



**GTEC Holdings Ltd.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE PERIODS ENDED  
NOVEMBER 30, 2018 AND 2017**

**(Expressed in Canadian Dollars)**



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## INDEPENDENT AUDITORS' REPORT

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To the Shareholders of  
GTEC Holdings Ltd.

We have audited the accompanying consolidated financial statements of GTEC Holdings Ltd. which comprise the consolidated statements of financial position as at November 30, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the periods then ended, and the related notes comprising 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 as issued by the International Accounting Standards Board, 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 audits 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 our 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, we consider 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, the consolidated financial statements present fairly, in all material respects, the financial position of GTEC Holdings Ltd. as at November 30, 2018 and 2017, and its financial performance and its cash flows for the periods then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of GTEC Holdings Ltd. to continue as a going concern.

*Manning Elliott LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS  
Vancouver, British Columbia  
March 26, 2019

**GTEC HOLDINGS LTD.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(Expressed in Canadian Dollars)**

		As at November 30,	
	Note	2018	2017
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		917,601	2,442,246
Amounts receivable		992,760	8,636
Advances receivable		-	20,000
Prepaid expenses	7	621,878	55,539
Assets held for sale	10	2,542,839	-
Biological assets	8	55,687	-
Inventory	9	86,188	-
		5,216,953	2,526,421
<b>Non-current Assets</b>			
Deposits	7	430,860	150,050
Goodwill	5	7,677,961	-
Intangible assets	5	9,900,000	-
Investment in associate	12	859,859	-
Investments	13	257,413	64,870
Promissory notes receivable	14	2,450,000	-
Property and equipment	11	13,523,438	1,636,779
		<b>40,316,484</b>	<b>4,378,120</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		1,937,590	187,457
Income taxes payable		-	20,333
Interest payable	15	207,781	-
Due to related parties	16	5,803	157,708
		2,151,174	365,498
<b>Non-current Liabilities</b>			
Convertible debentures	15	5,572,345	-
		<b>7,723,519</b>	<b>365,498</b>
<b>Shareholders' Equity</b>			
Share capital	17	41,737,839	6,345,800
Subscriptions		224,000	98,000
Contributed surplus	17	5,094,100	494,965
Deficit		(14,462,974)	(2,926,143)
		32,592,965	4,012,622
		<b>40,316,484</b>	<b>4,378,120</b>

Nature and continuance of operations (Note 1)  
Commitments and contingencies (Note 21)  
Subsequent events (Note 22)

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 26, 2019 and were signed on its behalf by:

*/s/ Norton Singhavon, Chairman, CEO*

*/s/ Michael Blady, Director*

**GTEC HOLDINGS LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(Expressed in Canadian Dollars)**

		For the year ended November 30, 2018	For the period from incorporation to November 30, 2017
	Note		
		\$	\$
<b>Revenue</b>		57,756	-
Cost of sales		(41,900)	-
Gross margin		15,856	-
Unrealized gain on changes in fair value of biological assets	8	159,775	-
		175,631	-
<b>Operating expenses</b>			
Amortization	11	194,969	-
Business fees and license		74,378	-
Consulting fees	17	2,510,456	121,994
Interest and accretion	15	437,610	-
Investor relations		148,159	-
Marketing and advertising		991,491	66,857
Office and miscellaneous		422,521	60,640
Production costs		144,986	-
Professional fees		1,722,482	130,467
Repairs and maintenance		142,663	-
Rent and utilities		436,219	25,644
Salaries and wages		975,736	-
Share-based payments	17	2,609,389	494,965
Travel		243,340	29,037
		11,054,399	929,604
Net loss from operations		(10,878,768)	(929,604)
<b>Other income (expense)</b>			
Interest income		23,652	5,861
Equity loss on investment in associate	12	(390,190)	-
Listing fees	6	(1,735,730)	-
Other income		30,680	-
		(2,071,588)	5,861
Net loss before income taxes		(12,950,356)	(923,743)
Deferred income tax recovery		2,413,525	-
<b>Net loss and comprehensive loss</b>		<b>(10,536,831)</b>	<b>(923,743)</b>
<b>Net loss and comprehensive loss attributed to:</b>			
Shareholders of the Company		(10,527,438)	(923,743)
Non-controlling interest		(9,393)	-
		<b>(10,536,831)</b>	<b>(923,743)</b>
<b>Basic and diluted loss per common share</b>		<b>(0.14)</b>	<b>(0.06)</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b>		<b>76,349,237</b>	<b>14,874,944</b>

**GTEC HOLDINGS LTD.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**(Expressed in Canadian Dollars)**

	Number of Shares	Share Capital \$	Subscription Received \$	Contributed Surplus \$	Deficit \$	Total \$
June 2, 2017 (Date of incorporation)	120	1	-	-	-	1
Shares issued for cash	33,364,375	4,872,875	-	-	-	4,872,875
Share issuance costs	-	(12,993)	-	-	-	(12,993)
Share subscriptions received	-	-	98,000	-	-	98,000
Shares issued for acquisitions	7,429,583	1,485,917	-	-	(2,002,400)	(516,483)
Share-based compensation	-	-	-	494,965	-	494,965
Net loss for the period	-	-	-	-	(923,743)	(923,743)
Balance, November 30, 2017	40,794,078	6,345,800	98,000	494,965	(2,926,143)	4,012,622
Shares issued for cash	25,158,962	20,428,705	(98,000)	-	-	20,330,705
Share issuance costs	-	(993,330)	-	268,517	-	(724,813)
Shares issued for acquisitions	16,765,353	10,059,212	-	-	-	10,059,212
Shares issuable for acquisitions	-	-	-	720,000	-	720,000
Shares issued for consulting services	425,000	225,000	-	-	-	225,000
Shares issued for finders' fees for acquisitions	1,288,253	777,576	-	-	-	777,576
Exercise of stock options	1,688,333	483,000	-	-	-	483,000
Fair value of pre-Transaction stock options	-	-	-	722	-	722
Common shares issued pursuant to Transaction	1,180,895	1,771,343	-	-	-	1,771,343
Shares issued and issuable for contingent consideration for acquisitions	1,263,274	1,000,000	-	78,057	(1,000,000)	78,057
Shares issued for investment in associate	1,600,490	1,250,000	-	-	-	1,250,000
Convertible debentures	-	-	-	856,410	-	856,410
Fair value of warrants issued as finders fees for convertible debentures	-	-	-	57,300	-	57,300
Reallocation of contributed surplus upon exercise of stock options	-	390,533	-	(390,533)	-	-
Share subscriptions received	-	-	224,000	-	-	224,000
Share-based compensation	-	-	-	3,008,662	-	3,008,662
Net loss for the period	-	-	-	-	(10,536,831)	(10,536,831)
<b>Balance, November 30, 2018</b>	<b>90,164,638</b>	<b>41,737,839</b>	<b>224,000</b>	<b>5,094,100</b>	<b>(14,462,974)</b>	<b>32,592,965</b>

**GTEC HOLDINGS LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Expressed in Canadian Dollars)**

	For the year ended November 30, 2018 \$	For the period from incorporation to November 30, 2017 \$
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(10,536,831)	(923,743)
Items not affecting cash:		
Accretion expense	229,828	-
Amortization	194,969	-
Deferred income tax recovery	(2,413,525)	-
Equity loss on investment in associate	390,190	-
Listing expense	1,772,065	-
Shares issued for services	1,080,633	-
Share-based payments	2,609,389	494,965
Unrealized gain on biological assets	(159,775)	-
Changes in non-cash working capital items:		
Amounts receivable	(960,280)	(8,636)
Advances receivable	20,000	(20,000)
Prepaid Expenses	(151,094)	(54,636)
Biological assets	104,088	-
Inventory	(86,188)	-
Accounts payable and accrued liabilities	1,577,130	187,457
Income taxes payable	(20,333)	20,333
Interest payable	207,781	-
	(6,141,953)	(304,260)
<b>INVESTING ACTIVITIES</b>		
Cash paid for acquisitions	(6,000,000)	(1,072,368)
Cash received from acquisitions	19,159	50,570
Deposits	(270,528)	(150,050)
Investments	(192,543)	(64,870)
Investments in associates	(49)	-
Promissory notes advanced	(2,450,000)	-
Purchase of property and equipment	(13,353,470)	(974,659)
	(22,247,431)	(2,211,377)
<b>FINANCING ACTIVITIES</b>		
Due to related parties	(151,905)	-
Loans acquired	-	334,153
Loans repaid	-	(334,153)
Options exercised for cash	483,000	-
Proceeds from issuance of common shares	20,330,705	4,872,876
Proceeds from issuance of convertible debentures, net of issuance costs	6,703,752	-
Share issuance costs	(724,813)	(12,993)
Subscriptions received	224,000	98,000
	26,864,739	4,957,883
<b>CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	(1,524,645)	2,442,246
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	2,442,246	-
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	917,601	2,442,246
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Interest paid	-	-
Income taxes paid	-	-

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

GTEC Holdings Ltd. (formerly Black Birch Capital Acquisition III Corp.) (the “Company”) was originally incorporated under the Canada Business Corporations Act and continued under the British Columbia Business Corporations Act effective as of July 28, 2017 as a Capital Pool Company (“CPC”). The Company’s principal business activity at that time was to identify and evaluate opportunities for the acquisition of an interest in assets or businesses for the completion of a Qualifying Transaction (the “QT”). On June 12, 2018, the Company completed its QT and Business Combination with GreenTec Holdings Ltd. (the “Transaction”) and the Company changed its name from Black Birch Capital Acquisition III Corp. to GTEC Holdings Ltd. Subsequent to the Transaction, the Company’s principal business activity is pursuing opportunities in the cannabis industry and has the goal to identify and consolidate licensed producers of ultra premium cannabis under Health Canada’s Cannabis Act & Regulations (“CA&R”), and vertically integrating its operations by pursuing cannabis retail sales where permissible across Canada. The Company is a publicly traded company listed on the TSX Venture Exchange under the symbol “GTEC”. The Company’s head office is located at Suite 335 – 1632 Dickson Avenue, Kelowna, British Columbia, V1Y 7T2.

Additional information in respect of the Company’s Transaction is described in Note 6.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. As discussed further below, there are material uncertainties that cast significant doubt on the validity of this assumption.

The Company has incurred losses since its inception and has an accumulated deficit of \$14,462,974 as at November 30, 2018 that has been funded primarily by issuance of equity and advances from related parties. There is a material uncertainty related to these conditions that casts significant doubt about the Company’s ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue as a going concern depends upon its ability to raise adequate financing and to generate profitable operations in the future.

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**GTEC HOLDINGS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDED NOVEMBER 30, 2018 AND 2017**  
**(Expressed in Canadian Dollars)**

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**2. BASIS OF PREPARATION**

a) Statement of compliance and basis of measurement

The consolidated financial statements of the Company have been prepared in accordance with IFRS as issued by the IASB.

The consolidated financial statements have been prepared on a historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value. The functional and presentation currency of the Company is the Canadian dollar.

b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and the following Canadian subsidiaries:

<b>Subsidiaries</b>	<b>Percentage of ownership</b>
Alberta Craft Cannabis Inc.	100%
Falcon Ridge Naturals Ltd.	100%
GreenTec Bio-Pharmaceuticals Inc.	100%
GreenTec Retail Manitoba Ltd.	100%
GreenTec Retail Ventures Inc.	100%
GreenTec Retail SK Inc.	75%
Grey Bruce Farms Incorporated	100%
Spectre Labs Inc.	100%
Tumbleweed Farms Corp.	100%
Zenalytic Laboratories Ltd.	100%

Subsidiaries are entities that the Company controls directly. Control is defined as the exposure, or rights, or variable returns from involvement with an investee and the ability to affect those returns through power over the investee. Power over an investee exists when the Company has existing rights and the ability to direct the activities that significantly affect the investee's returns. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. All inter-company balances and transactions, including unrealized profits and losses arising from intra-group transactions, have been eliminated upon consolidation. Where necessary, adjustments are made to the results of the subsidiaries and entities to bring their accounting policies in line with those used by the Company.



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **a) Significant accounting judgments and estimate**

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These 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 future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, 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:

#### Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

#### Estimated useful lives and impairment considerations

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. 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.

#### Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. In determining the allocation of the purchase price in a business combination, including any acquisition related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

#### Investments in associates

Management exercises judgment in determining whether the Company has acquired significant influence over an entity. An assessment of significant influence is performed at the inception of a relationship between any entity and the Company. When performing this assessment, the Company considers all facts and circumstances, and it must reassess whether it still has significant influence over an investee if facts and circumstances indicate there are changes to one or more of the conditions of significant influence.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### Share-based compensation and warrants

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used. In calculating the fair value of the warrants, the Company includes key estimates such as the volatility of the Company's stock price, the value of the common share, and the risk-free interest rate.

#### Deferred tax assets and liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assess whether it is probable that some or all of the deferred income tax assets and liabilities will be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

#### Discount rate used for convertible debentures

The carrying value of the convertible debentures is subject to management's estimates in determining an appropriate discount rate based on similar instruments with no conversion features.

#### Going concern

Management applies judgment in its evaluation of the Company's ability to continue as a going concern.

#### b) Biological assets

Biological assets are valued in accordance with IAS 41 and are presented at their fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventory after harvest. The Company's biological assets consist of cannabis plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data. These inputs are Level 3 on the fair value hierarchy, and are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company values cannabis plants at cost, which approximates fair value from the date of initial clipping from mother plants until the plants begin the propagation cycle. The number of weeks in the growth cycle is between 15 and 21 weeks from propagation to harvest. The fair value of biological assets is determined using a valuation model to estimate expected harvest yield per plant applied to the estimated price per gram less processing and selling costs.

The selling price is between \$3.00 and \$8.00 per gram.

The harvest yield is between 45 and 150 grams per plant.

The selling price used in the valuation of biological assets is based on the average selling price of all cannabis products and can vary based on strain, as well as the proportion derived from wholesale compared to retail. Expected yield is also subject to a variety of factors including strain and length of growth cycle.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **c) Inventory**

The Company values inventories at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that 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. The cost of inventories is determined using the weighted average cost basis.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining market prices. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is apparent evidence of an increase in selling price then the amount of the write down previously recorded is reversed. Storage costs, indirect administrative overhead, and certain other selling costs related to inventories are expensed in the period incurred.

#### **d) Impairment of long-lived assets**

Long-lived assets, including property and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually 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 (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

#### **e) Intangible assets**

Intangible assets consist mainly of licenses acquired by the Company. Acquired licenses are carried at cost less accumulated amortization and impairment. Intangible assets with indefinite lives are not amortized but are reviewed annually for impairment. Any impairment of intangible assets is recognized in the statement of operation and comprehensive loss but increases in intangible asset values are not recognized. As described in Note 5, the Company acquired certain licenses through its acquisition of Alberta Craft Cannabis Inc., which have been deemed to have an indefinite life.

Estimated useful lives of intangible assets are shorter of the economic life and the period the right is legally enforceable. The assets' useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. The Company does not have any intangible assets with a definitive life.

At each financial position reporting date, the carrying amounts of the Company's long-lived assets, including property and equipment and intangible 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. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **f) Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. At the acquisition date the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12 – Income Taxes. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement period adjustments. The measurement period is the period between the date of the acquisition and the date where all significant information necessary to determine the fair values is available and cannot exceed 12 months. All other subsequent changes are recognized in the consolidated statements of comprehensive loss.

The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed including any contingently payable purchase price obligation due over time. The Company uses valuation techniques, which are generally based on forecasted future net cash flows discounted to present value. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. The determination of fair value involves making estimates relating to acquired intangibles assets, property and equipment and contingent consideration.

Acquisition related costs are recognized in the consolidated statements of comprehensive loss as incurred.

Management determines whether assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs.

The Company completed certain transactions described in Note 5 and concluded that the transactions did not qualify as a business combination under IFRS 3, “Business Combinations”.

#### **g) Goodwill**

In certain situations, goodwill or a bargain purchase gain may result from a business combination. Goodwill is measured as the excess of the consideration transferred over the net amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is measured at historical cost and is evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment.

Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. Acquisition related costs are recognized in the consolidated statements of comprehensive loss as incurred.

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**GTEC HOLDINGS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDED NOVEMBER 30, 2018 AND 2017**  
**(Expressed in Canadian Dollars)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

h) Property and equipment

Property and equipment is measured at cost less accumulated amortization and impairment losses. The Company uses the following amortization rates for its property and equipment:

Buildings	20 years	straight line
Computer equipment	2 years	straight line
Computer software	2 years	straight line
Office equipment	5 years	straight line
Vehicles	8 years	straight line
Leasehold improvements	5 years	straight line
Laboratory and manufacturing equipment	5 - 8 years	straight line

Certain of the Company's property and equipment have not yet been put into use and as a result useful lives have not yet been determined and no amortization has been recorded to date on this property and equipment.

Costs of assets in the course of construction are capitalized as construction in progress. On completion, the cost of construction is transferred to the appropriate category of property and equipment and amortization commences when the asset is available for its intended use.

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

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

i) Investments in associates

The Company has interests in associates. Associates are entities over which the Company exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. The Company accounts for associates using the equity method of accounting. Interests in associates accounted for using the equity method are initially recognized at cost. Subsequent to initial recognition, the carrying value of the Company's interest in an associate is adjusted for the Company's share of comprehensive income and distributions of the investee. The carrying value of associates is assessed for impairment at each statement of financial position date. In instances where the Company does not exercise significant influence, the investments are initially recognized at cost and subsequent to initial recognition, the carrying value of the investment is assessed for impairment using the cost method.

j) Investments

The Company records investments in other entities where no control or significant influence exists on a cost basis. The investments are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **k) Revenue recognition**

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Payments received from customers in advance of meeting all of the recognition criteria are recorded as deferred revenue and subsequently recognized as those criteria are met.

#### **l) Cash and cash equivalents**

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

#### **m) Income taxes**

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive loss except to the extent that it related to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of 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 consolidated statement of 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 the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **n) Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

#### Financial assets

The Company classifies its financial assets into one of the following categories, at initial recognition, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position 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 less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

*Held-to-maturity* - 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. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income. 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 equity and recognized in profit or loss.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered, to determine where impairment has arisen.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

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

*Other financial liabilities* - This category includes trade and other payables. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method.

#### Classification of financial instruments

Cash and cash equivalents	Fair value through profit or loss
Advances receivable	Loans and receivables
Promissory notes receivable	Loans and receivables
Deposits	Loans and receivables
Accounts payable	Other liabilities
Interest payable	Other liabilities
Convertible debentures	Other liabilities
Due to related parties	Other liabilities

#### **o) Share capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and common share warrants are recognized as a deduction from equity. Common shares issued for non-monetary consideration are measured based on their market value at the date the common shares are issued. The Company has adopted the residual method with respect to the measurement of common shares and warrants issued as equity units.

#### **p) Earnings (loss) per share**

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Basic and diluted loss per share is the same for the periods presented.



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **q) Provisions**

The Company recognizes a provision when all of these conditions are met:

- an entity has present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

In certain asset acquisitions, the Company provides consideration that is contingent on uncertain future events of which the existence will be confirmed only by the occurrence or non-occurrence of one or more future events. These events are typically in control of management and as a result do not meet the definition of a financial liability until the events have occurred. As a result, a contingent consideration in these situations is not measured until the event occurs.

#### **r) Share-based payments**

The fair value of stock options granted is measured at the grant date using the Black-Scholes option pricing model. Where options are granted to consultants for goods or services rendered, the options are measured at the fair value of the goods or services received by the Company. If the fair value of the goods and services received cannot be reliably measured, the fair value of the stock option granted is used instead. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards expected to ultimately vest is computed. The movement in cumulative expense is recognized in the statement of loss with a corresponding entry within equity, against share based compensation reserve. No expense is recognized for awards that do not ultimately vest. When options are exercised, the proceeds received together with any related amount in share based compensation reserve is credited to share capital.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

#### **s) Reclassifications**

Certain reclassifications have been made to the prior period's consolidated financial statements to conform to the current year's presentation on the consolidated statements of financial position and comprehensive loss.

#### **t) Adoption of new pronouncements**

The Company did not adopt any new or amended accounting standards during the year ended November 30, 2018, which had a material impact on the Company's financial statements.

#### **4. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED**

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are not mandatory for accounting periods beginning before January 1, 2018. They have not been early adopted in these consolidated financial statements and are expected to affect the Company in the period of initial application. In all cases the Company intends to apply these standards from application date as indicated below.

##### Effective for annual periods beginning on January 1, 2018

###### *IFRS 2 Share-based Payment*

The amendments clarify the classification and measurement of share-based payment transactions.

###### *IFRS 9 Financial Instruments – Classification and Measurement*

IFRS 9 is the first step in the process to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39.

###### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 is a new standard which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition.

The Company does not expect any significant impact on its consolidated financial statements as a result of the adoption of the above noted standards.

##### Effective for annual periods beginning on January 1, 2019

###### *IFRS 16 Leases*

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties of a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

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**5. ACQUISITIONS**

Grey Bruce Farms Incorporated

On September 15, 2017, the Company executed a share purchase agreement with the shareholders of Grey Bruce Farms Incorporated ("Grey Bruce") whereby the Company acquired 100% of the issued and outstanding common shares of Grey Bruce in exchange for cash payments of \$215,000 and issuance of 170,000 common shares valued at \$34,000 for total consideration of \$249,000. In addition to the consideration paid, the Company has also committed to issue common shares valued at \$3,750,000 and make cash payments of \$250,000 contingent on future events as follows:

<b>Common shares</b>	<b>Cash</b>	<b>Due upon</b>
<b>\$</b>	<b>\$</b>	
-	250,000	Completion of Grey Bruce's construction of a Health Canada approved cannabis production facility in compliance with the CA&R
1,000,000	-	Grey Bruce obtaining a license to produce cannabis under the CA&R
1,250,000	-	Grey Bruce obtaining a license to sell cannabis under the CA&R
300,000	-	Upon Grey Bruce's first harvest having passed quality assurance and quality control tests as set out by Health Canada
300,000	-	Upon Grey Bruce's second harvest having passed quality assurance and quality control tests as set out by Health Canada
300,000	-	Upon Grey Bruce's third harvest having passed quality assurance and quality control tests as set out by Health Canada
300,000	-	Upon Grey Bruce's fourth harvest having passed quality assurance and quality control tests as set out by Health Canada
300,000	-	Upon Grey Bruce's fifth harvest having passed quality assurance and quality control tests as set out by Health Canada
<b>3,750,000</b>	<b>250,000</b>	

The number of common shares issuable upon the occurrence of future events are to be based on the greater of (A) the then three-day volume-weighted average trading price of the Company's common share and (B) \$0.05 per common share of the Company.

The Company has accounted for the purchase as an asset acquisition as Grey Bruce did not meet the definition of a business under IFRS 3, "Business Combinations". In accordance with IAS 37, only obligations arising from past events that exist independently of the entity's future actions are recognized as provisions. As a result, the Company has not recorded any contingent consideration related to the acquisition of Grey Bruce.

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**5. ACQUISITIONS (CONTINUED)**

Grey Bruce Farms Incorporated (Continued)

The following table summarizes the total consideration, the book value of the identifiable assets acquired and liabilities assumed as of the date of the acquisition:

	\$
Cash paid	215,000
Fair value of common shares issued	34,000
<b>Total consideration</b>	<b>249,000</b>
 Assets acquired:	
Cash	47,601
Amounts receivable	1,913
 Less liabilities assumed:	
Accounts payable and accrued liabilities	(85,781)
Other payables	(50,000)
Due to shareholders	(165,000)
<b>Net liabilities assumed</b>	<b>(251,267)</b>

As Grey Bruce was a related party due to common control, the control of the assets acquired did not change. Therefore, the Company recorded the initial assets and liabilities at their book values and charged the difference of \$335,267 to deficit during the period ended November 30, 2017.

1118157 B.C. Ltd.

On November 30, 2017 the Company executed a share purchase agreement with the shareholders of 1118157 B.C. Ltd. ("1118 BC") whereby the Company acquired 100% of the issued and outstanding common shares of 1118 BC in exchange for cash payments of \$585,870, issuance of 500,000 common shares valued at \$100,000 and the Company incurred acquisition costs of \$70,000 for total consideration of \$755,870. As part of the acquisition of 1118 BC, the Company also acquired Tumbleweed Farms Corp. ("Tumbleweed"), a wholly owned subsidiary of 1118 BC. In addition to the consideration paid, the Company has also committed to issue additional shares valued at \$750,000 contingent on future events as follows:

<b>Common shares</b>	<b>Cash</b>	<b>Due upon</b>
\$	\$	
250,000	-	Completion of Tumbleweed's construction of a Health Canada approved cannabis production facility in compliance with the CA&R
250,000	-	Tumbleweed obtaining a license to produce cannabis under the CA&R
250,000	-	Tumbleweed obtaining a license to sell cannabis under the CA&R
<b>750,000</b>	<b>-</b>	

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**5. ACQUISITIONS (CONTINUED)**

1118157 B.C. Ltd. (Continued)

In August 2017, prior to the acquisition of 1118 BC by the Company, 1118 BC acquired 100% of the issued and outstanding common shares of Tumbleweed. Upon acquisition of 1118 BC, the Company also assumed the following commitment to issue common shares valued at \$1,500,000, and making cash payments of \$2,500,000, contingent on future events as follows:

<b>Common shares</b>	<b>Cash</b>	<b>Due upon</b>
<b>\$</b>	<b>\$</b>	
-	250,000	Completion of Tumbleweed's construction of a Health Canada approved cannabis production facility in compliance with the CA&R
-	1,000,000	Upon Tumbleweed obtaining a license to produce cannabis under the CA&R
-	1,250,000	Tumbleweed obtaining a license to sell cannabis under the CA&R
300,000	-	Upon Tumbleweed's first harvest having passed quality assurance and quality control tests as set out by Health Canada
300,000	-	Upon Tumbleweed's second harvest having passed quality assurance and quality control tests as set out by Health Canada
300,000	-	Upon Tumbleweed's third harvest having passed quality assurance and quality control tests as set out by Health Canada
300,000	-	Upon Tumbleweed's fourth harvest having passed quality assurance and quality control tests as set out by Health Canada
300,000	-	Upon Tumbleweed's fifth harvest having passed quality assurance and quality control tests as set out by Health Canada
<b>1,500,000</b>	<b>2,500,000</b>	

The number of common shares issuable upon the occurrence of future events are to be based on the greater of (A) the then three-day volume-weighted average trading price of the Company's common share and (B) \$0.05 per common share of the Company.

See Subsequent Events Note 22 (xi) regarding an amendment to the purchase agreement and contingent cash consideration payable to the vendors of 1118 BC.

The Company has accounted for the purchase as an asset acquisition as 1118 BC did not meet the definition of a business under IFRS 3, "Business Combinations". In accordance with the Company's accounting policy, only obligations arising from past events that exist independently of the entity's future actions are recognized as provisions. As a result, the Company has not recorded any contingent consideration related to the acquisition of 1118 BC.

The following table summarizes the total consideration, the book value of the identifiable assets acquired and liabilities assumed as of the date of the acquisition:

	<b>\$</b>
Cash paid	585,870
Acquisition costs	70,000
Fair value of common shares issued	100,000
<b>Total consideration</b>	<b>755,870</b>
<b>Assets acquired:</b>	
Land	330,311
Property and equipment	92,210
<b>Less liabilities assumed:</b>	
Due to shareholders	(585,870)
<b>Net liabilities assumed</b>	<b>(163,349)</b>

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**5. ACQUISITIONS (CONTINUED)**

1118157 B.C. Ltd. (Continued)

As 1118 BC was a related party due to common control, the control of the assets acquired did not change. Therefore, the Company recorded the initial assets and liabilities at their book values and charged the difference of \$333,349 to deficit during the period ended November 30, 2017. On February 28, 2018, the Company dissolved 1118 BC and all assets and liabilities of 1118 BC were allocated to Tumbleweed.

Zenalytic Laboratories Ltd.

On November 30, 2017, the Company executed a share purchase agreement with the shareholders of Zenalytic Laboratories Ltd. ("Zenalytic") whereby the Company acquired 100% of the issued and outstanding common shares of Zenalytic in exchange for cash payments of \$151,233 and issuance of 3,759,583 common shares valued at \$751,917 for total consideration of \$903,150. In addition to the consideration paid, the Company has also committed to issue common shares valued at \$1,000,000 contingent on future events as follows:

<b>Common shares</b>	<b>Cash</b>	<b>Due upon</b>
<b>\$</b>	<b>\$</b>	
500,000	-	Zenalytic obtaining of a dealer's license under the Narcotic Control Regulations (Canada) or other such license which would enable the entity to provide analytical lab testing of cannabis products for registrants under the s. 56 Class Exemption, Controlled Drugs and Substances Act (Canada)
500,000	-	Zenalytic obtaining of approval from Health Canada to conduct extraction of cannabis
<b>1,000,000</b>	<b>-</b>	

The Company has accounted for the purchase as an asset acquisition as Zenalytic did not meet the definition of a business under IFRS 3, "Business Combinations".

The following table summarizes the total consideration, the book value of the identifiable assets acquired and liabilities assumed as of the date of the acquisition:

	<b>\$</b>
Cash paid	151,233
Fair value of common shares issued	751,917
<b>Total consideration</b>	<b>903,150</b>
<b>Assets acquired:</b>	
Cash	2,689
Property and equipment	216,394
<b>Less liabilities assumed:</b>	
Accounts payable and accrued liabilities	(9,367)
Due to shareholders	(631,233)
<b>Net liabilities assumed</b>	<b>(421,517)</b>

As Zenalytic was a related party due to common control, the control of the assets acquired did not change. Therefore, the Company recorded the initial assets and liabilities at their book values and charged the difference of \$693,434 to deficit during the period ended November 30, 2017.

During the year ended November 30, 2018, Zenalytic had obtained its dealer's license and obtained approval from Health Canada to conduct extraction of cannabis. As a result, the Company issued 1,263,274 common shares to the shareholders of Zenalytic, which has been charged to deficit.

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**5. ACQUISITIONS (CONTINUED)**

GreenTec Bio-Pharmaceuticals Inc.

On November 30, 2017, the Company executed a share purchase agreement with the shareholders of GreenTec Bio-Pharmaceuticals Inc. ("Bio-Pharma") whereby the Company acquired 100% of the issued and outstanding common shares of Bio-Pharma in exchange for cash payments of \$50,265 and the issuance of 3,000,000 common shares valued at \$600,000. In addition to the consideration paid, the Company has also committed to issue common shares valued at \$8,250,000 contingent on future events as follows:

<b>Common shares</b>	<b>Due upon</b>
<b>\$</b>	
1,000,000	Completion of Bio-Pharma's construction of a Health Canada approved cannabis production facility in compliance with the CA&R
1,500,000	Bio-Pharma obtaining a license to produce cannabis under the CA&R
2,000,000	Bio-Pharma obtaining a license to sell cannabis under the CA&R
1,500,000	Bio-Pharma obtaining approval from Health Canada to increase cannabis production by at least 8,500 kg and completing construction to accommodate such increased production (the "Expansion")
2,250,000	Bio-Pharma obtaining an amendment to its cannabis sales license from Health Canada to reflect the Expansion
<b>8,250,000</b>	

The number of common shares issuable upon the occurrence of future events are to be based on the greater of (A) the then three-day volume-weighted average trading price of the Company's common share and (B) \$0.05 per common share of the Company.

The Company has accounted for the purchase as an asset acquisition as Bio-Pharma did not meet the definition of a business under IFRS 3, "Business Combinations". In accordance with the Company's accounting policy, only obligations arising from past events that exist independently of the entity's future actions are recognized as provisions. As a result, the Company has not recorded any contingent consideration related to the acquisition of Bio-Pharma.

The following table summarizes the total consideration, the book value of the identifiable assets acquired and liabilities assumed as of the date of the acquisition:

	<b>\$</b>
Cash paid	50,265
Fair value of common shares issued	600,000
<b>Total consideration</b>	<b>650,265</b>
<b>Assets acquired:</b>	
Current assets	22,263
Property and equipment	19,137
<b>Less liabilities assumed:</b>	
Accounts payable and accrued liabilities	(11,152)
Income taxes payable	(20,333)
Due to shareholders	(50,265)
<b>Net liabilities assumed</b>	<b>(40,350)</b>

As Bio-Pharma was deemed to be a related party due to common control, the control of the assets acquired did not change. Therefore, the Company recorded the initial assets and liabilities at their book values and charged the difference of \$640,350 to deficit during the period ended November 30, 2017.

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**5. ACQUISITIONS (CONTINUED)**

Falcon Ridge Naturals Ltd.

On January 31, 2018, the Company executed a share purchase agreement with the shareholders of Falcon Ridge Naturals Ltd. ("Falcon") whereby the Company acquired 100% of the issued and outstanding common shares of Falcon in exchange for cash consideration of \$200,000.

In addition to the consideration paid, the Company has also committed to make future cash payments of \$100,000 contingent upon the receipt of a building permit from the city of Kelowna and \$900,000 contingent upon Falcon obtaining a license to sell cannabis under the CA&R.

On May 31, 2018 the shareholders of Falcon and the Company had agreed to extend the payable amount until such time as Falcon receives a building permit from the City of Kelowna. As at November 30, 2018, building permits were still pending with the City of Kelowna.

The Company has accounted for the purchase as an asset acquisition as Falcon did not meet the definition of a business under IFRS 3, "Business Combinations". In accordance with the Company's accounting policy, only obligations arising from past events that exist independently of the entity's future actions are recognized as provisions. As a result, the Company has not recorded any contingent consideration related to the acquisition of Falcon.

The following table summarizes the total consideration, the fair value of the identifiable assets acquired and liabilities assumed as of the date of the acquisition:

	\$
Cash paid	200,000
Total consideration	200,000
Assets acquired:	
Intangible assets	200,000
Net assets acquired	200,000

During the year ended November 30, 2018, the Company abandoned the pursuit of the building permit with the city of Kelowna and the license to sell cannabis under the CA&R and instead will focus on other opportunities. Subsequent to November 30, 2018, the Company sold 100% of the issued and outstanding common shares of Falcon to its previous owner for total cash consideration of \$200,000. Accordingly, the investment in Falcon has been recorded as an Asset held for sale on the consolidated statement of financial position as at November 30, 2018.



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**5. ACQUISITIONS (CONTINUED)**

Alberta Craft Cannabis Inc.

On January 31, 2018, the Company executed a share purchase agreement with the shareholders of Alberta Craft Cannabis Inc. ("ACC") whereby the Company acquired 100% of the issued and outstanding common shares of ACC in exchange for cash payments of \$6,000,000 and issuance of 16,765,353 common shares valued at \$10,059,212 for total consideration of \$16,059,212. In addition to the consideration paid, the Company has also committed to issue 1,200,000 common shares contingent upon ACC obtaining a license to sell cannabis under the CA&R. As part of the acquisition of ACC, the Company also acquired 100% of the issued and outstanding common shares of 1884341 Alberta Ltd., which was dissolved on February 28, 2018.

For accounting purposes, the acquisition of ACC was considered a business combination and accounted for using the acquisition method. The results of operations from ACC are included in the consolidated financial statements since the date of acquisition.

The Company applied a market approach, and specifically the mergers and acquisition method, for measuring the fair value of the license to produce medical cannabis. This valuation model uses data from actual market transactions regarding the sale of similar companies or groups of assets to determine the price of the asset under review.

The following table summarizes the total consideration, the fair value of the identifiable assets acquired and liabilities assumed as of the date of the acquisition:

	\$
Cash paid	6,000,000
Fair value of common shares issued	10,059,212
Fair value of common shares issuable	720,000
Assumption of amounts due to shareholders	(3,873,886)
<b>Total consideration</b>	<b>12,905,326</b>
 Assets acquired:	
Current assets	58,974
Long-term deposits	10,281
Property and equipment	1,097,996
Intangible assets - licenses	9,900,000
Goodwill	7,677,961
 Less liabilities assumed:	
Due to shareholders	(3,873,886)
Deferred income taxes	(1,966,000)
<b>Net assets acquired</b>	<b>12,905,326</b>

The resulting goodwill represents the sales and growth potential of ACC and will not be deductible for tax purposes.

## **6. REVERSE TAKE-OVER TRANSACTION AND LISTING EXPENSE**

The Transaction described in Note 1, for accounting purposes, is considered to be outside the scope of IFRS 3 - *Business Combinations* since the Company had limited inputs, processes, and outputs – as defined by IFRS 3 - prior to the transaction. Activities were limited to the management of cash resources and the maintenance of its stock exchange listing and did not constitute a business for accounting purposes. As a result, the transaction is accounted for in accordance with IFRS 2 - *Share-based Payment* whereby the Company is deemed to have issued shares in exchange for the net assets or liabilities together with its listing status at the fair value of the consideration received.

Since the issuance of common shares of the Company to the former shareholders of GreenTec Holdings Ltd. on closing the acquisition is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or service received in return for the allocation of the shares, the value in excess of the net identifiable assets or obligations plus liabilities assumed by the Company acquired on closing was expensed in the consolidated statement of comprehensive loss as a listing expense.

The listing expense is summarized as follows:

	\$
Fair value of share based consideration allocated:	
Deemed issuance of 1,180,895 common shares	1,771,343
Fair value of stock options outstanding	722
	1,772,065
Identifiable net assets acquired:	
Current assets	(129,443)
Liabilities	13,598
	(115,845)
Professional fees related to the transaction	79,510
<b>Total listing expense</b>	<b>1,735,730</b>

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**7. PREPAID EXPENSES AND DEPOSITS**

As at November 30, 2018 and 2017, prepaid expenses and deposits consisted of the following:

	2018	2017
	\$	\$
Consulting fees	399,274	-
Insurance	80,215	-
Other	142,389	55,539
<b>Total prepaid expenses</b>	<b>621,878</b>	<b>55,539</b>

	2018	2017
	\$	\$
Letters of intent	267,979	150,050
Other	162,881	-
<b>Total deposits</b>	<b>430,860</b>	<b>150,050</b>

**8. BIOLOGICAL ASSETS**

	2018	2017
	\$	\$
Opening balance	-	-
Purchases of seeds and clones	24,000	-
Changes in fair value less costs to sell due to biological transformation	159,775	-
Transferred to inventory upon harvest	(128,088)	-
	<b>55,687</b>	<b>-</b>

The Company's biological assets consist of medical cannabis plants. The significant assumptions used to determine the fair value of the medical cannabis plants include:

- Expected yield by strain of plant
- Wastage of plants
- Duration of the production cycle
- Percentage of costs incurred to date compared to the total costs expected to be incurred
- Percentage of costs incurred for each stage of plant growth; and
- Market value less selling costs

The Company's estimates are, by their nature, subject to change and differences from anticipated yield will be reflected in the gain or loss on biological assets in future periods.

On average, the growth cycle is 118 days. As at November 30, 2018, it is estimated that the Company's biological assets will yield approximately 83,000 grams of cannabis when harvested (2017 - Nil). The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

As of November 30, 2018, a change of 10% or less in the estimated yield per plant, growth cycle and selling price of dry cannabis would not result in a significant variance in the fair value of biological assets or inventory.

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**9. INVENTORY**

As at November 30, 2018, the Company's inventory consisted of 19,588 grams of dried cannabis awaiting release for sale (2017 - Nil). The cost of inventory is recognized as an expense and included in cost of sales when sold. For the year ended November 30, 2018, the amount of inventory recognized in cost of sales was \$41,900 (2017 - \$Nil).

**10. ASSETS HELD FOR SALE**

As at November 30, 2018 and 2017, assets classified as held for sale included the following:

	2018	2017
	\$	\$
Intangible asset	200,000	-
Land	821,397	-
Building	1,521,442	-
	<b>2,542,839</b>	-

The intangible asset related to Falcon was acquired during the year ended November 30, 2018 and disposed of subsequent to November 30, 2018 (see Note 5). The land and building are being held for sale at their fair value and were disposed of subsequent to November 30, 2018 (See Note 22 (x)).

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**11. PROPERTY AND EQUIPMENT**

	Land	Building	Construction in progress	Equipment	Vehicle	Leasehold improvements	Computer equipment	Computer software	Laboratory Machinery equipment	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Opening balance	-	-	-	-	-	-	-	-	-	-
Additions	974,659	-	-	-	-	-	-	-	-	974,659
Additions obtained through acquisition:										
Grey Bruce	-	-	-	4,068	-	-	-	-	-	4,068
1118 BC	330,311	83,189	-	9,021	-	-	-	-	-	422,521
Zenalytic	-	-	-	9,490	-	-	-	-	206,904	216,394
Bio-Pharma	-	-	19,137	-	-	-	-	-	-	19,137
Balance, November 30, 2017	1,304,970	83,189	19,137	22,579	-	-	-	-	206,904	1,636,779
Additions	2,594,663	7,174,634	-	73,303	17,568	1,362,589	44,547	1,973	2,084,192	13,353,470
Additions obtained through acquisition of ACC	-	-	-	-	-	197,419	20,400	561	852,617	1,070,997
Reclassifications	-	-	(19,137)	-	-	19,137	-	-	-	-
Reclassification to assets held for sale	(821,397)	(1,521,442)	-	-	-	-	-	-	-	(2,342,839)
Balance, November 30, 2018	3,078,236	5,736,381	-	95,882	17,568	1,579,145	64,947	2,534	3,143,713	13,718,407
Amortization:										
Opening balance	-	-	-	-	-	-	-	-	-	-
Additions	-	-	-	(9,614)	(1,101)	(69,576)	(15,831)	(380)	(98,467)	(194,969)
Balance, November 30, 2018	-	-	-	(9,614)	(1,101)	(69,576)	(15,831)	(380)	(98,467)	(194,969)
<b>Balance, November 30, 2017</b>	<b>1,304,970</b>	<b>83,189</b>	<b>19,137</b>	<b>22,579</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>206,904</b>	<b>1,636,779</b>
<b>Balance, November 30, 2018</b>	<b>3,078,236</b>	<b>5,736,381</b>	<b>-</b>	<b>86,268</b>	<b>16,467</b>	<b>1,509,569</b>	<b>49,116</b>	<b>2,154</b>	<b>3,045,246</b>	<b>13,523,438</b>

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**12. INVESTMENT IN ASSOCIATE**

During the year ended November 30, 2018, the Company acquired 49% of the issued and outstanding common shares of 3PL Ventures Inc. ("3PL"). The Company paid \$49 cash and issued 1,600,490 common shares of the Company pursuant to a series of agreements related to the acquisition of the Company's interest in 3PL (together, the "Purchase Agreement") with its one other shareholder. Pursuant to the Purchase Agreement, 3PL is in the process of constructing a production facility to meet Health Canada standards for a licensed cannabis cultivation facility in accordance with the CA&R. The other shareholder of 3PL shall provide a maximum of up to \$9,000,000 in funding for 3PL through shareholder loans to finance the build out and equipping of the facility being constructed whereas the Company will make an application for a Research License under the Cannabis Act in order to enable 3PL to import and export cannabis and cannabis products. The Company has committed to advance a shareholder loan of up to a maximum of \$1,000,000 to fund the completion of the facility.

The following table summarizes the change in investment in associate for the years ended November 30, 2018 and 2017:

	2018	2017
	\$	\$
Opening balance	-	-
Cash paid	49	-
Fair value of common shares issued	1,250,000	-
Equity loss on investment	(390,190)	-
	<b>859,859</b>	-

Pursuant to the Purchase Agreement, the Company has also agreed to issue common shares with a fair value of \$1,250,000 contingent upon future events. In addition, the Company also has the option to purchase the remaining 51% interest from the other shareholder upon receipt of 3PL's sales license from Health Canada.

3PL has also entered into a lease agreement for a five-year term expiring August 31, 2023, which is renewable for a further five year term. Under the terms of the lease agreement, the basic annual minimum lease payments are as follows:

	\$
2019	458,244
2020	475,216
2021	526,132
2022	560,076
2023	420,057
	<b>2,439,725</b>

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**13. INVESTMENTS**

As at November 30, 2018 and 2017, the Company's investments consist of the following:

	2018	2017
	\$	\$
Civilized Worldwide Inc.	257,388	64,870
Cannabis Cowboy Inc.	25	-
	<b>257,413</b>	<b>64,870</b>

The investments are in unrelated third parties and have been recorded at cost. The Company assesses these investments for impairment when indicators of impairment arise and to date, \$Nil has been recorded as impairment against the above noted investments.

The Company owns less than 5% of the issued and outstanding common shares of Civilized Worldwide Inc. and 25% of the issued and outstanding common shares of Cannabis Cowboy Inc.

**14. PROMISSORY NOTES RECEIVABLE**

During the year ended November 30, 2018, the Company advanced \$2,450,000 to Cannabis Cowboy Inc. ("Cannabis Cowboy") pursuant to a series of promissory notes. The funds have been for retail store development in Alberta. The notes receivable are non-interest bearing, due on demand, have no fixed terms of repayment, and are secured by Cannabis Cowboy's right, title, and interest in presently owned and subsequently acquired real or personal property in accordance with a general security agreement between Cannabis Cowboy and the Company.

**15. CONVERTIBLE DEBENTURES**

June 2018

On June 11, 2018, the Company issued 5,000 Convertible Debenture units at a price of \$1,000 per unit for gross proceeds of \$5,000,000 under the following terms:

- A maturity date of June 10, 2020;
- An interest rate of 8% per annum, payable semi-annually;
- Convertible at \$1.50 per share, subject to adjustment in certain events, at the option of the holder;

Each unit consists of \$1,000 principal amount of convertible debentures and 222 warrants to purchase common shares of the Company at a price of \$2.50 for a period of two years from the closing of the offering. In connection with the transaction, the Company incurred share issuance costs of \$296,248 and issued 166,666 broker warrants exercisable for one common share of the Company at a price of \$1.50 for a period of two years from the earlier of: (a) the completion of the Qualifying Transaction and (b) the date that the shares become listed for trading on a recognized stock exchange. The fair value of the broker warrants was \$57,300, using the Black-Scholes option-pricing model.

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**15. CONVERTIBLE DEBENTURES (CONTINUED)**

October 2018

On October 17, 2018, the Company issued convertible debentures for gross proceeds of \$2,000,000 under the following terms:

- A maturity date of October 17, 2020;
- An interest rate of 8% per annum, payable monthly;
- Convertible at \$1.50 per share, subject to adjustment in certain events, at the option of the holder;

For accounting purposes, the above noted convertible debentures are separated into their liability and equity components using the residual method. The fair value of the liability component at the time of issue is determined based on an estimated rate of 18.50% for debentures without the conversion feature. The fair value of the equity component is determined as the difference between the face value of the convertible debentures and the fair value of the liability component. After initial recognition the liability component is carried on an amortized cost basis and will be accreted to its face value over the term to maturity of the convertible debentures at effective rates noted below. The Company also recorded a deferred income tax liability as noted below that was recognized in equity relating to the difference between the Company's accounting and tax basis. A recovery on the deferred income tax liability of \$447,525 was recorded to recognize available deferred income tax assets.

	June 2018	October 2018	Total
	\$	\$	\$
Principal amount	5,000,000	2,000,000	7,000,000
Equity portion	782,905	576,389	1,359,294
Transaction costs	(55,359)	-	(55,359)
Deferred income tax liability	(291,900)	(155,625)	(447,525)
<b>Allocation to contributed surplus</b>	<b>435,646</b>	<b>420,764</b>	<b>856,410</b>
Liability portion	4,217,095	1,423,611	5,640,706
Transaction costs	(298,189)	-	(298,189)
Accretion expense	219,652	10,176	229,828
<b>Carrying value</b>	<b>4,138,558</b>	<b>1,433,787</b>	<b>5,572,345</b>
Effective interest rate	22%	17%	

During the year ended November 30, 2018, the Company has incurred interest expense of \$207,781 on the convertible debentures, which remains payable and has been recorded as an accrued liability on the consolidated statement of financial position.



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**16. RELATED PARTY BALANCES AND TRANSACTIONS**

Key management compensation

All transactions with related parties have occurred in the normal course of operations. Key management is comprised of directors and executive officers.

Key management compensation consists of the following:

	2018	2017
	\$	\$
Salaries, management and consulting fees	194,714	3,000
Share-based payments	1,627,200	-
	<b>1,821,914</b>	<b>3,000</b>

There was no other remuneration paid to key management.

Related party balances

As at November 30, 2018, \$803 (2017: \$157,708) was due to the Company's Chief Executive Officer ("CEO") for advances made to the Company.

As at November 30, 2018, the Company has amounts receivable, including interest receivable, from a company controlled by a director of the Company totalling \$Nil (2017: \$5,861).

As at November 30, 2018, the Company has a subscription receivable balance of \$Nil due from a director of the Company (2017: \$25,000).

As at November 30, 2018, the Company has a prepaid of \$Nil for services to be provided by a company controlled by the CFO (2017: \$18,000).

As at November 30, 2018 the Company owes \$5,000 (2017: \$157,708) to a former director.

Related party transactions

During the period ended November 30, 2017, as described in Note 5, the Company entered into share purchase agreements to purchase 100% interest in Grey Bruce, 1118 BC, Zenalytic and Bio-Pharma. Each one of these entities was under common control of the Company's CEO.

During the period ended November 30, 2017, the Company advanced loans totaling \$334,153 to a company controlled by a director of the Company pursuant to a letter of intent. The letter of intent was terminated during the period ended November 30, 2017 and the loans advanced were repaid in full.

## **17. SHARE CAPITAL**

### Authorized common shares

The Company has an unlimited number of voting and non-voting common shares without par value authorized for issuance. The Company also has an unlimited number of non-voting redeemable preference shares with varying par values authorized for issuance.

### Common shares issued

During the year ended November 30, 2018:

- i. The Company issued 5,925,920 units pursuant to private placements completed during the year at a price of \$1.50 per unit. Each unit consisted of one common share and one-half share purchase warrant with each full warrant exercisable for one common share of the Company at a price of \$2.50 for a period of two years from the date of grant. In connection with the private placement, issued 251,802 warrants to finders exercisable for one common share of the Company at a price of \$1.50 for a period of two years from the earlier of: (a) the completion of the Qualifying Transaction and (b) the date that the shares become listed for trading on a recognized stock exchange.
- ii. The Company issued 19,233,042 units pursuant to private placements completed during the year at a price of \$0.60 per unit. Each unit consists of one common share and one-half share purchase warrant with each full warrant exercisable for one common share of the Company at a price of \$1.20 for a period of three years from the date of grant. In connection with the private placements, the Company issued 323,160 warrants to finders exercisable for one common share of the Company at a price of \$1.20 for a period of three years from the date of grant.
- iii. The Company paid finders fees of \$724,813 in cash in connection with the private placements completed during the year.
- iv. The Company issued 1,180,895 common shares with a fair value of \$1,771,343 pursuant to the Transaction described in Notes 1 and 6.
- v. The Company issued 1,688,333 common shares pursuant to the exercise of stock options for gross proceeds of \$483,000. In connection with the exercise of the stock options, the Company has also reallocated \$390,533 from contributed surplus to equity representing the fair value of the stock options.
- vi. The Company issued 16,765,353 common shares with a fair value of \$10,059,212 pursuant to share purchase agreements described in Note 5.
- vii. The Company issued 1,263,274 common shares with a fair value of \$1,000,000 pursuant to the triggering of contingent events for share purchase agreements described in Note 5.
- viii. The Company issued 1,288,253 common shares with a fair value of \$777,576 to certain consultants of the Company as compensation for the identification and assistance with the execution of the various purchase agreements described in Note 5.
- ix. The Company issued 425,000 common shares with a fair value of \$225,000 as compensation for consulting services provided during the year.
- x. The Company issued 1,600,490 for the acquisition of the Company's interest in 3PL ventures as described in Note 12.

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**17. SHARE CAPITAL (CONTINUED)**

Common shares issued (Continued)

During the period ended November 30, 2017:

- xi. The Company issued 120 shares upon incorporation for gross proceeds of \$1.
- xii. The Company issued 10,000,000 common shares at a price of \$0.02 per share to its founders for gross proceeds of \$200,000.
- xiii. The Company issued 23,364,375 units pursuant to private placements completed during the period at a price of \$0.20 per unit. Each unit consists of one common share and one-half share purchase warrant with each full warrant exercisable for one common share of the Company at a price of \$1.20 for a period of three years from the date of grant. In connection with the private placements, the Company incurred share issuance costs of \$12,993.
- xiv. The Company issued 7,429,583 common shares pursuant to share purchase agreements described in Note 5.

All common shares issued and outstanding as at November 30, 2018 have voting rights.

Escrow shares

As of November 30, 2018, there were 16,569,054 common shares held in escrow.

Stock options

Upon completion of the Transaction, the Company assumed the pre-existing stock option plan (the "Plan") for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates. The maximum number of shares available under the Plan is limited to 20% of the issued common shares. Awards may be granted for a maximum term of ten years from the date of grant.

A summary of the stock option transactions during the periods ended November 30, 2018 and 2017 is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining years
		\$	
Opening balance	-	-	-
Granted	3,400,000	0.20	2.35
Balance, November 30, 2017	3,400,000	0.20	2.35
Granted	6,369,247	0.70	2.27
Exercised	(1,688,333)	0.30	-
<b>Balance, outstanding – November 30, 2018</b>	<b>8,080,914</b>	<b>0.59</b>	<b>2.27</b>
<b>Balance, exercisable – November 30, 2018</b>	<b>7,508,414</b>	<b>0.53</b>	<b>2.11</b>

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**17. SHARE CAPITAL (CONTINUED)**

Stock options (Continued)

At November 30, 2018, the Company has stock options outstanding and exercisable to acquire common shares of the Company as follows:

Expiry date	Number outstanding	Number exercisable	Exercise price
			\$
September 3, 2019	425,000	425,000	0.20
August 8, 2020	175,000	175,000	0.20
September 21, 2020	100,000	100,000	0.20
October 5, 2020	400,000	400,000	0.20
November 21, 2020	1,125,000	1,125,000	0.20
January 19, 2021	3,605,080	3,605,080	0.60
January 21, 2019	160,834	160,834	1.20
August 15, 2021	250,000	250,000	0.86
August 23, 2021	550,000	137,500	0.94
August 29, 2021	130,000	65,000	0.91
September 5, 2021	150,000	150,000	0.95
September 18, 2021	100,000	30,000	1.07
October 19, 2021	100,000	100,000	0.97
October 22, 2021	75,000	50,000	0.85
October 23, 2021	100,000	100,000	0.86
November 1, 2021	25,000	25,000	0.85
November 19, 2021	35,000	35,000	0.76
November 27, 2021	575,000	575,000	0.69
	<b>8,080,914</b>	<b>7,508,414</b>	

The Company entered several agreements with consultants for provision of services. As part of the agreements, the Company agreed to issue stock options in accordance with these contracts. As the full term of these contracts have not been fulfilled, \$399,274 of the share based compensation attributable to these consulting fees has been recorded as a prepaid expense. See Note 7 for further information.

During the year ended November 30, 2018, the Company recognized share-based compensation of \$2,609,389 (2017 - \$494,965) that was recorded in the consolidated statement of comprehensive loss. The share-based compensation represents the fair value of stock options granted during the year ended November 30, 2018 and is estimated on the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in calculating the fair values are as follows:

	2018	2017
Share price	\$0.67	\$0.20
Exercise price	\$0.34	\$0.20
Risk-free interest rate	1.40%	1.00%
Expected life	3 years	2.35 years
Volatility	140%	150%
Dividend rate	0%	0%
Forfeiture rate	0%	0%
<b>Fair value on grant date</b>	<b>\$0.51</b>	<b>\$0.15</b>

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**17. SHARE CAPITAL (CONTINUED)**

Warrants

A summary of the warrant transactions during the periods ended November 30, 2018 and 2017 is as follows:

	Number of warrants	Weighted average exercise price	Weighted average remaining years
		\$	
Opening balance	-	-	-
Granted	11,682,188	1.20	2.82
<b>Balance, November 30, 2017</b>	<b>11,682,188</b>	<b>1.20</b>	<b>2.82</b>
Granted	14,431,117	-	-
<b>Balance, November 30, 2018</b>	<b>26,113,305</b>	<b>1.41</b>	<b>1.88</b>

At November 30, 2018, the Company had share purchase warrants outstanding to acquire common shares of the Company as follows:

Expiry date	Number outstanding	Weighted average exercise price
		\$
June 11, 2020	251,802	1.50
September 8, 2020	9,032,188	1.20
November 20, 2020	2,650,000	1.20
January 19, 2021	9,939,688	1.20
April 27, 2021	2,962,961	2.50
May 9, 2021	166,666	1.50
May 9, 2021	1,110,000	2.50
	<b>26,113,305</b>	

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**17. SHARE CAPITAL (CONTINUED)**

Warrants (continued)

During the year ended November 30, 2018, the Company recorded debt issuance costs of \$57,300 reflecting the fair value of 166,666 finders warrants issued during the period, relating to the issuance of a convertible debenture (see Note 15). The fair value is estimated on the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in calculating the fair values are as follows:

	<b>2018</b>
Share price	\$0.60
Exercise price	\$1.50
Risk-free interest rate	1.90%
Expected life	2 years
Volatility	150%
Dividend rate	0%
Forfeiture rate	0%
<b>Fair value on grant date</b>	<b>\$0.34</b>

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**18. INCOME TAXES**

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Canadian statutory income tax rate	27%	26%
Income tax (recovery) at statutory rate	(3,496,000)	(240,000)
Permanent differences and others	118,475	129,000
Change in unrecognized deferred income tax assets	964,000	111,000
Deferred income tax recovery	2,413,525	-

The significant components of deferred income tax assets and liabilities are as follows:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Non-capital losses	3,580,000	352,000
Capital assets	(10,000)	-
Share issuance costs	32,000	-
Convertible debentures	(385,000)	-
Debt issuance costs	64,000	-
Intangible assets	(1,965,000)	-
Unrecognized deferred income tax assets	(1,316,000)	(352,000)
Net deferred income tax assets	-	-

As at November 30, 2018, the Company has non-capital losses carried forward of approximately \$13,285,000 (2017 - \$1,300,000), which are available to offset future years' taxable income. These losses include the losses acquired through the acquisitions described in Note 5 and expire as follows:

	<b>\$</b>
2033	101,000
2034	959,000
2035	732,000
2036	1,173,000
2037	1,750,000
2038	8,570,000
	13,285,000

## **19. FINANCIAL INSTRUMENTS AND RISKS**

The Company's financial instruments consist of cash and cash equivalents, advances receivable, promissory notes receivable, deposits, accounts payable, interest payable, convertible debentures and due to related parties. The Company is exposed to certain financial risks, including credit risk, liquidity risk and market risk.

### **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 and arises principally from the Company's cash. At present, the Company holds its cash in Canadian rated financial institutions and will only consider investment of excess cash in highly rated government and corporate debt securities or guaranteed certificates from Canadian chartered banks. The Company has established guidelines, including diversification, credit ratings and maturities, to ensure safety and liquidity of its cash.

As at November 30, 2018, the Company's exposure is the carrying value of the financial instruments. The Company's maximum exposure to credit risk is the carrying value of its financial assets.

### **Currency risk**

The Company operates primarily in Canadian dollars and as such is not affected by the fluctuations of the Canadian dollar with other currencies.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the Board of Directors considers securing additional funds through issuances of equity and debt or partnering transactions. The Board of Directors approves the Company's annual operating and capital budgets as well as any material transactions outside the ordinary course of business. Management regularly reviews these budgets and maintains short-term cash flow forecasts.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

#### *Maturity Risk*

- 1) The Company's cash balance at November 30, 2018 is in the amount of \$917,601. At November 30, 2018 the Company had amounts receivable of \$992,760, accounts payable and accrued liabilities of \$1,937,590 and interest payable of \$207,781. All accounts payable and accrued liabilities are current.
- 2) As at November 30, 2018, the Company did not have derivative financial liabilities with contractual maturities.
- 3) Management of liquidity risk: Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses and commitments in (1) and (2) for a period of 90 days. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on exploration projects to further manage expenditure.



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**19. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)**

**Liquidity risk (Continued)**

*Maturity Risk (Continued)*

The following table summarizes the maturities of the Company's financial liabilities as at November 30, 2018 based on the undiscounted contractual cash flows:

	Carrying Amount	Contractual Cash Flows	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
	\$	\$	\$	\$	\$	\$
Accounts payable	1,937,590	1,937,590	1,937,590	-	-	-
Due to related parties	5,803	5,803	5,803	-	-	-
Interest payable	207,781	207,781	207,781	-	-	-
Convertible debt	5,572,345	8,475,230	391,896	8,083,333	-	-
<b>Total</b>	<b>7,723,519</b>	<b>10,626,404</b>	<b>2,543,070</b>	<b>8,083,333</b>	<b>-</b>	<b>-</b>

**Interest rate risk**

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity. The Company's amounts due to related parties are non-interest bearing.

Sensitivity analysis has not been presented as the Company currently has no significant exposure in its operations to interest rate or currency exchange rate fluctuations as the Company's interest bearing liabilities have fixed interest rate.

**Fair value hierarchy**

Financial instruments recognized at fair value on the consolidated statements of financial position must be classified into one of the three following fair value hierarchy levels:

Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets and liabilities;

Level 2 – measurement based on inputs other than quoted prices included in Level 1, that are observable for the asset and liability;

Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

The Company's financial instrument carrying amounts and fair values by levels per the fair value hierarchy are as follows:

	Fair Value Level	2018	2017
		\$	\$
<b>Financial assets</b>			
Cash and cash equivalents	1	917,601	2,442,246

**GTEC HOLDINGS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDED NOVEMBER 30, 2018 AND 2017**  
**(Expressed in Canadian Dollars)**

**20. CAPITAL MANAGEMENT**

The Company's capital structure consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through advances from related parties. Future financings are dependent on the willingness of the related parties to advance funds to the Company and market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company is not subject to externally imposed capital requirements. The Company may raise additional debt or equity financing in the near future to meet its obligations.

**21. COMMITMENTS**

- i. The Company entered into a binding letter agreement with a private British Columbia corporation ("AssetCo") to purchase the business assets of AssetCo ("the Acquisition"), which primarily consist of two cannabis dispensaries. Under the terms, GreenTec Retail Ventures Inc., a wholly owned subsidiary of the Company will acquire the business assets of AssetCo for a total purchase price of \$5,500,000. The purchase price will be comprised of cash payments of \$1,500,000 and issuance of common shares of the Company with a fair value of \$4,000,000, calculated at a 10-day volume weighted average price. As of November 30, 2018, the Company has advanced a non-refundable deposit \$250,000 to AssetCo, which has been recorded within Deposits on the consolidated statement of financial position. Refer to Note 22 (xii) for an amendment made to the binding letter agreement subsequent to November 30, 2018.
- ii. The Company entered into a binding letter agreement with a society created pursuant to the laws of British Columbia ("SocietyCo") to purchase all the assets of SocietyCo, which consist primarily of one medical cannabis dispensary, and a medical cannabis consulting clinic. Pursuant to the agreement, the Company has agreed to issue such number of common shares ("the Milestone Shares") of the Company to the vendors of SocietyCo, calculated at a 10-day volume weighted average price, in accordance with the following milestones:
  - a. \$500,000 upon the entering into, or the assignment of, the lease for the cannabis dispensary;
  - b. \$500,000 upon the transfer to the Company of the municipal development permit for a cannabis retail store;
  - c. \$500,000 upon the receipt of a license in the name of the Company from the Province of British Columbia Liquor & Cannabis Regulation Branch ("LCRB") to operation a retail cannabis store; and
  - d. \$500,000 upon the municipality granting the business license suitable for a non-medical retail cannabis store in the name of the Company.
- iii. The Company has entered into operating lease agreements for its premises. The annual basic lease commitments under these leases are as follows:

	\$
2019	255,000
2020	255,000
2021	211,000
2022	189,000
2023	136,000
Thereafter	22,000
	<b>1,068,000</b>

- iv. From time to time, the Company enters into contracts for services in the normal course of operations. The Company's current contractual commitments vary in terms and can be terminated upon sufficient notice.

## **22. SUBSEQUENT EVENTS**

Subsequent to November 30, 2018:

- i. The Company closed a private placement of 22,709,622 units at \$0.55 per unit for gross proceeds of \$12,490,292. Each unit consists of one common share and one-half common share purchase warrant exercisable at \$0.90 per common share of the Company for a period of 24 months. In connection with the private placement, the Company also incurred finders fees of \$749,418 and issued 1,362,577 share purchase warrants exercisable at \$0.55 per unit of the Company for a period of 24 months.
- ii. The Company was advanced \$500,000 in the form of a convertible debenture. The amount advanced is convertible into common shares of the Company on the same terms as those described in the October 2018 convertible debentures described in Note 15.
- iii. The Company issued 20,000 common shares for gross proceeds of \$50,000 pursuant to the exercise of share purchase warrants.
- iv. The Company entered into a joint venture agreement with BATC Investments Inc in connection with the establishment of a company named GreenTec Retail SK Inc. As per the terms of a shareholders' agreement, BATC shall own 25 Class A Common Share and GreenTec shall own 75 Class A Common Shares. BATC has the option, exercisable at any time after the date of the Option Agreement and ending six months after the first milestone, to require GreenTec to purchase all of its interest in GreenTec Retail SK Inc.
- v. The Company issued 200,000 common shares pursuant to service agreements.
- vi. The Company issued 200,000 stock options to certain members of management, exercisable at \$0.60 per common share for a period of three years.
- vii. The Company provided an aggregate of \$490,000 in non-interest bearing promissory notes to Cannabis Cowboy.
- viii. The Company issued 100,000 stock options for investor relations services, exercisable at \$0.57 per common share for a period of three years.
- ix. The Company completed the sale of its interest in Falcon Ridge Naturals Ltd. to its original vendor for gross proceeds of \$200,000 and transferred 120 Class A Voting Common Shares of Falcon Ridge to the purchaser.
- x. The Company completed the sale of land and a building, previously recorded as assets available for sale (see Note 10), for gross proceeds of \$2,375,000.
- xi. The Company amended certain terms of the acquisition of Tumbleweed whereby \$2,250,000 in cash payments due upon the occurrence of certain future events were replaced with the requirement to issue common shares valued at \$2,250,000. Accordingly, the Company issued 3,759,319 common shares to the vendors of Tumbleweed Farms, in connection with Tumbleweed's submission of its Affirmation of Readiness and Video Evidence Package to Health Canada.

Furthermore, the Company also issued a milestone payment of \$250,000 upon the completion of Tumbleweed's construction of a Health Canada approved cannabis production facility in compliance with the CA&R (see Note 5).

- xii. The Company amended certain terms of the binding letter agreement signed with AssetCo. As per the revised terms, the Company will forfeit deposits totaling \$600,000 if the Acquisition does not close as a result of the TSX Venture Exchange's refusal to give final approval to the Acquisition.