VALENS GROWORKS CORP.

CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)

NOVEMBER 30, 2018

VALENS GROWORKS CORP.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Valens GroWorks Corp.

We have audited the accompanying consolidated financial statements of Valens GroWorks Corp., which comprise the consolidated statements of financial position as at November 30, 2018 and 2017 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Valens GroWorks Corp. as at November 30, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Professional Accountants

March 13, 2019

A member of Nexia International

VALENS GROWORKS CORP.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
As at November 30

	Notes	2018 $	2017 $
ASSETS			
Current			
Cash		1,726,530	291,623
Short-term investments	4	23,505,750	-
Receivables	11	1,750,609	126,454
Prepaid expenses and deposits	5	1,086,544	444,204
Promissory note receivable	6	1,007,192	-
Inventory	7	506,772	-
		29,583,397	862,281
Asset classified as held for sale	8,10	2,636,501	-
		32,219,898	862,281
Equipment and leaseholds	9,11	7,188,657	455,426
Leasehold construction in progress	9	-	1,789,292
Intangible assets	10,12	14,265,726	3,900,000
Promissory note receivable	6	-	1,890,498
TOTAL ASSETS		53,674,281	8,897,497
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	11	961,493	828,318
Promissory notes payable	11	-	860,507
		961,493	1,688,825
Shareholders' equity			
Share capital	12	65,048,638	17,934,729
Reserves	12	12,770,160	2,865,412
Obligation to issue shares	12	4,414,622	38,000
Subscriptions receivable		-	(20,608)
Deficit		(29,520,632)	(13,608,861)
		52,712,788	7,208,672
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		53,674,281	8,897,497

Nature and continuance of operations (Note 1)
Commitments (Note 17)
Subsequent events (Note 18)

Approved on behalf of the Board on March 13, 2019:

Signed

"Tyler Robson"
Director

Signed

"Nitin Kaushal"
Director

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

VALENS GROWORKS CORP.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
For the years ended November 30

	Notes	2018 $	2017 $
Revenue		51,526	40,724
Cost of sales		31,558	24,430
		19,968	16,294
Operating expenses			
Administration fees		-	7,000
Advertising and promotion		1,114,487	65,865
Depreciation and amortization	9,10	1,009,698	105,288
Foreign exchange (gain) loss		(73,229)	108,546
Interest		26,968	242,649
Management and consulting fees	11,12	2,718,586	1,225,036
Office and miscellaneous		817,502	53,681
Professional fees		436,640	165,513
Rent	11	260,518	281,310
Repairs and maintenance		73,086	30,168
Share-based payments	11,12	5,455,788	2,399,609
Telephone and utilities		51,564	42,552
Transfer agent and filing fees		156,808	28,839
Travel and business development		374,610	51,645
Wages and salaries	11	1,363,936	464,281
		13,786,962	5,271,982
		(13,766,994)	(5,255,688)
Accretion	6	(14,718)	630,400
Interest income	6	327,994	241,835
Loss on promissory note receivable	6	(2,214,002)	-
Other income (loss)		(243,046)	-
		(2,143,772)	872,235
Loss before income taxes		(15,910,766)	(4,383,453)
Income taxes	13	(1,005)	-
Loss and comprehensive loss for the year		(15,911,771)	(4,383,453)
Basic and diluted loss per common share		(0.22)	(0.08)
Weighted average number of common shares outstanding-basic and diluted		73,175,042	56,206,627

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

VALENS GROWORKS CORP.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in Canadian Dollars)
For the years ended November 30

	Share Capital						
	Number	Amount $	Reserves $	Obligation to issue shares $	Subscriptions receivable $	Deficit $	Total $
Balance, November 30, 2016	51,022,667	7,511,605	573,879	-	-	(9,225,408)	(1,139,924)
Shares issued for cash	1,823,582	1,455,774	-	-	(8,000)	-	1,447,774
Shares issued to settle accounts payable	1,192,919	1,006,311	-	-	-	-	1,006,311
Shares issued to settle convertible loans	1,036,539	1,036,539	-	-	-	-	1,036,539
Shares issued to settle promissory notes (Note 11)	2,197,327	2,008,865	-	-	-	-	2,008,865
Shares issued for consulting services	90,000	105,000	-	38,000	-	-	143,000
Shares issued pursuant to Supra acquisition (Note 10)	3,000,000	3,900,000	-	-	-	-	3,900,000
Shares issued for exercise of warrants	581,498	436,726	-	-	-	-	436,726
Warrants issued to settled accounts payable	364,444	273,333	-	-	(12,608)	-	260,725
Shares issued for exercise of options	191,666	200,576	(108,076)	-	-	-	92,500
Shares cancelled	(33,333)	-	-	-	-	-	-
Share-based payments	-	-	2,399,609	-	-	-	2,399,609
Loss for the year	-	-	-	-	-	(4,383,453)	(4,383,453)
Balance, November 30, 2017	61,467,309	17,934,729	2,865,412	38,000	(20,608)	(13,608,861)	7,208,672
Share issued for exercise of warrants	735,405	920,875	-	-	-	-	920,875
Share issued for exercise of options	2,086,538	3,755,989	(1,830,989)	-	-	-	1,925,000
Shares issued through private placement	10,134,350	13,673,170	-	-	-	-	13,673,170
Units issued through bought deal financing	13,951,490	22,577,872	4,725,929	-	-	-	27,303,801
Share issuance costs	70,565	(3,723,897)	893,946	-	-	-	(2,829,951)
Shares issued for Tarukino agreement (Note 10)	4,300,000	9,288,000	1,958,226	-	-	-	11,246,226
Share-based payments	468,000	621,900	4,157,636	4,376,622	-	-	9,156,158
Prior year subscriptions received	-	-	-	-	20,608	-	20,608
Loss for the year	-	-	-	-	-	(15,911,771)	(15,911,771)
Balance, November 30, 2018	93,213,657	65,048,638	12,770,160	4,414,622	-	(29,520,632)	52,712,788

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

VALENS GROWORKS CORP.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
For the years ended November 30

	2018	2017
	$	$
OPERATING ACTIVITIES		
Loss for the year	(15,911,771)	(4,383,453)
Adjustment for non-cash items:		
Depreciation	1,009,698	105,288
Share-based payments	5,455,788	2,437,609
Interest on promissory note receivable	(235,976)	(241,835)
Accretion on promissory note receivable	14,718	(630,400)
Interest expense	17,035	230,538
Consulting fees	680,870	105,000
Foreign exchange	(79,438)	101,972
Loss on promissory note receivable	2,214,002	-
Loss on disposal of assets	5,237	-
Other income (loss)	234,846	-
Working capital adjustments		
Receivables	(815,355)	(57,871)
Prepaid expenses and deposits	(642,340)	(443,318)
Inventory	(506,772)	
Accounts payable and accrued liabilities	(146,118)	622,844
	(8,705,576)	(2,153,626)
INVESTING ACTIVITIES		
Acquisition of equipment and leaseholds	(5,677,120)	(807,319)
Short-term investments	(23,505,750)	-
Deposit on sale of intangible asset	200,000	-
Issuance of promissory note	(1,000,000)	-
	(29,982,870)	(807,319)
FINANCING ACTIVITES		
Proceeds from private placement, net of share issue costs	12,763,305	1,447,774
Proceeds from bought deal, net of share issue costs	25,383,715	-
Settlement of subscription receivable	8,000	-
Proceeds from exercise of warrants	920,875	697,451
Proceeds from exercise of stock options	1,925,000	92,500
Proceeds from issuance of convertible debt	-	1,000,000
Repayment of promissory notes payable	(877,542)	-
	40,123,353	3,237,725
CHANGE IN CASH	1,434,907	276,780
Cash, beginning of year	291,623	14,843
Cash, end of year	**1,726,530**	**291,623**

Supplemental disclosure with respect to cash flows (Note 16)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Valens GroWorks Corp. (the "Company") was incorporated under the laws of British Columbia on January 14, 1981. The Company operates in the cannabis industry and is focused on extraction services. The Company's common shares trade under the trading symbol "VGW" on the Canadian Securities Exchange ("CSE") and under the trading symbol "VGWCF" on the OTC Markets.

The address of the Company's registered and records office and head office address is 230 Carion Road, Kelowna, BC V4V 2K5.

During the year ended November 30, 2018, Valens Agritech Ltd. ("VAL"), a subsidiary company, was granted its Licensed Producer ("LP") license to cultivate and produce oil under the Access to Cannabis for Medical Purposes Regulations and subsequently, a standard processing and standard cultivation license under the Cannabis Act. VAL also holds an analytical testing license from Health Canada.

On April 5, 2017, the Company acquired Supra THC Services Inc. ("Supra") (Note 10). Supra was incorporated under the Business Corporations Act of the Province of British Columbia on December 10, 2015. Supra holds a Health Canada Dealer's License which allows Supra to process and produce extract from cannabis and related active ingredients for scientific purposes. On October 23, 2018, the Company entered into an agreement to sell Supra to Rotogro International Limited ("Rotogro") (Note 8).

On July 19, 2018, Valens Farms Ltd. ("Farms") was incorporated under the laws of British Columbia. Farms was incorporated to hold the interest in the cannabis production facility with Kosha Projects Inc.

On October 18, 2018, Valens Labs Ltd. ("Labs") was incorporated under the laws of British Columbia. Labs was incorporated to transfer the assets and operations of Supra upon the closing of the Rotogro transaction.

These consolidated financial statements were prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"), with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations rather than through a process of forced liquidation.

The Company has incurred losses since its inception and for the year ended November 30, 2018, the Company incurred a loss of $15,911,771 (November 30, 2017 - $4,383,453). As of November 30, 2018, the Company has an accumulated deficit of $29,520,632 (November 30, 2017 - $13,608,861). The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain financing and generate positive cash flows from its operations. The Company estimates it has sufficient working capital to continue operations for the upcoming twelve months.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements of the Company for the year ended November 30, 2018 were authorized for issue by the Board of Directors on March 13, 2019.

Basis of preparation

These consolidated financial statements have been prepared on the accrual basis of accounting except for cash flow information, and on a historical cost basis except for certain financial assets measured at fair value. The financial

2. BASIS OF PREPARATION-*continued*

statements are presented in Canadian Dollars, which is also the Company's functional currency, unless otherwise indicated.

Critical accounting estimates and judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

i) The inputs used in calculating the fair value for share-based compensation expense included in profit or loss.

ii) The valuation of shares and other equity instruments issued in non-cash transactions. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.

iii) Amortization of equipment, leaseholds and intangible assets are dependent upon the estimated useful lives, which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, VAL, Supra, Farms and Labs. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intra-company transactions, balances, income and expenses were eliminated in full on consolidation.

Functional and presentation currency

The functional currency of the Company (and its subsidiaries) is the Canadian dollar as this is the principal currency of the economic environment in which it operates. The Canadian dollar is also the Company's presentation currency. Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

All gains and losses on translation of these foreign currency transactions are included in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

Cash

Cash is comprised of deposits with banks and highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less.

Short-term investments

Short-term investments are comprised of liquid investments with maturities between three and twelve months. Short-term investments are initially recognized at fair value and subsequently adjusted to fair value through profit or loss.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on an average costs basis. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Packaging and supplies are initially valued at cost and subsequently at the lower of cost and net realizable value.

Financial instruments

i. Financial assets

The Company classifies its financial assets into one of the following categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

Available-for-sale - Non-derivative financial assets not included in the above categories and investment in entities that are not subsidiaries, joint ventures or investments in associates are designated as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

ii. Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method.

In addition, for financial reporting purposes, fair value measurements are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

a) Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities
b) Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
c) Level 3 – inputs that are not based on observable market data.

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Instrument	Classification	Level	Fair value method
Cash	Fair value through profit and loss	Level 1	Carrying amount (approximates fair value due to short-term nature)
Short-term investments	Fair value through profit and loss	Level 1	Carrying amount (approximates fair value due to short-term nature)
Receivables	Loans and receivables	n/a	Carrying amount (approximates fair value due to short-term nature)
Promissory note receivable	Loans and receivables	n/a	Carrying amount (approximates fair value due to short-term nature)
Accounts payable and accrued liabilities	Other financial liabilities	n/a	Carrying amount (approximates fair value due to short-term nature)

Equipment and leaseholds

Equipment and leaseholds are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

The depreciation rates applicable to each category of property and equipment are as follows, with one-half year rule applied for any additions in the year:

Computer equipment and software	20%-100% declining balance
Office furniture and equipment	20%-50% declining balance
Lab equipment	20% declining balance
Leasehold improvements	7 years straight-line

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting year, with the effect of any changes in estimates accounted for on a prospective basis. The determination of appropriate useful lives and residual values are based on management's judgement; therefore, the resulting depreciation is subject to estimation uncertainty.

Items of equipment are derecognized upon disposal or when no future economic benefits are expected to arise from their continued use. Any gain or loss arising from disposal or retirement is determined as the difference between the consideration received and the carrying amount of the asset and is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

Finite-lived and indefinite-lived intangible assets

Finite-lived intangible assets are recognized and measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets with finite useful lives are amortized using the straight-line method over the useful life of the asset. The Company conducts an annual assessment of the residual balances, useful lives and amortization methods being used for intangible assets and any changes arising from the assessment are applied by the Company prospectively. The Health Canada license is amortized on a straight-line basis over the useful life of the facility or lease term.

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Impairment of non-financial assets

At the end of each reporting period, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. An amount equivalent to the discounted provision is capitalized within tangible fixed assets and is depreciated over the useful lives of the related assets. The increase in the provision due to passage of time is recognized as interest expense.

Revenue recognition

Revenue from the rendering of services performed by the Company is recognized when the following conditions are met: amount of the revenue can be measured reliably; it is probable that economic benefits associated with the transaction will flow to the entity; the stage of completion of the transaction at the end of the reporting period can be measured reliably; and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Cost of sales

Cost of sales includes cost of inventory expensed, packaging costs, shipping costs and related labour.

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

Unit financing

In unit financing where the Company issues common shares with an attached warrant, the warrants issued to investors and any warrants issued to brokers are accounted for as follows:

The fair value of investor warrants is measured based on the unit price paid by the investor compared to the fair value of the common shares on the issuance date. If the unit price is greater than the common share price, the excess is considered the fair value of the investor warrant. If the unit price is less than the common share price, no fair value is assigned to the warrant. The fair value of the common shares is recognized in share capital and the fair value of the investor warrants is recognized in reserves.

The fair value of broker warrants is measured and recognized on the date of grant, using the Black-Scholes option pricing model. The fair value is recognized as a share issuance cost with a corresponding increase in reserves.

Share-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of the options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. The fair value is recognized as an expense with a corresponding increase in reserves. When stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion of share-based compensation previously recorded in reserves. Consideration paid for the shares on the exercise of stock options is credited to share capital.

Share-based compensation arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity settled share-based payment transactions and measured at the fair value of goods or services received. If the fair value of the goods or services received cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is calculated by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Loss per share

The Company presents basic loss per share data for its common shares, calculated by dividing the net loss available to common shareholders of the Company by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Segmented Reporting

An operation segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the Company's other components. As at November 30, 2018 and 2017, the Company operated in one business segment, being the scientific research of phytopharmaceutical material, specifically producing cannabis and cannabis related products.

Accounting standards not yet effective

IFRS 9 – Financial Instruments ("IFRS 9")
In July 2014, the IASB issued the final version of IFRS 9 which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flow of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument.

IFRS 9 amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and derecognition of financial instruments. The amended standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")
In May 2014, IASB issued IFRS 15 to replace IAS 18 – Revenue, which establishes a new single five-step control-based revenue recognition model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company has initially assessed that there will be no material reporting changes as a result of adopting IFRS 9 and 15; however, enhanced disclosure requirements are expected.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

IFRS 16 – Leases

IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted, but only in conjunction with IFRS 15.

The Company has not yet completed the process of assessing the impact of IFRS 16 will have on its consolidated financial statements.

4. SHORT-TERM INVESTMENTS

Short-term investments consist of various guaranteed investment certificates that mature on dates between October 8, 2019 and October 11, 2019 with annual interest rates ranging from 1.85% to Bank Prime less 2.45%.

5. PREPAID EXPENSES AND DEPOSITS

	2018 $	2017 $
Deposits – extraction equipment	686,959	-
Prepaid insurance, advertising and promotion and other	399,585	444,204
	1,086,544	444,204

6. PROMISSORY NOTE RECEIVABLE

Current Assets	Tarukino Holdings Inc	MKV Ventures 1, LLC	Total $
Balance, November 30, 2016	-	1,120,235	1,120,235
Interest	-	241,835	241,835
Accretion	-	630,400	630,400
Foreign exchange gain (loss)	-	(101,972)	(101,972)
Balance, November 30, 2017	-	1,890,498	1,890,498
Additions	1,000,000	-	1,000,000
Interest	7,192	228,784	235,976
Accretion	-	(14,718)	(14,718)
Foreign exchange gain (loss)	-	79,438	79,438
Transfer from receivables	-	30,000	30,000
Write off	-	(2,214,002)	(2,214,002)
Balance, November 30, 2018	1,007,192	-	1,007,192
Current assets	1,007,192	-	1,007,192
Long-term assets	-	-	-

Tarukino Holdings Inc.

The Company advanced $1,000,000 to Tarukino Holdings Inc (“Tarukino”) under a promissory note dated October 26, 2018. The promissory note will accrue interest at 7.5% per annum and will be repayable on or before March 31, 2019. As security for the promissory note, the Company and Tarukino entered into a share pledge agreement dated October 26, 2018, under which 2,150,000 shares of the Company issuable to Tarukino under the manufacturing and sales license agreement (Note 10) dated September 21, 2018 will be held in escrow.

(Expressed in Canadian Dollars)

6. PROMISSORY NOTE RECEIVABLE -*continued*

MKV Ventures 1 LLC

The Company has a loan receivable secured by a promissory note outstanding to MKV Ventures 1, LLC ("MKV Ventures") a 100% owned subsidiary of MKHS LLC ("MKHS"). MKHS, is a fully licensed, Arizona-based marijuana cultivation, extraction and medicinal dispensary business. MKHS supplies medical marijuana pursuant to the Arizona Medical Marijuana Act, operates two state-licensed "healing center" dispensaries and distributes its own in-house prepared, branded line of edibles, concentrates and extracts.

The promissory note made up part of the net assets acquired under the reverse takeover transaction in fiscal 2016 ("RTO"). The Company had originally advanced MKHS funds to satisfy the terms and conditions of a Letter of Intent between the Company and MKHS dated October 30, 2015 and a superseding binding Letter of Commitment November 24, 2015, whereby MKHS committed to be acquired by the Company through a share exchange transaction.

During the year ended November 30, 2017 the Company and MKHS decided not to complete the share exchange transaction and on January 16, 2017 the Company entered into a 5-year, renewable, Professional Services Agreement (the "PSA") with MKHS Ventures. As a result of the Arrangement, MKHS Ventures agreed to complete the buildout of a 28,000 square foot Farmtek greenhouse expansion as proposed and funded by the Company under the original agreements (the "Buildout"). In accordance with the PSA, upon completion of the Buildout and commencement of operations, the Company will receive monthly management fees and provide consulting services which will be invoiced on a monthly basis.

On January 16, 2017 the Company also entered into the loan agreement with MKV Ventures which is secured by a promissory note for the total loan amount of $1,628,266 (US$1,212,500). The loan is guaranteed by MKHS and secures repayment of previous advances made by the Company. The loan accrues interest at the rate of 15% per annum effective May 15, 2016. Principal and interest, as well as $30,000 in cost recoveries for past accrued fees, are payable in equal monthly payments, to the Company by MKHS in arrears commencing at the end of the third month following Buildout, and on the 15th day of each month thereafter over a 5-year term. The agreements entered into on January 16, 2017, supersede and replaces all previous agreements entered into between the Company and MKHS and settles all outstanding issues between the parties.

The Buildout of the MKHS Ventures project has continued to experience significant delays. The Company estimated the loan to be fully impaired and wrote off the balance outstanding at November 30, 2018.

7. INVENTORY

	2018 $	2017 $
Dried cannabis	466,656	-
Packaging and supplies	40,116	-
	506,772	-

(Expressed in Canadian Dollars)

8. ASSET CLASSIFIED AS HELD FOR SALE

The intangible asset associated with Supra's Health Canada Dealer's License (the "License"), is presented as an asset held for sale following the receipt by the Company of an offer from Rotogro on October 23, 2018 to acquire the issued and outstanding shares of Supra. Under the terms of the agreement, prior to closing, all assets, liabilities, employees and customers are to be transferred from Supra into Labs, effectively leaving the License in Supra . Upon completion of this transaction, the Company will maintain the existing business of Supra within Labs.

	2018 $	2017 $
Opening designation of asset as held for sale (Note 10)	3,725,301	-
Allocation of first installment (1)	(1,088,800)	-
Carrying amount of asset held for sale	2,636,501	-

(1) Under the terms of the Share Purchase Agreement ("SPA") between the Company and Rotogro, the Company will sell all of the issued and outstanding shares in Supra in exchange for $2,000,000 in cash and 18,900,000 ordinary shares in Rotogro, to be paid in four installments. The first non-refundable installment is comprised of $200,000 in cash (received) and 2,250,000 ordinary shares in Rotogro (received subsequent to year end) which is valued at $888,800 and recorded as a reduction in the carrying value of the license during the year ended November 30, 2018. The second installment of $200,000 in cash and 16,650,000 ordinary shares in Rotogro, of which 14,400,000 ordinary shares in Rotogro are to be held in escrow and the remaining 2,250,000 shares in Rotogro are freely trading, is due on closing the transaction which is anticipated to be in March 2019, the third installment of $600,000 in cash and 5,400,000 ordinary shares in Rotogro to be released from escrow is due on the earlier of twenty one days from Rotogro's receipt of a processing license or December 31, 2019, and the final installment of $1,000,000 and 9,000,000 ordinary shares in Rotogro to be released from escrow is due on the earlier of twenty one days from Rotogro's receipt of a cultivation license or December 31, 2020.

The Company assessed the carrying amount of the intangible asset held for sale and the fair value less cost to sell and determined that there is no impairment in the value of the asset.

9. EQUIPMENT AND LEASEHOLDS

	Computer equipment and software $	Office furniture and equipment $	Lab equipment $	Leasehold Improvements $	Total $
Opening Balance					
Balance, November 30, 2016	12,840	5,199	57,792	-	75,831
Additions	388,151	56,084	71,690	-	515,925
Balance, November 30, 2017	400,991	61,283	129,482	-	591,756
Additions	48,216	301,971	2,594,308	2,839,680	5,784,175
Transfers	-	-	-	1,789,292	1,789,292
Disposals	(15,305)	(1,134)	-	-	(16,439)
Balance, November 30, 2018	433,902	362,120	2,723,790	4,628,972	8,148,784
Accumulated depreciation					
Balance, November 30, 2016	8,651	718	21,673	-	31,042
Additions	76,148	14,747	14,393	-	105,288
Balance, November 30, 2017	84,799	15,465	36,066	-	136,330
Additions	131,258	94,986	278,114	330,641	834,999
Disposals	(11,088)	(114)	-	-	(11,202)
Balance, November 30, 2018	204,969	110,337	314,180	330,641	960,127
Carrying Value					
November 30, 2017	316,192	45,818	93,416	-	455,426
November 30, 2018	228,933	251,783	2,409,610	4,298,331	7,188,657

(Expressed in Canadian Dollars)

9. EQUIPMENT AND LEASEHOLDS *-continued*

The leasehold improvements relate to a building expansion of the current facility under lease, including infrastructure for additional growing rooms, research and testing labs and office space. At November 30, 2017, the Company had incurred $1,789,292 in leasehold construction in progress costs. The leasehold construction was completed in the third quarter of 2018 and was ready to be used by both Supra and VAL for their respective operations.

10. INTANGIBLE ASSETS

Cost	**Tarukino Holdings Inc.** $	**Supra License** $	**Total** $
Balance, November 30, 2016	-	-	-
Additions	-	3,900,000	3,900,000
Balance, November 30, 2017	-	3,900,000	3,900,000
Additions	14,265,726	-	14,265,726
Transfer to held for sale assets (Note 8)	-	(3,900,000)	(3,900,000)
Balance, November 30, 2018	14,265,726	-	14,265,726
Accumulated amortization			
Balance, November 30, 2016	-	-	-
Additions	-	-	-
Balance, November 30, 2017	-	-	-
Additions	-	174,699	174,699
Transfer to held for sale assets (Note 8)	-	(174,699)	(174,699)
Balance, November 30, 2018	-	-	-
Carrying value			
November 30, 2017	-	3,900,000	3,900,000
November 30, 2018	14,265,726	-	14,265,726

Tarukino Holdings Inc.

On September 21, 2018, the Company signed a manufacturing and sales license agreement with Tarukino Holdings Inc. (“Tarukino”). Under the agreement, Tarukino granted Valens the exclusive Canadian rights to the production and distribution of its proprietary emulsion technology that transforms cannabis oil and oil-based terpenes into water-soluble forms for use in beverages, edibles, topicals and other consumer products. The agreement also provides Valens with the exclusive rights to produce, sell and distribute, in Canada, when and where permitted, Tarukino branded products including Happy Apple™, a cannabis-infused sparkling cider, and Pearl20™, a cannabis infused food and beverage mixer. In exchange for these exclusive Canadian rights, the Company has issued 4,300,000 shares of the Company on signing the agreement valued at $9,288,000, 1,000,000 warrants valued at $1,958,226 that vest based on certain future milestones and a decreasing royalty on revenue related to the associated products and technologies over the term of the agreement. The warrants are exercisable at prices ranging from $3.50 to $4.00 per share for a five-year term from the date of issuance. The Company accrued a fee to a consultant on signing the Tarukino agreement of 1,650,000 common shares of the Company, valued at $3,019,500. This fee was recorded as an obligation to issue shares at November 30, 2018.

The Company valued the exclusive Canadian license agreement based on the fair market value of 4,300,000 common shares on the date the license agreement was executed. In addition, the Company utilized the Black Scholes model to estimate the fair value of the 1,000,000 warrants issued under the agreement utilizing the following assumptions: discount rate of 2.33%, volatility of 159%, expected life of 5 years and exercise prices ranging from $3.50 to $4.00.

(Expressed in Canadian Dollars)

10. INTANGIBLE ASSETS -*continued*

Supra THC Services Inc

The Company originally acquired all of the issued and outstanding shares of Supra for the issuance of 3,000,000 common shares of the Company valued at $3,900,000 on April 5, 2017. The Company has accounted for the acquisition as a purchase of assets and assumption of liabilities. The transaction did not qualify as a business combination under IFRS 3, Business Combinations. As at the closing date, the only asset held by Supra was the License therefore the full purchase price has been allocated to the License.

During the year ended November 30, 2018, the Company recorded amortization of $174,699 (2017 - $nil).

The Company has entered into an agreement to sell the asset (Note 8).

11. RELATED PARTY TRANSACTIONS

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include officers, directors and companies with common directors of the Company. The remuneration of the Company's directors and other key management personnel during the year ended November 30, 2018 and 2017 are as follows:

	2018 $	2017 $
Management fees	1,165,221	775,710
Rent	260,518	281,308
Wages and salaries	244,688	312,148
Share-based payments	2,385,020	2,128,466
Purchase of equipment	293,331	-
	4,348,778	3,497,632

As at November 30, 2018, accounts payable and accrued liabilities included $9,086 (2017 - $409,296) payable to directors, officers and companies controlled or related to directors and/or officers. Amounts payable to related parties have no specific terms of repayment, are unsecured and do not bear interest.

As at November 30, 2018, receivables included $319,029 (2017 - $22,500) from a former director of the Company. The amount was received subsequent to year end.

During the year ended November 30, 2018, the Company has entered into a lease agreement with a related party (Note 17).

Promissory Notes

On October 30, 2016, the Company entered into promissory note agreements with two directors of the Company, two companies related through the directors and a shareholder of the Company ("the Notes"). Under the agreements, a total of $2,675,373 in outstanding payables was converted into Notes. Interest accrued on the outstanding balance of the Notes at a rate of 9% and compounds semi-annually. The Notes were due on demand after October 31, 2017.

The Company settled $2,008,865 of the Notes through the issuance of 2,197,327 common shares through the private placements completed on January 11, 2017 and August 14, 2017 (Note 12). During the year ended November 30, 2018, the Company recorded total interest on the Notes of $17,035 (2017 - $193,999) and made cash repayments totaling $877,542 (2017 - $nil). At November 30, 2018, the remaining outstanding balance of the Notes was $nil (2017 - $860,507).

12. SHARE CAPITAL AND RESERVES

Authorized share capital

The Company is authorized to issue an unlimited number of common and preferred shares with no par value.

Issued shares

Year ended November 30, 2018:

(a) On January 9, 2018, the Company closed the second and final tranche of a non-brokered private placement and issued 1,287,300 units at a price of $1.00 per unit for proceeds of $1,287,300. Each unit consisted of one common share of the Company and one-half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.50 until December 27, 2018, subject to acceleration conditions.

(b) On February 9, 2018, the Company closed a two-tranche non-brokered private placement and issued a total of 8,847,050 shares at a price of $1.40 per share for proceeds of $12,385,870. In connection with the financing, the Company paid a finder's fee equal to 8% of the proceeds raised from subscribers introduced by certain finders of which a portion was settled through the issuance of 70,565 common shares valued at $98,791.

(c) On September 21, 2018 the Company signed a manufacturing and sales license agreement with Tarukino (Note 10) and issued 4,300,000 shares of the Company on signing the agreement valued at $9,288,000.

(d) On October 10, 2018, the Company announced the closing of the $25,000,000 bought deal financing, pursuant to which the Company issued 12,820,513 units at a price of $1.95 per unit which is comprised of one common share of the Company, valued at $20,512,821, and one-half share purchase warrant valued at $4,487,179. Each full share purchase warrant is exercisable at a price of $2.54 per share for a period of twenty-four months from the date of closing, subject to acceleration conditions. In addition, the Company issued 1,130,977 common shares of the Company for gross proceeds of $2,065,051 and 961,538 share purchase warrants for gross proceeds of $238,750 as partial exercise of the underwriters' over-allotment option, with each full warrant exercisable for $2.54 until October 10, 2020, subject to acceleration conditions. In connection with the financing, the Company paid a cash commission equal to 6% of the gross proceeds raised and issued 860,852 warrants valued at $893,946. Each full warrant entitles the holder to purchase one unit at a price of $1.95 per unit for a period of twenty-four months from the date of closing, subject to acceleration conditions. Each unit is comprised of one common share and one-half share purchase warrant, with each full warrant exercisable at a price of $2.54 per share until October 10, 2020, subject to certain acceleration conditions. The fair value of the warrants was determined using the Black Scholes model utilizing the following assumptions: discount rate of 2.29%, volatility of 150%, expected life of 2 years and exercise prices of $1.95.

(e) During the year ended November 30, 2018, the Company also issued:

- 735,405 common shares in connection with the exercise of warrants for gross proceeds of $920,875. The warrants ranged in price from $1.15 to $1.50;

- 2,086,538 common shares in connection with the exercise of options for gross proceeds of $1,925,000. The options had exercise prices ranging from $0.65 to $1.00. As a result of the exercise of options, the fair value of the options amounting to $1,830,989 was reclassified from reserves to share capital; and

- 468,000 common shares in connection with consulting services rendered during the year ended November 30, 2018 valued at $621,900.

12. SHARE CAPITAL AND RESERVES-*continued*

Year ended November 30, 2017

(a) On December 20, 2016, the Company closed the first tranche of a non-brokered private placement and issued 994,576 units at a price of $0.65 per unit. The Company received cash proceeds of $288,974 and settled accounts payable of $357,500. On January 11, 2017, the Company closed the second and final tranche of a non-brokered private placement and issued 1,158,614 units at a price of $0.65 per unit. The Company received cash proceeds of $394,100 and settled promissory notes payable of $350,000 (Note 11) and accounts payable of $9,000. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to purchase one common share at a price of $1.15 up to 12 months from closing, subject to acceleration conditions.

(b) On April 5, 2017, the Company issued 3,000,000 common shares with a value of $3,900,000 to acquire 100% of Supra (Note 10);

(c) On May 3, 2017, the Company cancelled 33,333 common shares that were issued to a vendor for services that were not completed. As the shares were issued prior to RTO transaction with VAL, $nil was reversed on the cancellation;

(d) On May 8, 2017, the Company entered into a shares-for-debt agreement with an arm's length creditor. The Company issued 23,862 shares at a price of $1.45 per common share settling $34,600 in accounts payable;

(e) On August 14, 2017, the Company closed the first tranche of a non-brokered private placement and issued 3,250,615 units at a price of $1.00 per unit. The Company received cash proceeds of $250,000 and settled convertible notes of $1,036,539, promissory notes payable of $1,658,865 (Note 11) and settled accounts payable of $305,211 on the transaction. On October 3, 2017, the Company closed the second and final tranche of the non-brokered private placement and issued 85,000 units at a price of $1.00 per unit. The Company received cash proceeds of $85,000 on the transaction. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to purchase one common share at a price of $1.50 for 12 months from closing, subject to acceleration conditions.

(f) On November 30, 2017, the Company closed the first tranche of a non-brokered private placement and issued 737,700 units at a price of $1.00 per unit. The Company received cash proceeds of $429,700, settled accounts payable of $300,000 and recognized subscriptions receivable of $8,000 on the transaction. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to purchase one common share at a price of $1.50 for 12 months from closing, subject to acceleration conditions; and

(g) During the year ended November 30, 2017, the Company also issued:

- 945,942 common shares due to the exercise of warrants with prices between $0.75 and $1.15 per warrant. The common shares had a total value of $710,059 of which the Company received cash proceeds of $436,726, settled accounts payable of $260,725 and recognized subscriptions receivable of $12,608;

- 191,666 common shares due to the exercise of options with prices between $0.30 and $0.65 per stock option. The Company received gross proceeds of $92,500 on the exercise and recognized a reversal of the fair value of the stock options of $108,076 on the transaction; and

- 90,000 common shares for services rendered during the year valued at $143,000 of which $38,000 has been recognized as an obligation to issue shares.

(Expressed in Canadian Dollars)

12. SHARE CAPITAL AND RESERVES-*continued*

Obligation to issue shares

The Company has entered into agreements with directors, officers, employees and consultants, during the year and subsequent to year end to issue the following shares:

	Number of shares to be issued							Total Value $	Amount Recognized $
	2018	2019	2020	2021	2022	2023	Total		
Directors	-	180,000	-	-	-	-	180,000	261,000	130,092
Officers and employees	150,000	1,150,000	1,200,000	650,000	600,000	450,000	4,200,000	6,990,000	884,060
Consultants	1,850,000	525,000	-	-	-	-	2,375,000	4,340,750	3,400,470
Total	2,000,000	1,855,000	1,200,000	650,000	600,000	450,000	6,755,000	11,591,750	4,414,622

Of the amount recognized totaling $4,414,622, $1,298,152 was recorded as share-based payments expense, $3,019,500 was recorded as an intangible asset related to a fee payable to a consultant on the Tarukino agreement and the remaining $96,970 was recorded as management and consulting fees.

Upon termination of the services, the entitlement to the shares may be forfeited. Any share-based payments previously recognized related to the remaining unvested tranches will be reversed against profit and loss.

Escrow shares

In connection with the RTO, 39,675,000 common shares were placed into escrow with 10% released upon closing of the Acquisition and 15% released every six months thereafter. As at November 30, 2018, 11,902,500 shares were held in escrow (November 30, 2017 – 23,805,000).

Warrants

The Company's warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price $
Balance, outstanding November 30, 2016	944,442	0.75
Issued	3,113,253	1.38
Exercised	(945,942)	0.75
Balance, outstanding November 30, 2017	3,111,753	1.38
Issued	9,876,297	2.54
Exercised	(735,405)	1.25
Expired	(2,492,348)	1.42
Balance, outstanding November 30, 2018	9,760,297	2.55

(Expressed in Canadian Dollars)

12. SHARE CAPITAL AND RESERVES-*continued*

The following table summarizes the warrants outstanding as at November 30, 2018:

Warrants outstanding	Warrants Exercisable	Exercise price $	Expiry date
527,650	527,650	1.50	December 27, 2018[(1) (2)]
400,000	-	3.50	October 26, 2023
300,000	-	3.75	October 26, 2023
300,000	-	4.00	October 26, 2023
7,371,795	7,371,795	2.54	October 10, 2020[(1)]
860,852	860,852	1.95	October 10, 2020[(3)]
9,760,297	8,760,297		

[(1)] The Company is entitled to accelerate the expiry date of these outstanding warrants. The warrants with an exercise price of $1.50 can be accelerated to the date that is 30 days following the date the Company issues a news release announcing that the published closing price of the common shares on the CSE has been equal to or greater than $2.00 for any 10 consecutive trading days. The warrants with an exercise price of $2.54 can be accelerated to the date that is 15 days following the date the Company issues a news release announcing that the published closing price of the common shares on the CSE has been equal to or greater than $3.81 for any 10 consecutive trading days.

[(2)] Subsequent to year end, a total of 6,500 warrants were exercised for gross cash proceeds of $9,750 (Note 17), and the remaining warrants expired unexercised.

[(3)] The broker warrants entitle the holder to purchase one unit at a price of $1.95 per unit, comprised of one common share and one-half share purchase warrant. Each full warrant has an exercise price of $2.54 and can be accelerated to the date that is 15 days following the date the Company issues a news release announcing that the published closing price of the common shares on the CSE has been equal to or greater than $3.81 for any 10 consecutive trading days.

Stock options

The Company has an incentive stock option plan which permits the Board of Directors of the Company to grant options to directors, employees and non-employees to acquire common shares of the Company at fair market value on the date of approval by the Board of Directors. A portion of the stock options vests immediately on the grant date and the balance vests over a period of up to five years from grant date.

The following table summarizes the stock option grants during the fiscal year ended November 30, 2018.

Grant date	Exercise price $	Options granted	Vesting terms
February 27, 2018	2.50	1,000,000	On grant
July 9, 2018	1.07	600,000	Quarterly over one year
July 9, 2018	1.07	25,000	On grant
October 14, 2018	1.95	100,000	On grant
October 14, 2018	1.95	32,000	On grant
October 14, 2018	1.95	40,000	Quarterly over one year
October 14, 2018	1.95	2,480,000	Quarterly over three years
November 27, 2018	1.25	50,000	On grant
		4,327,000	

(Expressed in Canadian Dollars)

12. SHARE CAPITAL AND RESERVES-*continued*

The following table summarizes stock option activity during the fiscal years ended November 30, 2018 and November 30, 2017:

	Number of Options	Weighted Average Exercise Price $
Balance outstanding, November 30, 2016	2,905,000	0.69
Issued	2,400,000	1.00
Exercised	(191,666)	0.48
Cancelled	(625,000)	1.00
Expired	(36,667)	3.00
Balance outstanding, November 30, 2017	4,451,667	0.80
Issued	4,327,000	1.94
Exercised	(2,086,538)	0.92
Cancelled	(25,000)	0.30
Expired	(60,000)	3.00
Balance outstanding, November 30, 2018	6,607,129	1.49
Options exercisable, November 30, 2018	3,537,129	1.29

The following table summarizes the options outstanding as at November 30, 2018:

Options outstanding	Options exercisable	Exercise price $	Expiry date
141,667	141,667	0.30	August 31, 2020
50,000	50,000	0.30	September 22, 2020
1,938,462	1,938,462	0.65	November 30, 2021
150,000	50,000	1.00	November 7, 2020
100,000	100,000	1.95	October 31, 2019
1,000,000	1,000,000	2.50	February 23, 2023
625,000	175,000	1.07	July 9, 2023
2,552,000	32,000	1.95	October 13, 2023
50,000	50,000	1.25	November 27, 2020
6,607,129	3,537,129		

Stock-based compensation

For the fiscal year ended November 30, 2018, the Company recorded $4,157,636 (November 30, 2017 - $2,399,609) in stock-based compensation expense related to options, which are measured at fair value at the date of grant and are expensed over the vesting period. In determining the stock-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following weighted average assumptions:

	November 30, 2018	November 30, 2017
Average dividend per share	-	-
Average forecasted volatility	149%	173%
Average risk-free interest rate	2.26%	1.32%
Average expected life	5 years	5 years
Fair value – weighted average of options issued	$ 1.72	$ 0.94

(Expressed in Canadian Dollars)

13. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2018 $	2017 $
Loss before income taxes	(15,910,766)	(4,383,453)
Expected income tax (recovery) at statutory tax rates	(4,281,995)	(1,140,000)
Change in statutory rates and other	197,000	(63,000)
Permanent differences	2,058,000	627,000
Share issue costs	(788,000)	-
Adjustment to prior year provision versus statuary tax returns	(116,000)	42,000
Expiry of non-capital losses	1,388,000	-
Change in unrecognized deductible temporary differences	1,544,000	534,000
Income tax	1,005	-

In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantially enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

The significant components of the Company's unrecognized deferred tax assets and liabilities are as follows:

	2018 $	2017 $
Deferred tax assets		
Share issue costs	633,000	1,000
Intangible assets	(188,000)	-
Allowable capital losses	299,000	4,000
Property and equipment	261,000	37,000
Promissory note receivable	-	173,000
Non-capital losses	3,238,000	2,484,000
Net unrecognized deferred income tax assets	4,243,000	2,699,000

Significant components of the Company's temporary differences, unused tax losses that have not been included on the consolidated statement of financial position are as the follows:

	2018 $	Expiry dates	2017 $
Temporary Differences			
Share issue costs	2,344,000	2019-2022	5,000
Allowable capital losses	1,107,000	No expiry date	13,000
Intangible assets	(695,000)	No expiry date	-
Property and equipment	965,000	No expiry date	136,000
Promissory note receivable	-	No expiry date	641,000
Non-capital losses	11,992,000	2026-2038	9,203,000

Tax attributes are subject to review, and potential adjustment, by tax authorities.

(Expressed in Canadian Dollars)

14. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to maintain operations. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as shareholders equity.

The Company has historically relied on the equity markets to fund its activities. Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company currently is not subject to externally imposed capital requirements other than corporate assets securing a lease commitment (Note 17). There were no changes in the Company's approach to capital management.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying values of the financial instruments as at November 30, 2018 are summarized in the following table:

	Loans and receivables $	Financial assets designated as fair value through profit and loss $	Other financial liabilities $	Total $
Assets				
Cash	-	1,726,530	-	1,726,530
Short-term investments	-	23,505,750	-	23,505,750
Receivables	1,750,609	-	-	1,750,609
Promissory note receivable	1,007,192	-	-	1,007,192
Liabilities				
Accounts payable and accrued liabilities	-	-	961,493	961,493

The carrying values of receivables and accounts payable and accrued liabilities approximate their fair vales due to the relatively short periods to maturity. Cash and short-term investments are valued using Level 1 of the fair value hierarchy.

The Company is exposed to varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes, inclusive of counterparty limits, controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Interest risk

The Company's exposure to interest risk only relates to its investment of surplus cash. The Company may invest surplus cash in highly liquid investments with short terms to maturity and would accumulate interest at prevailing rates for such investments. At November 30, 2018, the Company had short term investments of $23,505,750. At November 30, 2018, a 1% decrease in interest rates would result in a reduction in interest income by $235,058 compared to a 1% increase in interest rates which would have an equal and opposite effect.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT-*continued*

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, short-term investments, receivables and promissory note receivable. The Company's cash and short-term investments are held through large Canadian financial institutions. The Company's receivables are comprised of GST ITC's, interest on short-term investments and shares receivable from Rotogro (Note 8). The promissory note receivable from Tarukino is secured by a share pledge agreement, under which 2,150,000 shares of the Company issuable to Tarukino under the manufacturing and sales license agreement will be held in escrow. The carrying amount of cash, short-term investments, receivables and promissory note receivable represent the maximum exposure to credit risk, and as at November 30, 2018, this amounted to $27,990,081.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. As at November 30, 2018, the Company has $25,232,280 of cash and short-term investments. The Company is obligated to pay accounts payable and accrued liabilities with a carrying amount of $961,493.

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and accounts payable and accrued liabilities that are denominated in US dollars. As at November 30, 2018, a 10% appreciation of the Canadian dollar relative to the US dollar would have decreased net financial assets by approximately $3,914 (2017 - $189,050). A 10% depreciation of the US dollar relative to the Canadian dollar would have had the equal but opposite effect.

Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of raw materials, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2018 **$**	**2017** **$**
Equipment accrued through accounts payable	107,055	-
Settlement of subscriptions receivable against accounts payable	12,608	-
Shares issued to acquire intangible asset	9,288,000	-
Warrants issued to acquire intangible asset	1,958,226	-
Obligation to issue shares for finders' fee relating to acquisition of intangible asset	3,019,500	-
Settlement of obligation to issue shares	38,000	-
Receivables transferred to promissory note receivable	30,000	-
Intangible asset reclassified as held for sale	3,725,301	-
Warrants issued pursuant to bought deal financing	4,487,179	-
Broker warrants issued pursuant to bought deal financing	893,946	-
Accounts payable transferred into promissory notes payable	-	2,675,373
Shares issued to settle promissory notes payable	-	2,008,865
Shares issue to settle convertible loans	-	1,036,539
Shares issued to settle accounts payable	-	1,006,311
Shares issued to acquire Supra	-	3,900,000

(Expressed in Canadian Dollars)

17. COMMITMENTS

Lease Commitment

On September 1, 2018, the Company entered into a lease agreement with a company owned by a director of the Company. The term of the lease is three years with the option to renew for an additional three-year term. If the Company decides not to continue with the lease they will forfeit all leasehold improvements made up to the termination date.

Lease Year	Per Month	Per Annum
1	$20,981	$ 251,772
2-3	$21,611	$ 259,326

Based on the lease payments the remaining commitments are:

Short term (December 1, 2018 - November 30, 2019)	$ 253,661
Long term (December 1, 2019 - August 31, 2021)	$ 453,821
	$ 707,482

18. SUBSEQUENT EVENTS

On January 3, 2019, the Company issued 6,500 common shares in connection with the exercise of warrants for gross proceeds of $9,750.

On January 4, 2019, the Company issued 125,000 common shares in connection with services rendered during the period October 2018 to December 2018. The shares were valued at $146,250, of which $96,970 was recorded as an obligation to issue shares.

On February 22, 2019, the Company issued 25,000 common shares in connection with the exercise of options for gross proceeds of $26,750. In addition, another 145,000 common shares were issued to settle obligations to issue shares to directors, officers and employees.

On March 7, 2019, the Company issued 345,000 common shares to settle obligations to issue shares to directors and officers.

On March 8, 2019, the Company issued 100,000 common shares in connection with the exercise of options for gross proceeds of $100,000.