Valens GroWorks

CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

NOVEMBER 30, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Valens GroWorks Corp.

We have audited the accompanying consolidated financial statements of Valens GroWorks Corp., which comprise the consolidated statements of financial position as at November 30, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Valens GroWorks Corp. as at November 30, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Professional Accountants

March 29, 2018

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

	Notes	2017 $	2016 $
ASSETS			
Current			
Cash		291,623	14,843
Receivables		126,454	68,583
Prepaid expenses		444,204	886
		862,281	84,312
Equipment	7	455,426	44,789
Leasehold construction in progress	8	1,789,292	1,497,898
Intangible asset	5	3,900,000	-
Promissory note receivable MKHS, LLC	6	1,890,498	1,120,235
TOTAL ASSETS		8,897,497	2,747,234
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current			
Accounts payable and accrued liabilities	9	828,318	3,887,158
Promissory notes payable	9	860,507	-
		1,688,825	3,887,158
Shareholders' equity (deficiency)			
Share capital	10	17,934,729	7,511,605
Reserves	10	2,865,412	573,879
Obligation to issue shares	10	38,000	-
Subscriptions receivable	10	(20,608)	-
Deficit		(13,608,861)	(9,225,408)
		7,208,672	(1,139,924)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		8,897,497	2,747,234

Nature and continuance of operations (Note 1)
Commitments and Contingency (Note 14)
Subsequent events (Note 15)

Approved on behalf of the Board on March 29, 2018:

Signed

"Tyler Robson"
Director

Signed

"John Cullen"
Director

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

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

	Notes	2017 $	2016 $
Revenue			
Consulting		40,724	105,000
Cost of sales			
Supplies, materials and personnel		24,430	
		16,294	105,000
Operating expenses			
Administration fees		7,000	14,000
Advertising and promotion		65,865	-
Consulting fees		449,326	-
Depreciation	7	105,288	13,665
Interest		242,649	-
Listing expense	4	-	7,243,265
Management fees	9	775,710	179,313
Office and miscellaneous		53,681	10,464
Professional fees		165,513	259,909
Rent	9	281,310	250,766
Repair and maintenance		30,168	11,440
Share-based payments	9,10	2,399,609	399,295
Telephone and utilities		42,552	32,985
Transfer agent and filing fees		28,839	-
Travel and business development		51,645	5,192
Wages and salaries	9	464,281	53,879
		5,163,436	8,474,173
		(5,147,142)	(8,369,173)
Accretion	6	630,400	8,238
Foreign exchange gain (loss)		(108,546)	9,371
Interest income	6	241,835	18,926
		763,689	36,535
Loss and comprehensive loss for the year		(4,383,453)	(8,332,638)
Basic and diluted loss per common share		(0.08)	(0.16)
Weighted average number of shares outstanding-basic and diluted		56,206,627	51,022,667

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

VALENS GROWORKS CORP.
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in Canadian Dollars)

	Share Capital							
	Number Class A	Number Class B	Amount $	Reserves $	Obligation to issue shares $	Subscriptions receivable $	Deficit $	Total $
Balance, November 30, 2015	200	6,999,800	270	-	-		(892,770)	(892,500)
Reverse takeover RTO transaction (Note 4):								-
Elimination of Valens Agitech shares	(200)	(6,999,800)	-	-	-		-	-
Common shares issued on RTO	36,000,000	-	7,173,835	174,584	-		-	7,348,419
Common shares of Valens GroWorks recognized	14,347,667	-	-	-	-		-	-
Finders' fees	675,000	-	337,500	-	-		-	337,500
Share-based payments	-	-	-	399,295	-		-	399,295
Loss for the year	-	-	-	-	-		(8,332,638)	(8,332,638)
Balance, November 30, 2016	51,022,667	-	7,511,605	573,879	-	-	(9,225,408)	(1,139,924)
Shares issued for cash	1,823,582	-	1,455,774	-	-	(8,000)	-	1,447,774
Shares issued to settle accounts payable	1,192,919	-	1,006,311	-	-	-	-	1,006,311
Shares issued to settle convertible loans	1,036,539		1,036,539	-	-	-	-	1,036,539
Shares issued to settle promissory notes	2,197,327	-	2,008,865	-	-	-	-	2,008,865
Shares issued for consulting services	90,000	-	105,000	-	38,000	-	-	143,000
Shares issued pursuant to Supra acquisition (Note 5)	3,000,000	-	3,900,000	-	-	-	-	3,900,000
Share issued for exercise of warrants	581,498	-	436,726	-	-	-	-	436,726
Warrants issued to settled accounts payable	364,444	-	273,333	-	-	(12,608)	-	260,725
Share issued for exercise of options	191,666	-	200,576	(108,076)	-	-	-	92,500
Shares cancelled	(33,333)	-	-	-	-	-	-	-
Share-based payments	-	-	-	2,399,609			-	2,399,609
Loss for the year							(4,383,453)	(4,383,453)
Balance, November 30, 2017	61,467,309	-	17,934,729	2,865,412	38,000	(20,608)	(13,608,861)	7,208,672

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

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

	2017 $	2016 $
OPERATING ACTIVITIES		
Loss for the year	(4,383,453)	(8,332,638)
Adjustment for non-cash items:		
Depreciation	105,288	13,665
Listing expense	-	7,243,265
Share-based payments	2,399,609	399,295
Interest on promissory note receivable	(241,835)	(18,926)
Accretion on promissory note receivable	(630,400)	(8,238)
Interest expense	230,538	-
Consulting fees	105,000	-
Obligation to issue shares	38,000	-
Foreign exchange	101,972	(9,371)
Working capital adjustments		
Receivables	(57,871)	157,541
Prepaid expenses	(443,318)	(886)
Accounts payable and accrued liabilities	622,844	629,482
	(2,153,626)	73,189
INVESTING ACTIVITIES		
Cash acquired in RTO	-	8,912
Acquisition of equipment	(515,925)	(12,836)
Leasehold improvement expenditures	(291,394)	(63,937)
	(807,319)	(67,861)
FINANCING ACTIVITES		
Proceeds from issuance of shares	1,447,774	-
Proceeds from exercise of stock options	92,500	-
Proceeds from exercise of warrants	697,451	-
Proceeds from issuance of convertible debt	1,000,000	-
	3,237,725	-
CHANGE IN CASH	276,780	5,328
Cash, beginning of year	14,843	9,515
Cash, end of year	**291,623**	**14,843**
Supplemental disclosure with respect to cash flows:		
Accounts payable transferred into promissory notes payable	2,675,373	-
Shares issued to settle promissory notes payable	2,008,865	-
Shares issue to settle convertible loans	1,036,539	-
Shares issued to settle accounts payable	1,006,311	-
Shares issued to acquire Supra	3,900,000	-
Equipment and leasehold improvements accrued through accounts payable and accrued liabilities	-	1,496,956
RTO transaction as described in Note 4 (November 30, 2016)		

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Valens GroWorks Corp. (the "Company") was incorporated under the laws of British Columbia on January 14, 1981. The Company's common shares trade under the trading symbol "VGW" on the Canadian Securities Exchange ("CSE").

Valens Agritech Ltd. ("VAL") was incorporated under the Business Corporations Act of the Province of British Columbia on April 14, 2014. On November 2, 2016, the Company completed the acquisition (the "Acquisition") of VAL pursuant to a share exchange agreement dated October 31, 2016 (the "Agreement"). The Acquisition constituted a reverse takeover ("RTO") (Note 4). Upon completion of the Acquisition, the Company changed its name from Genovation Capital Corp. to Valens GroWorks Corp. These financial statements are those of VAL and replace amounts previously reported by the Company.

During the year ended November 30, 2017 VAL was issued a Health Canada Dealer's License which allows VAL to possess, produce, process, package, import, export and sell cannabis as well as related active ingredients at its facility in Winfield, B.C.

On April 5, 2017 the Company acquired Supra THC Services Inc. ("Supra") (Note 5). Supra was incorporated under the Business Corporations Act of the Province of British Columbia on December 10, 2015. Supra holds a Health Canada Dealer's License which allows Supra to process and produce extract from cannabis and related active ingredient for scientific purposes.

The address of the Company's registered and records office and head office address is 14th Floor, 1040 West Georgia Street, Vancouver, British Columbia, Canada V6E 4H1.

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

The Company has incurred losses since its inception and for the year ended November 30, 2017 the Company incurred a loss of $4,383,453 (November 30, 2016-$8,332,638). As of November 30, 2017, the Company has an accumulated deficit of $13,608,861 (November 30, 2016-$9,225,408). The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain financing and generate positive cash flows from its operations. Management of the Company does not expect that cash flows from the Company's operations will be sufficient to cover all of its operating requirements, financial commitments and business development priorities during the next twelve months. Accordingly, the Company expects that it will need to obtain further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

2. BASIS OF PREPARATION

Statement of compliance

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

The consolidated financial statements of the Company for the year ended November 30, 2017 were authorized for issue by the Board of Directors on March 29, 2018.

Basis of preparation

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

2. BASIS OF PREPARATION-*continued*

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

Critical accounting estimates

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

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

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

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

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

iii) Collectability of promissory note receivable from MKHS, LLC and estimated completion date of the Farmtek greenhouse currently under construction (Note 6) to calculate the present value of the promissory note.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

Functional and presentation currency

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

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

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

Financial instruments

i. Financial assets

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

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

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

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

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

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

ii. Financial liabilities

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

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

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

The Company has classified its cash as fair value through profit and loss, its receivables and promissory note receivable as loans and receivables and its accounts payable and accrued liabilities and promissory notes payable as other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

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

The depreciation rates applicable to each category of property and equipment are as follows:

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

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

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

Leasehold construction in progress

Leaseholds under construction will be transferred to leasehold improvements when the assets are available for use; depreciation of the assets commence at that point.

Intangible Assets and Goodwill

Intangible assets are recognized and measured at cost. Intangible assets with finite useful lives are amortized using the straight-line method over the useful life of the asset. The Company conducts an annual assessment of the residual balances, useful lives and amortization methods being used for intangible assets and any changes arising from the assessment are applied by the Company prospectively.

The Health Canada License acquired in the acquisition of Supra (Note 5) is measured at fair value at the time of acquisition and is amortized on straight line basis over the useful life of the facility or lease term.

Impairment of non-financial assets

At the end of each reporting period, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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

Provisions

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

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

Revenue recognition

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

Share-based compensation

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

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

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

Income taxes

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

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

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

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

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

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

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

Loss per share

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

Related party transactions

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

Segmented Reporting

An operation segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the Company's other components. As at November 30, 2017 and 2016 the Company operated in one business segment being the scientific research of phytopharmaceutical material, specifically producing cannabis and cannabis related products.

Accounting standards not yet effective

IFRS 9 – Financial Instruments ("IFRS 9")

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

3. SIGNIFICANT ACCOUNTING POLICIES-*continued*

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

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")

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

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

IFRS 16 – Leases

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee The IASB issued IFRS 16, Leases, in January 2016, which replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted, but only in conjunction with IFRS 15.

The Company has not yet completed the process of assessing the impact of IFRS 16 will have on its consolidated financial statements, or whether to early adopt this new requirement.

4. REVERSE TAKEOVER

On November 2, 2016, the Company completed the Acquisition of VAL. To complete the Acquisition, the following occurred:

- The Company acquired all the issued and outstanding shares of VAL in exchange for 36,000,000 common shares of the Company.
- Outstanding stock options and warrants of the Company were re-issued at the date of the Acquisition under the same terms of the originally granted stock options and warrants.
- The Company entered into a referral agreement with Greg Patchell and Tyler Robson, whereby the Company paid total finders' fee of 675,000 common shares on closing of the Acquisition. The fair value of the 675,000 common shares was determined to be $337,500 using the minimum share price of the required financing as described below.
- As part of the Acquisition the Company is required to complete one of more financings within three months after the Acquisition date to raise net proceeds of not less than $1,200,000 (completed). The financing must be completed at a minimum price per share of $0.50.

As a result of the Acquisition, VAL controlled the Company and is considered to have acquired the Company. The Company did not meet the definition of a business and the Acquisition was accounted for as the purchase of the Company's net assets by VAL. The net purchase price was determined as equity settled share-based payment, under

(Expressed in Canadian Dollars)

4. REVERSE TAKEOVER-*continued*

IFRS 2, Share-based payment, at the fair value of the equity instruments of the Company retained by the shareholders of the Company, based on the market value of the Company's common shares.

The Acquisition costs related to the RTO plus the aggregate of the fair value of the consideration paid less the net assets acquired has been recognized as a listing expense in the statements of loss and comprehensive loss. These consolidated financial statements reflect the assets, liabilities and operation of VAL since its incorporation and of the Company from November 2, 2016.

The fair value of net assets (liabilities) of the Company as at the date of the Acquisition was:

Cash	$ 8,912
Receivables	88,766
Promissory note receivable, MKHS LLC	1,083,700
Accounts payable and accrued liabilities	(738,724)
Net monetary assets acquired	$ 442,654

The consideration consists of 14,347,668 commons shares valued at $7,173,835, 675,000 common shares issued under the referral agreement valued at $337,500 and 405,000 replacement stock options issued.

The fair value of $174,584 was assigned to the 405,000 stock options as estimated by using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 200%, risk free rate of return of 0.54% and an expected maturity of 3.31 years.

Common shares issued	$ 7,511,335
Replacement options	174,584
Net monetary assets acquired	$ 7,685,919
Listing expense	$ 7,243,265

5. ACQUISITION OF SUPRA

On February 27, 2017 the Company entered into a share exchange agreement with Supra whereby the Company acquired all of the issued and outstanding shares of Supra for the issuance of 3,000,000 common shares of the Company (the "Transaction"). Supra holds a Health Canada Dealer's License with the ability to possess and produce extracts from cannabis and related active ingredients for scientific purposes (the "License").

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

The Company has classified the License as an intangible asset with a finite life. The License will be used at the Company's Winfield, BC location which is set to be completed in April 2018. Amortization on the license will commence once the facility is operational.

6. PROMISSORY NOTE RECEIVABLE

As at November 30, 2017 the Company has a loan receivable secured by a promissory note outstanding to MKV Ventures 1, LLC ("MKV Ventures") a 100% owned subsidiary of MKHS LLC ("MKHS"). MKHS, is a fully licensed, Arizona-based marijuana cultivation, extraction and medicinal dispensary business. MKHS supplies medical marijuana pursuant to the Arizona Medical Marijuana Act, operates two state-licensed "healing center" dispensaries and distributes its own in-house prepared, branded line of edibles, concentrates and extracts.

The promissory note made up part of the net assets acquired under the RTO transaction (Note 4). The Company had originally advanced MKHS funds to satisfy the terms and conditions of a Letter of Intent between the Company and MKHS dated October 30, 2015 and a superseding binding Letter of Commitment November 24, 2015, whereby MKHS committed to be acquired by the Company through a share exchange transaction.

During the year ended November 30, 2017 the Company and MKHS decided not to complete the share exchange transaction and on January 16, 2017 the Company entered into a 5-year, renewable, Professional Services Agreement (the "PSA") with MKHS Ventures. As a result of the Arrangement, MKHS Ventures will complete the buildout of a 28,000-sf Farmtek greenhouse expansion as proposed and funded by the Company under the original agreements (the "Buildout"). In accordance with the PSA, upon completion of the Buildout and commencement of operations, the Company will receive monthly management fees and provide consulting services which will be invoiced on a monthly basis. The Buildout is currently under construction and was expected to be completed in 2017, however, due to additional safety requirement features being added to the Buildout the new expected completion date is September 2018. The impact of the change in estimate is reflected in the accretion recorded for the current year.

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

The agreements entered into on January 16, 2017, supersede and replaces all previous agreements entered into between the Company and MKHS and settles all outstanding issues between the parties.

As at November 30, 2017 the face value of the loan was $1,923,606 (US$1,532,678) (November 30, 2016 - $1,762,096 (US$1,336,676)). The loan has been present valued using a market interest rate of 15%. The present value of the loan, including interest to date, as at November 30, 2017 was $1,890,498 (November 30, 2016 - $1,120,235). For the year ended November 30, 2017, the Company recognized accretion of $630,400 (November 30, 2016 - $8,238), interest of $241,835 (November 30, 2016 - $18,926) and a foreign exchange loss of $101,972 (November 30, 2016 – gain of $9,371). The loan was transferred to the Company under the RTO transaction (Note 4), all previous accretion, interest and foreign exchange is included in the amount transferred at the date of completion of the Acquisition.

(Expressed in Canadian Dollars)

7. EQUIPMENT

	Computer equipment and software	Office furniture and equipment	Lab equipment	Total
	$	$	$	$
Balance, November 30, 2015	12,840	1,099	49,056	62,995
Additions	-	4,100	8,736	12,836
Balance, November 30, 2016	12,840	5,199	57,792	75,831
Additions	388,151	56,084	71,690	515,925
Balance, November 30, 2017	400,991	61,283	129,482	591,756
Accumulated depreciation				
Balance, November 30, 2015	3,531	110	13,736	17,377
Additions	5,120	608	7,937	13,665
Balance, November 30, 2016	8,651	718	21,673	31,042
Additions	76,148	14,747	14,393	105,288
Balance, November 30, 2017	84,799	15,465	36,066	136,330
Carrying value				
November 30, 2016	4,189	4,481	36,119	44,789
November 30, 2017	316,192	45,818	93,416	455,426

8. LEASEHOLD CONSTRUCTION IN PROGRESS

As at November 30, 2017, the Company had incurred $1,789,292 (November 30, 2016 - $1,497,898) in leasehold construction in progress costs which include all amounts spent on improvements to date at the Company's Winfield, B.C. location to expand the facility for operations. The leasehold improvements relate to a building expansion of the current facility under lease including infrastructure for additional growing rooms, research and testing labs and office space. The expected completion date is April 2018 at which time it will be used by both Supra and VAL for their respective operations.

9. RELATED PARTY TRANSACTIONS

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include officers, directors or companies with common directors of the Company. The remuneration of the Company's directors and other key management personnel during the year ended November 30, 2017 and 2016 are as follows:

	2017	2016
	$	$
Management fees	775,710	159,000
Rent	281,308	250,766
Wages and salaries	312,148	-
Share-based payments	2,128,466	311,450
	3,497,632	721,216

As at November 30, 2017, accounts payable and accrued liabilities included $409,296 (2016 - $3,659,368) payable to directors, officers and companies controlled or related to directors and/or officers. Amounts payable to related parties have no specific terms of repayment, are unsecured and do not bear interest.

As at November 30, 2017, accounts receivable included $22,500 (2016-$Nil) due to the Company from a director.

9. RELATED PARTY TRANSACTIONS-*continued*

Convertible Notes

On February 9, 2017 and April 18, 2017, the Company entered into convertible loan agreements (the "Loans") with a Company owned by a director and the director of the Company ("the "Lender"). Each Loan was for $500,000 with a term of one year and interest rate of 10% to be paid on settlement. The Lender had the option but no obligation to exchange all or part of the Loan and accrued interest into common shares through the planned August 2017 private placement. If converted, the terms and conditions of the common shares would be equivalent to those issued in the private placement. As the conversion feature of the Loan did not meet the fixed-for-fixed criteria the Loan was considered to have an embedded derivative feature. The derivative was assessed to be immeasurable at the grant date and the full value of the loan was recognized as a liability.

On August 14, 2017, on the completion of the private placement, the Lender exercised his option to convert the Loan into common shares and was issued 1,036,539 common shares at a price of $1.00 (Note 10) for full settlement.

Promissory Notes

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

The Company settled $2,008,865 of the Notes through the issuance of 2,197,327 common shares through the private placements completed on January 11, 2017 and August 14, 2017 (Note 10). During the year ended November 30, 2017, the Company recorded total interest on the Notes of $193,999. At November 30, 2017 the remaining outstanding balance of the Notes was $860,507 which was settled subsequent to year end.

10. SHARE CAPITAL AND RESERVES

Authorized share capital

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

Issued shares:

Year ended November 30, 2016:

a) On November 2, 2016, the Company completed an RTO (Note 4) whereby the following share issuances occurred:

   i. to effect the acquisition of the Company by the former shareholders of VAL, the Company implemented a share restructuring whereby the former 7,000,000 common shares of VAL were exchanged for 37,000,000 common shares of the Company. Furthermore, the existing shareholders of the Company received 14,347,668 common shares of the new consolidated entity replacing their pre-RTO shares of the Company.

   ii. the Company issued 675,000 common shares as consideration for the finder`s fee. The total $337,500 fair value of these shares, estimated at $0.50 per common share, was used in the calculation of the listing fee which was recorded on the statement of loss and comprehensive loss.

10. SHARE CAPITAL AND RESERVES-*continued*

Year ended November 30, 2017:

a) On December 20, 2016, the Company closed the first tranche of a non-brokered private placement and issued 994,576 units at a price of $0.65 per unit. The Company received cash proceeds of $288,976 and settled accounts payable of $357,500. On January 11, 2017, the Company closed the second and final tranche of a non-brokered private placement and issued 1,158,614 units at a price of $0.65 per unit. The Company received cash proceeds of $394,100 and settled promissory notes payable of $350,000 (Note 9) and accounts payable of $9,000. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to purchase one common share at a price of $1.15 up to 12 months from closing, subject to acceleration conditions.

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

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

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

e) On August 14, 2017, the Company closed the first tranche of a non-brokered private placement and issued 3,250,615 units at a price of $1.00 per unit. The Company received cash proceeds of $250,000 and settled convertible notes of $1,036,539 (Note 9), promissory notes payable of $1,658,865 (Note 9) and settled accounts payable of $305,211 on the transaction. On October 3, 2017, the Company closed the second and final tranche of the non-brokered private placement and issued 85,000 units at a price of $1.00 per unit. The Company received cash proceeds of $85,000 on the transaction. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to purchase one common share at a price of $1.50 for 12 months from closing, subject to acceleration conditions;

f) On November 30, 2017, the Company closed the first tranche of a non-brokered private placement and issued 737,700 units at a price of $1.00 per unit. The Company received cash proceeds of $429,700, settled accounts payable of $300,000 and recognized subscriptions receivable of $8,000 on the transaction. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to purchase one common share at a price of $1.50 for 12 months from closing, subject to acceleration conditions. The second and final tranche closed subsequent to year end (Note 15); and

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

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

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

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

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES-*continued*

Escrow shares

In connection with the RTO, 39,675,000 common shares were placed into escrow with 10% released upon closing of the Acquisition and 15% released every six months thereafter. At November 30, 2017, 23,805,000 shares were held in escrow (November 30, 2016 – 33,007,500).

Warrants

The Company's warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price $
Balance, November 30, 2014 and 2015	-	-
Issued on RTO (Note 4)	944,442	0.75
Balance, outstanding and exercisable, November 30, 2016	944,442	0.75
Issued	3,113,253	1.38
Exercised	(945,942)	0.75
Balance, outstanding and exercisable November 30, 2017	3,111,753	1.38

The following table summarizes the warrants outstanding as at November 30, 2017:

Warrants outstanding	Exercise price $	Expiry date[1]
497,288	1.15	December 21, 2017[2]
577,807	1.15	January 11, 2018[2]
1,625,308	1.50	August 13, 2018
42,500	1.50	October 2, 2018
103,750	1.50	November 5, 2018
265,100	1.50	November 30, 2018
3,111,753		

(1) The Company is entitled to accelerate the expiry date of all the outstanding $1.15 and 1.50 warrants to the date that is 30 days following the date the Company issues a news release announcing that the published closing price of the common shares on the CSE has been equal to or greater than $1.65 and $2.00 respectively for any 10 consecutive trading days after the statutory hold period prior to the expiry date.

(2) Subsequent to year end a total of 520,653 warrants were exercised (Note 15), the remaining warrants expired unexercised.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES-*continued*

Stock options

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

The following table summarizes the changes in the outstanding stock options:

	Number of Options	Weighted Average Exercise Price $
Balance, November 30, 2014 and 2015	-	-
Issued upon RTO (Note 4)	405,000	1.06
Issued	2,500,000	0.65
Balance outstanding, November 30, 2016	2,905,000	0.69
Issued	2,400,000	1.00
Exercised	(191,666)	0.48
Cancelled	(625,000)	1.00
Expired	(36,667)	3.00
Balance outstanding, November 30, 2017	4,451,667	0.80
Options exercisable, November 30, 2017	3,520,417	0.75

The following table summarizes the options outstanding as at November 30, 2017:

Options outstanding	Options exercisable	Exercise price $	Expiry date
40,000	40,000	3.00	October 10, 2018
20,000	20,000	3.00	November 27/28, 2018
166,667	166,667	0.30	August 31, 2020
50,000	50,000	0.30	September 22, 2020
2,400,000	2,400,000	0.65	November 30, 2021
1,625,000	843,750	1.00	July 19, 2022
150,000	-	1.00	November 7, 2020
4,451,667	3,520,417		

During the year ended November 30, 2017, the Company granted a total of 2,400,000 (November 30, 2016-2,500,000) stock options. The total share-based payments expense for options granted and vested during the year was $2,399,609 (November 30, 2016-$399,295).

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES-*continued*

Stock options

The fair value of options granted is estimated using the Black-Scholes option pricing model with the following assumptions:

	November 30, 2017	November 30, 2016
Average dividend per share	-	-
Average forecasted volatility	173%	213%
Average risk-free interest rate	1.32%	0.59%
Average expected life	5 years	5 years
Fair value – weighted average of options issued	$ 0.94	$ 0.64

11. INCOME TAXES

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

	2017 $	2016 $
Loss before income taxes	(4,383,453)	(8,332,638)
Expected income tax (recovery) at statutory tax rates	(1,140,000)	(2,166,000)
Change in statutory rates and other	(63,000)	(9,000)
Permanent differences	627,000	1,900,000
Impact of RTO transaction	-	(1,313,000)
Adjustment to prior year provision versus statuary tax returns	42,000	(29,000)
Change in unrecognized deductible temporary differences	534,000	1,617,000
Income tax recovery	-	-

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

(Expressed in Canadian Dollars)

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

	2017 $	2016 $
Deferred tax assets (liabilities)		
Share issue costs	1,000	3,000
Allowable capital losses	4,000	3,000
Property and equipment	37,000	11,000
Promissory note receivable	173,000	367,000
Non-capital losses	2,484,000	1,781,000
Net unrecognized deferred income tax assets	2,699,000	2,165,000

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

	2017 $	Expiry dates	2016 $
Temporary Differences			
Share issue costs	5,000	2018-2020	13,000
Allowable capital losses	13,000	No expiry date	13,000
Property and equipment	136,000	No expiry date	39,000
Promissory note receivable	641,000	No expiry date	1,411,000
Non-capital losses	9,203,000	2026-2037	6,848,000

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

12. CAPITAL RISK MANAGEMENT

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

The Company has historically relied on the equity markets to fund its activities. Current financial markets are very difficult and there is no certainty with respect to the Company's ability to raise capital. Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

	Financial assets at fair value			
	Level 1	**Level 2**	**Level 3**	**November 30, 2017**
Fair value through profit and loss financial asset				
Cash	$ 291,623	-	-	$ 291,623
Total financial assets at fair value	$ 291,623	-	-	$ 291,623

	Financial assets at fair value			
	Level 1	**Level 2**	**Level 3**	**November 30, 2016**
Fair value through profit and loss financial asset				
Cash	$ 14,843	-	-	$ 14,843
Total financial assets at fair value	$ 14,843	-	-	$ 14,843

Cash is classified as fair value through profit or loss and is measured using level 1 inputs of the fair value hierarchy. The fair value of the Company's receivables, accounts payable and accrued liabilities and promissory notes payable approximate their carrying values due to their short-term nature. They are classified as loans and receivables.

Loans and long-term debt are measured at amortized cost. The fair value of the Company's promissory note receivable is presented on an amortized costs basis and will be accreted to its face amount over the term to maturity of the loan at an effective interest rate.

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

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and promissory note receivable. The Company's cash is held through large Canadian financial institutions and the Company's promissory note receivable is guaranteed by MKHS.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company currently does not have sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company is exposed to liquidity risk.

Market risk

The only market risk exposure to which the Company is exposed is interest rate risk. The Company's bank account earns interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT-*continued*

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, the MKHS promissory note receivable and accounts payable and accrued liabilities that are denominated in US dollars. As at November 30, 2017, a 10% appreciation of the Canadian dollar relative to the US dollar would have decreased net financial assets by approximately $189,050 (November 30, 2016-$112,024). A 10% depreciation of the US dollar relative to the Canadian dollar would have had the equal but opposite effect.

Price risk

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

14. COMMITMENTS AND CONTINGENCY

Lease Commitment

During the year ended November 30, 2015, the Company entered into a lease agreement with a company jointly owned by two directors of the Company. under the agreement the Company is required to make monthly lease payments. The term of the lease is seven years with the option to renew for an additional three-year term. If the Company decides not to continue with the lease they will forfeit all leasehold improvements made up to the termination date. The lease payments under the agreement are as follows:

Lease Year	Per Month	Per Annum
1 – 2	$16,500	$ 198,000
3 – 4	$16,995	$ 203,940
5 – 7	$17,505	$ 210,060

Based on the lease payments the remaining commitments are:	
Short term (December 1, 2017-November 30, 2018)	$ 203,940
Long term (December 1, 2018-December 31, 2022)	647,170
	$ 851,110

Executive Employment Agreement

On March 1, 2017, the Company entered into a three-year executive employment agreement with an officer of the Company. Under the agreement, the officer will be paid $60,000 per year and will be issued a total of 320,000 common shares over the term of the agreement of which 240,000 will be issued in equal increments every three months and the remaining 80,000 will be issued at the discretion of the Board. During the year ended November 30, 2017, the Company issued 60,000 common shares with a value of $75,000 and recognized an obligation to issue shares of $25,000. If the agreement is terminated without cause the Company will be required to pay the full amount required under the agreement and an additional fee of 12 months' salary.

Contingency

During the year ended November 30, 2015, a small claims action was brought against the Company from a vendor the Company had used for services. During the year ended November 30, 2017, the parties reached a settlement agreement whereby the Company would pay the vendor $9,000. The funds are currently being held in trust by the Company's legal counsel and are awaiting request to be transferred to the vendor at which time the settlement documents will be signed and filed with the court.

15. SUBSEQUENT EVENTS

- On January 9, 2018, the Company closed the second and final tranche of a non-brokered private placement (Note 10) and issued 1,287,300 units at a price of $1.00 per unit. The Company received cash proceeds of $1,287,300. Each unit consisted of one common share of the and one-half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $1.50 for 12 months from the closing, subject to acceleration conditions.

- On January 12, 2018, the Company issued 520,653 common shares in connection with the exercise of warrants for gross proceeds of $598,750.

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

- On February 23, 2018, the Company granted 1,000,000 stock options to a consultant of the Company exercisable into common shares at a price of $2.50 per common share and expiring on February 23, 2023.

- On February 28, 2018, the Company entered into a Letter of Intent with to acquire 19.9% interest in R Gold Ventures Inc. in exchange for the following:
    - i. a cash payment of $700,000 to Ross' Gold to be utilized under a pre-approved use of the proceeds plan approved by the parties;
    - ii. the issuance of 550,000 common shares of the Company to Ross' Gold;
    - iii. the entry into of an exclusive supply agreement between the parties; and
    - iv. the grant by Ross' Gold to the Company of a right of first refusal with respect to sale of any securities of Ross' Gold.

- On March 20, 2018, the Company issued 5,000 common shares in connection with the exercise of warrants for gross proceeds of $7,500.