 31, 2019, no impairment was recognized. Management reviewed the valuation of the Company's CGU for reasonableness relative to the Company’s current market value. The Company believes that any reasonably possible change in the key assumptions would not cause the recoverable amount to decrease below the carrying value.

10. 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	3,991,741	-	4,653,668
Exercise of property purchase option (Note 9(b)(i))	-	2,548,822	665,735	3,214,557
Additions	5,017,312	1,648,013	-	6,665,325
At October 31, 2019	$ 6,199,181	$ 13,013,409	$ 920,735	$ 20,133,325
Accumulated Amortization				
At November 1, 2018	$ -	$ 10,756	$ -	$ 10,756
Additions	335,664	437,642	-	773,306
At October 31, 2019	$ 335,664	$ 448,398	$ -	$ 784,062
Net book value at October 31, 2019	**$ 5,863,517**	**$ 12,565,011**	**$ 920,735**	**$ 19,349,263**

During the year, the Company made additions of $874,576 to leasehold improvements and $1,037,192 to equipment that were unavailable for use at the end of the year. The additions of $874,576 to leasehold improvements were due to construction activity. As at October 31, 2019, assets included in leasehold improvements and equipment that were unavailable for use and had no amortization taken amounted to $1,747,596 and $1,037,192 respectively.

During the year, the Company acquired equipment with a cost of $31,591 by way of assuming a term loan, as detailed in Note 12.

11. Accounts Payable and Accrued Liabilities

	As at October 31, 2019	As at October 31, 2018
Inventory payables	$ 5,279,085	$ -
Other payables and accrued liabilities	1,469,854	656,873
	$ 6,748,939	$ 656,873

12. Long-term Debt

	As at October 31, 2019	As at October 31, 2018
Term loan - non-interest bearing, principal-only payments of $585 per month, 6-year term, maturing in January of 2025, with effective interest imputed as detailed below.	$ 28,595	$ -
Less: current portion	(4,360)	-
Long-term portion	$ 24,235	$ -

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 the time of initial recognition. At October 31, 2019, the face value of the term loan was $36,871 and the carrying value of the underlying equipment that serves as security for the loan was $29,706.

13. Contingent Consideration Payable

Balance at October 31, 2017 and 2018 (as restated, see Note 28)	$ 150,000
Less: current portion	(150,000)
Long-term	$ -

Balance at November 1, 2018	$ 150,000
(a) Issued in Purefarma acquisition, equity-settled (Note 3(b))	807,026
(b) Issued in Purefarma acquisition, cash-settled (Note 3(b))	3,200,000
(c) Cash payment made on contingent consideration issued in Voyage acquisition	(150,000)
Loss from remeasurement	676,974
Balance at October 31, 2019	$ 4,684,000
Less: current portion	-
Long-term	$ 4,684,000

13. Contingent Consideration Payable (continued)

(a) Contingent consideration issued in Purefarma acquisition, equity-settled

As detailed in Note 3(b), the Company is required to make certain pro-rata earn-out payments, payable in shares, to 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;

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 $826,000. Of this amount, $807,026 is considered to be payable in a variable number of shares and has therefore been classified as a financial liability. The remainder, $18,974, is considered to be payable in a fixed number of shares and has therefore been classified as equity. The amounts included in financial liabilities and equity respectively capture 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 cumulative 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, based on the closing stock price of the Company on the date of the Purefarma acquisition).

13. Contingent Consideration Payable (continued)

(a) Contingent consideration issued in Purefarma acquisition, equity-settled (continued)

The liability component of $807,026 is included in contingent consideration payable which 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 23.

The equity component of $18,974 is included in contributed surplus and is not subject to remeasurement at the end of each reporting period.

(b) Contingent consideration issued in Purefarma acquisition, cash-settled

As detailed in Note 3(b), the Company is required to make certain performance payments, 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 end of Purefarma was December 31st. Purefarma's fiscal year end 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.

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 23.

As at October 31, 2019, a balance of $48,830 is outstanding from a corporation controlled by the former shareholders of Purefarma, including an active director of the Company. The director has the ability to exercise significant influence over the corporation in question. This balance is intended to be offset against the first payment made under the terms of the contingent consideration detailed above. The balance is unsecured, non-interest bearing, has no fixed terms of repayment and is included in other current assets in the statement of financial position.

13. Contingent Consideration Payable (continued)

(c) Contingent consideration issued in Voyage acquisition, cash-settled

In October of 2014, the Company entered into an agreement with the non-controlling shareholder of Voyage, the terms of which state that the non-controlling shareholder has the right to require the Company to purchase from it certain preferred shares in Voyage. The non-controlling shareholder has the ability to exercise this right upon Voyage meeting certain license 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. In accounting for the business combination stemming from the step acquisition of Voyage in August of 2017, the Company recognized contingent consideration payable in the amount of $150,000, reflecting the fair value of this arrangement (see Note 28). This valuation reflects the high probability of meeting the first milestone, which entails a cash payment of $150,000, and the remote probability of meeting the remaining milestones.

During the year, 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.

14. 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 year ended October 31, 2018, the following share issuances took place:

The Company issued 8,559,000 common shares for the exercise of 8,559,000 stock options between $0.065 and $0.59 per share for total proceeds of $1,496,360 which resulted in a transfer from share-based payment reserve to share capital of $1,481,927. The Company issued 49,085,353 common shares for the exercise of 49,085,353 warrants at $0.06 and $0.10 per share for total proceeds of $4,776,535 which resulted in a transfer from share-based payment reserve to share capital of $223,520.

The Company issued 4,000,000 common shares as part of the contingent consideration relating to the acquisition of PhyeinMed Inc. (subsequently renamed to Voyage Cannabis Corp.). These shares have a fair value of $380,000 (based on the closing share price on the closing date). The Company also issued 6,000,000 restricted stock units (“RSU’s”) to the former owner of PhyeinMed, directors and consultants which had a grant date fair value of $1,820,000 of which $144,806 was expensed in the prior year.

14. Share Capital (continued)

(b) Issued share capital (continued)

During the year ended October 31, 2019, the following share issuances took place:

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

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

Total acquisition-related costs settled in common shares and expensed in the period with respect to these two business combinations amounted to $1,844,493 and has been included in share-based payments.

During the year, the Company issued 4,241,919 common shares for the exercise of 4,241,919 options at prices ranging from $0.10 to $0.35 per share. Total proceeds of $661,120 was credited to share capital in addition to a transfer from contributed surplus of $1,003,554.

During the year, the Company issued 25,166,216 common shares for the exercise of 25,166,216 warrants at prices ranging from $0.01 to $0.70 per share. Total proceeds of $8,153,559 was credited to share capital in addition to a transfer from contributed surplus of $619,398.

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 15(b). This resulted in a net transfer of $6,621,589 from contributed surplus to share capital, comprised of original proceeds of $7,500,000, less cash and non-cash issuance costs totaling $878,411.

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 $76,506, determined based on the fair value of the equity instruments granted.

As detailed in Note 8, the Company issued 2,710,515 common shares as part of the purchase of a significant influence interest in Endocanna.

14. Share Capital (continued)

(b) Issued share capital (continued)

As part of a private placement that took place in May of 2019, the Company issued 32,660,000 Units, at a price of $0.53 per Unit, for gross proceeds of $17,309,800. Each Unit comprises one common share and one-half of one common share purchase warrant. Each warrant entitles its holder to acquire one common share of the Company at an exercise price of $0.70 and expires on November 8, 2021. All proceeds were allocated to the common shares in accordance with the residual method. The Company paid issuance costs of $1,495,069 and issued 2,286,200 Broker Warrants. Each Broker Warrant is exercisable into one Unit of the Company at an exercise price of $0.53, expiring on May 7, 2022. The value of the Broker Warrants amounted to $839,927, based on the fair value of the equity instruments granted, as the fair value of the services could not be reliably measured. This issuance cost was recorded as a reduction in share capital and an increase in contributed surplus.

15. 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 15(b))	33,000,000		0.35
Issued upon deemed exercise of Agent Special Warrants (Note 15(b))	1,551,300		0.25
Issued upon exercise of Agent Warrants (i)	1,241,040		0.35
Issued for cash as part of May 2019 private placement (Note 14(b))	16,330,000		0.70
Issued as issuance cost for May 2019 private placement (Note 14(b))	2,286,200		0.53
Exercised	(25,166,216)		0.32
Expired	(7,760)		0.10
Balance at October 31, 2019	31,281,960	$	0.54

(i) During the year, 1,241,040 Agent Warrants were exercised, resulting in the issuance of 1,241,040 Units. As detailed in Note 15(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.

15. Contributed Surplus (continued)

(a) Warrants (continued)

The share price at the time of the exercise of the 1,241,040 Agent Warrants was $0.44. The share price at the time of all other warrant exercises ranged between $0.17 and $0.70, with a weighted average of $0.54.

The following table summarizes the warrants outstanding and exercisable at October 31, 2019:

Expiry date	Number of warrants		Weighted average exercise price
May 7, 2021	12,666,260	$	0.35
November 8, 2021	16,329,500	$	0.70
May 7, 2022	2,286,200	$	0.53
	31,281,960	$	0.54

The fair value of warrants issued during the year for purchase consideration, acquisition-related services and issuance costs 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	1.56% - 3.03%
Expected life of the warrants (years)	1.41 - 5.00
Expected annualized volatility	109% - 156%
Expected annual dividend yield	0%
Exercise price	$0.01 - $0.53
Weighted average share price at grant date	$0.23 - $0.55
Weighted average Black-Scholes value at grant date	$0.15 - $0.37

Expected annualized volatility was estimated using the Company's average historical volatility since entering the cannabis market. Of the 31,281,960 warrants outstanding, 2,286,200 are Broker Warrants as described in Note 14(b), 310,260 are Agent Warrants as described in Note 15(b)(ii), and 28,685,500 are standard common share purchase warrants exercisable into 1 common share of the Company.

As detailed in Note 3(a), warrants issued for acquisition-related services resulted in an expense of $163,643, included in the statement of operations and comprehensive loss.

15. Contributed Surplus (continued)

(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 October 31, 2019	-	$ -

(i) As part of a private placement that closed in February 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 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 14(b)) and 33,000,000 common share purchase warrants (Note 15(a)). The share price at the time of the deemed exercise was $0.30.

(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 convertible into Agent Warrants for no additional consideration upon exercise or deemed exercise, as discussed above. In turn, 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 $237,055, 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.

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 15(a)). The share price at the time of the deemed exercise was $0.30.

15. Contributed Surplus (continued)

(b) Special Warrants (continued)

The fair value of the Agent Special Warrants issued during the year 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 Agent Warrants (years)	2.50
Expected annualized volatility	114%
Expected annual dividend yield	0%
Exercise price	$0.25
Weighted average share price at grant date	$0.24
Weighted average Black-Scholes value at grant date	$0.15

Expected annualized volatility was estimated using the Company's average historical volatility since entering the cannabis market.

(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 the issued and outstanding common shares of the Company 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.

15. 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	7,500,000		0.35
Exercised	(4,241,919)		0.16
Cancelled	(437,500)		0.52
Balance at October 31, 2019	15,650,584	$	0.28

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.

In September 2019, the Company granted 2,000,000 stock options to employees, directors, officers and consultants as consideration for their services. The stock options carry an exercise price of $0.36 per share, have a variety of vesting terms, and expire on September 20, 2024.

The weighted average share price at the time of the various option exercises was $0.56.

The following table summarizes the options outstanding and exercisable at October 31, 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	892,476	892,476	$	0.20
February 8, 2024	5,262,500	2,700,000	$	0.34
September 20, 2024	2,000,000	550,000	$	0.36
	15,650,584	11,446,861	$	0.28

15. Contributed Surplus (continued)

(c) Stock options (continued)

(i) Stock option plan details (continued)

As at October 31, 2019, the weighted average remaining contractual life of all options outstanding was 3.54 years (October 31, 2018 – 4.15 years).

The fair value of stock options granted during the year 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	1.42% - 3.12%
Expected life of the options (years)	2.03 - 6.43
Expected annualized volatility	101% - 156%
Expected annual dividend yield	0%
Exercise price	\$0.10 - \$0.36
Weighted average share price at grant date	\$0.23 - \$0.36
Weighted average Black-Scholes value at grant date	\$0.19 - \$0.27

Expected annualized volatility was estimated using the Company's average historical volatility since entering the cannabis market.

(ii) Amounts arising from share-based payment transactions

During the year, the Company recognized an expense of \$1,546,505 relating to the vesting of options held by employees, directors, officers and consultants (October 31, 2018 - \$2,976,922).

(d) Restricted shares

During the year, 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 year, the Company recorded share-based payments of \$83,836 (October 31, 2018 - \$nil) for the vesting of restricted shares.

16. Share Subscriptions

During the year, a pre-existing balance of \$55,000 carried forward from October 31, 2018 reflecting funds advanced for Special Warrant subscriptions was transferred to contributed surplus upon the completion of the private placement detailed in Note 15(b)(i).

17. Non-Controlling Interest

The following table presents the summarized financial information for Voyage and Mainstrain Market Ltd. ("Mainstrain"), the Company's subsidiaries which have NCI's. This information represents amounts before intercompany eliminations. NCI is measured at fair value at the acquisition date.

	Voyage	Mainstrain
Current assets	2,359,561	2,500
Non-current assets	7,118,214	-
Current liabilities	12,431,207	134,924
Non-current liabilities	24,235	-
Revenue	1,971,795	-
Net loss and comprehensive loss	1,492,659	34,642

The net change in non-controlling interest is as follows:

Balance at October 31, 2017	1,144,183
Share of loss for the year	(177,154)
Balance at October 31, 2018	967,029
Share of loss for the year	(381,825)
Balance at October 31, 2019	585,204

18. Income Taxes

The Company's provision for income taxes for the years ended October 31, 2019 and 2018 differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates to the net and comprehensive loss as a result of the following:

	Years ended October 31, 2019	2018
Statutory rates	27%	27%
Income tax recovery at statutory rate	(4,012,000)	(1,746,000)
Non-deductible and non-taxable permanent differences	773,000	1,305,000
Financing fees charged to equity	(880,000)	-
Effect of rate changes	-	(14,000)
Income tax benefits not recognized and other	2,414,365	200,893
Provision for income taxes	$ (1,704,635)	$ (254,107)

18. Income Taxes (continued)

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

	Years ended October 31, 2019	2018
Deferred tax assets (liabilities)		
Non-capital loss carry forward	6,430,000	2,110,000
Property, plant and equipment	(68,000)	3,000
Intangible assets	(9,257,000)	(1,368,090)
Share issuance costs	727,000	17,000
Resource deductions	280,000	280,000
Other	75,700	(438)
	(1,812,300)	1,041,472
Less: Tax assets not recognized	(4,742,000)	(2,009,000)
Net deferred income taxes	$ (6,554,300)	$ (967,528)

The Company has accumulated non-capital losses for Canadian tax purposes of approximately $21,189,000 which may be carried forward and used to reduce taxable income in future years. The accumulated non-capital losses expire as follows:

Year of Expiry	Amount
2028	$ 81,000
2029	148,000
2030	247,000
2031	267,000
2032	187,000
2033	584,000
2034	941,000
2035	495,000
2036	640,000
2037	2,175,000
2038	6,584,000
2039	8,840,000
	$ 21,189,000

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.

19. 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 year ended October 31, 2019 are as follows:

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

	Years ended October 31, 2019		Years ended October 31, 2018
Management fees	$	180,000	$	200,000
Consulting fees		773,083		176,286
Occupancy		60,645		-
Interest income		2,495		-
Loans advanced		254,408		-
Loan repayments received		254,408		
Cash paid to non-controlling interest (Note 13(c))		150,000		-
	$	1,675,039	$	376,286

(b) Management compensation

		Years ended October 31, 2019		Years ended October 31, 2018
Salary and short-term benefits	$	266,989	$	376,286
Share-based payments		876,636		1,977,577
	$	1,143,625	$	2,353,863

(c) Related party balances

		As at October 31, 2019		As at October 31, 2018
Included in accounts payable and accrued liabilities	$	200,049	$	55,458
Included in other current assets (Note 13(b))	$	48,831	$	-

20. Commitments

The Company is committed under lease agreements with respect to various office premises, facilities and warehouses located in Canada expiring between January 2020 and September 2021, as follows:

	Amount
Year ending October 31, 2020	$ 57,810
Year ending October 31, 2021	26,730
	$ 84,540

Certain operating leases contain renewal options or automatic extensions. The Company is also required to cover certain operating costs associated with the properties being leased.

21. Loss per Share

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

The calculation of diluted loss per share excludes the effects of various conversions and exercises of options and warrants that would be anti-dilutive.

	Years ended October 31,	
	2019	2018
Issued shares, beginning of year	203,919,450	136,275,097
Weighted average issuances	224,254,558	31,475,139
Weighted average common shares, end of year	428,174,008	167,750,236
Net loss attributed to shareholders of the Company	$ (12,773,735)	$ (6,240,113)
Basic and diluted loss per share	$ (0.03)	$ (0.04)

22. 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 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 moderate exposure to credit risk from its cash, short-term investments and sales tax and accounts receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash and short-term investments is mitigated by holding these balances with highly rated Canadian financial institutions. The Company therefore does not expect any credit losses on its cash and short-term investments.

The Company's sales tax and accounts receivable consists of the following:

	As at October 31, 2019	As at October 31, 2018
Trade accounts receivable from customers	$ 473,716	$ -
Expected credit losses	-	-
Net trade receivables	473,716	-
Sales tax receivable from government bodies	954,770	274,184
Interest and other receivables	125,551	4,740
	$ 1,554,037	$ 278,924

Credit risk is generally limited for sales tax receivable from government bodies and interest receivable from highly rated Canadian financial institutions, which generally have low default risk. The Company therefore does not expect any credit losses on its sales tax receivable and interest receivable.

The Company provides credit to certain customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk for customers is assessed on a case-by-case basis and a provision is recorded where required. As of October 31, 2019, the Company had not identified any doubtful accounts and thus did not recognize a provision for expected credit losses on its trade accounts receivable.

The Company has assessed that there is a concentration of credit risk, as the full balance of the Company's trade accounts receivable is due from 2 customers as at October 31, 2019.

22. Financial Instruments (continued)

(a) Credit risk (continued)

An analysis of the aging of trade accounts receivable is as follows:

	As at October 31, 2019	As at October 31, 2018
Current	$ -	$ -
31 - 60 days	414,736	-
61 - 90 days	58,980	-
Greater than 90 days	-	-
	$ 473,716	$ -

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the financial obligations associated with its financial liabilities as they come due. The Company manages liquidity risk through the management of its capital structure. As at October 31, 2019, the Company had working capital of $11,685,474 (October 31, 2018 – $1,080,886). The Company does not yet have positive cash flows from operations and as such, the Company may be dependent upon the issuance of new equity and/or debt to advance its production efforts and meet its financial obligations. If equity or debt financing is required, failure to obtain such financing on a timely basis may cause the Company to postpone, reduce or terminate its production plans. In addition to the commitments outlined in Note 20, the Company has the following undiscounted contractual obligations subject to liquidity risk:

	< 1 year	1 - 3 years	> 3 years
Accounts payable and accrued liabilities	$ 6,748,939	$ -	$ -
Long-term debt	7,023	14,046	15,802
Contingent consideration payable (probability adjusted)	$ -	4,291,658	837,962
	$ 6,755,962	$ 4,305,704	$ 853,764

(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.

22. 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 earn a fixed rate of interest. The Company's long-term debt is non-interest bearing contractually, with some imputed effective interest, as detailed in Note 12. At October 31, 2019, the Company had no hedging agreements in place.

(iii) Price risk

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

23. Fair Value of Financial Instruments

Financial instruments are measured either at fair value or at amortized cost. The table below lists the valuation methods used to determine the fair value of each financial instrument.

	Fair Value Method
Financial instruments measured at fair value	
Contingent consideration payable	Discounted cash flow model (level 3)
Financial instruments measured at amortized cost	
Cash	Carrying amount (approximates fair value due to short-term nature)
Short-term investments	Carrying amount (approximates fair value due to short-term nature)
Accounts receivable, excluding taxes 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

23. Fair Value of Financial Instruments (continued)

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

	Amortized Cost	FVTPL	Total
Financial Assets			
Cash	$ 2,486,466	$ -	$ 2,486,466
Short-term investments	$ 9,050,000	$ -	$ 9,050,000
Accounts receivable, excluding taxes receivable	$ 599,267	$ -	$ 599,267
Financial Liabilities			
Accounts payable and accrued liabilities	$ 6,748,939	$ -	$ 6,748,939
Long-term debt	$ 28,595	$ -	$ 28,595
Contingent consideration payable	$ -	$ 4,684,000	$ 4,684,000

(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 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 year ended October 31, 2019, there were no transfers of amounts between levels (October 31, 2018 - no transfers between levels).

23. Fair Value of Financial Instruments (continued)

(b) Contingent consideration payable

The following is a continuity of contingent consideration payable:

	Voyage	Purefarma	Total
Balance at October 31, 2017 and 2018 (see Note 28)	$ 150,000	$ -	$ 150,000
Additions from acquisitions (Note 3(b))	-	4,007,026	4,007,026
Payment made (Note 13(c))	(150,000)	-	(150,000)
Unrealized loss from changes in fair value	-	676,974	676,974
Balance at October 31, 2019	$ -	$ 4,684,000	$ 4,684,000

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 management's expectations of Purefarma's annual gross margins up to December 31, 2022 and the Company's extraction-related cumulative gross margin up to December 31, 2023. The former is estimated to total $85.16 million by December 31, 2022 and the latter is estimated to total $116.76 million by December 31, 2023. The estimated earn-outs were discounted to present value in order to derive the fair value of the contingent consideration. The discount rate used is 25%. If the gross margin estimates were decreased by 20%, the estimated fair value of the contingent consideration would decrease by $1,028,000. If the gross margin estimates were increased by 20%, the estimated fair value of the contingent consideration would increase by $787,000. If the discount rate decreased by 5%, the estimated fair value of the contingent consideration would increase by approximately $536,000. If the discount rate increased by 5%, the estimated fair value of the contingent consideration would decrease by approximately $454,000. As there is no upper limit on the contingent performance payments, the total potential pay-out is unlimited over the contractual term.

24. Asset Impairment

During the year ended October 31, 2019, the Company committed to bulk trade purchases of industrial hemp grain and biomass. The Company has advanced deposits with respect to these commitments and included the balance in prepaid expenses and deposits in the consolidated statement of financial position. Due to non-performance by the vendor and an inability to recover the full deposits, an impairment has been recognized in the amount of $147,415 to reflect the anticipated loss. The remaining fair value and recoverable amount of the combined deposits is approximately $358,250, based on an executed sale and assignment transaction with another party (level 1 of the fair value hierarchy).

During the year ended October 31, 2019, the Company identified some uncertainty surrounding the recoverability of its deposit from the Stanley Park Digital Ltd. share purchase (Note 7). The underlying investee is in the early stages of operations and has therefore incurred losses and accumulated a shareholders' deficit. Management believes that the Company may be unable to recover the full deposit and as such, a valuation allowance in the amount of $170,000 has been recognized to reflect the possible loss. The remaining fair value and recoverable amount of the deposit is approximately $170,000 based on unobservable inputs (level 3 of the fair value hierarchy).

25. Entity-wide Disclosures

The Company's trade revenue for the year ended October 31, 2019 is comprised of the following:

	Domestic (Canada)	International	Total
Revenue from sale of goods	$ 3,038,671	$ 58,980	$ 3,097,651
Revenue from provision of services	465,972	-	465,972
	$ 3,504,643	$ 58,980	$ 3,563,623

Two significant customers accounted for a combined 97% of total trade revenue for the year ended October 31, 2019. The Company did not report any trade revenue for the year ended October 31, 2018.

26. 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.

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 year. The Company is not subject to externally imposed capital requirements.

27. Subsequent Event

In January of 2020, the Company finalized a debt financing arrangement wherein the Company is able to borrow, through a senior secured term loan, up to $6,700,000. The term loan is advanceable in two tranches of $4,875,000 and $1,825,000 respectively, and has a 24-month contractual term maturing in January of 2022. The term loan bears interest at 9.50% per annum, with monthly interest-only payments, and all principal due on maturity. The term loan also bears an original issue discount of 4.50%.

The term loan is secured by general security agreements, pledges of all securities in all present and future subsidiaries, assignments of material contracts and licenses, assignments of insurance, and two mortgages with respect to certain real properties held by the Company and its guarantors.

28. Retrospective Restatement

During the year ended October 31, 2017, the Company obtained control of PhyeinMed Inc. (subsequently renamed to Voyage Cannabis Corp.). As part of the identifiable net assets acquired in the business combination, the Company acquired license acquisition costs with a fair value of $5,067,000. In accounting for this business combination, the Company unintentionally omitted to capture the deferred tax liability on said license, some additional contingent consideration payable, and the resulting impact on goodwill. The details of the contingent consideration are outlined in Note 13(c).

To correct the error, the Company has restated the comparative amounts for the prior period presented as follows:

	As Previously Reported	Adjustment	As Restated
Ending intangible assets, October 31, 2018	5,067,000	1,371,635	6,438,635
Ending total assets, October 31, 2018	12,699,236	1,371,635	14,070,871
Ending current portion of contingent consideration payable, October 31, 2018	-	150,000	150,000
Ending current liabilities, October 31, 2018	712,331	150,000	862,331
Ending deferred tax liability, October 31, 2018	-	967,528	967,528
Ending total liabilities, October 31, 2018	712,331	1,117,528	1,829,859
Income tax expense (recovery) - deferred	-	(254,107)	(254,107)
Net loss and comprehensive loss	(6,671,374)	254,107	(6,417,267)
Net loss and comprehensive loss attributed to:			
Shareholders of the Company	(6,430,693)	190,580	(6,240,113)
Non-controlling interest	(240,681)	63,527	(177,154)

28. Retrospective Restatement (continued)

	As Previously Reported	Adjustment	As Restated
Ending accumulated deficit, October 31, 2018	(12,760,850)	190,580	(12,570,270)
Ending equity attributable to shareholders, October 31, 2018	11,083,403	190,580	11,273,983
Ending non-controlling interest, October 31, 2018	903,502	63,527	967,029
Ending total equity, October 31, 2018	11,986,905	254,107	12,241,012
Ending total liabilities and equity, October 31, 2018	12,699,236	1,371,635	14,070,871

Furthermore, the Company has restated the opening balances of assets and liabilities for the earliest prior period presented, as follows:

	As Previously Reported	Adjustment	As Restated
Opening intangible assets, November 1, 2017	5,067,000	1,371,635	6,438,635
Opening deferred tax liability, November 1, 2017	-	1,221,635	1,221,635
Opening contingent consideration payable, November 1, 2017	-	150,000	150,000

The correction of this error resulted in no impact to opening equity as at November 1, 2017. Basic and diluted loss per share for the year ended October 31, 2018 remained at $0.04.