Valens GroWorks

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED – PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

THREE MONTH PERIOD ENDED FEBRUARY 28, 2018

VALENS GROWORKS CORP.
(formerly Genovation Capital Corp.)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the unaudited interim condensed consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated interim financial statements of Valens Groworks Corp. ("the Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of unaudited interim condensed consolidated financial statements by an entity's auditor.

VALENS GROWORKS CORP.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
As at February 28, 2018 and November 30, 2017

	Notes	February 28, 2018 $	November 30, 2017 $
ASSETS			
Current			
Cash and cash equivalents	5	10,474,558	291,623
Receivables	8	312,813	126,454
Prepaid expenses		241,949	444,204
		11,029,320	862,281
Equipment	6	1,061,166	455,426
Leasehold construction in progress	7	3,222,181	1,789,292
Intangible asset	3	3,900,000	3,900,000
Promissory note receivable MKHS, LLC	4	1,997,068	1,890,498
TOTAL ASSETS		21,209,735	8,897,497
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current			
Accounts payable and accrued liabilities	8	2,147,328	828,318
Promissory notes payable	8	-	860,507
		2,147,328	1,688,825
Shareholders' equity (deficiency)			
Share capital	9	31,296,784	17,934,729
Reserves	9	5,164,538	2,865,412
Obligation to issue shares	9	-	38,000
Subscriptions receivable	9	(12,608)	(20,608)
Deficit		(17,386,307)	(13,608,861)
		19,062,407	7,208,672
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		21,209,735	8,897,497

Nature and continuance of operations (Note 1)
Commitments and Contingency (Note 12)
Subsequent events (Note 13)

Approved on behalf of the Board on April 30, 2018:

Signed

"Tyler Robson"
Director

Signed

"John Cullen"
Director

VALENS GROWORKS CORP.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
For the three month periods ended February 28, 2018 and 2017

	Notes	**Three months ended February 28, 2018 $**	Three months ended February 28, 2017 $
Operating expenses			
Administration fees		-	7,000
Advertising and promotion		154,038	8,039
Consulting fees	8	702,891	38,785
Depreciation	6	61,413	21,021
Interest		21,917	3,646
Management fees	8	52,500	65,750
Office and miscellaneous		266,156	14,417
Professional fees		67,721	24,360
Rent	8	71,441	69,305
Repair and maintenance		14,498	20,956
Share-based payments	8,9	2,299,126	534,770
Telephone and utilities		11,833	29,434
Transfer agent and filing fees		11,309	2,950
Travel and business development		5,346	13,559
Wages and salaries	8	142,109	100,421
		3,882,298	954,413
		(3,882,298)	(954,413)
Accretion	4	167	-
Foreign exchange gain (loss)		32,364	(19,874)
Interest income	4	72,321	96,278
		104,852	76,404
Loss and comprehensive loss for the period		(3,777,446)	(878,009)
Basic and diluted loss per common share		(0.06)	(0.02)
Weighted average number of shares outstanding-basic and diluted		64,782,942	52,438,078

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

VALENS GROWORKS CORP.
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in Canadian Dollars)
As at February 28, 2018 and November 30, 2017

	Share Capital						
	Number	Amount	Reserves	Obligation to issue shares	Subscriptions receivable	Deficit	Total
		$	$	$	$	$	$
Balance, November 30, 2016	51,022,667	7,511,605	573,879	-	-	(9,225,408)	(1,139,924)
Shares issued for cash	1,823,582	1,455,774	-	-	(8,000)	-	1,447,774
Shares issued to settle accounts payable	1,192,919	1,006,311	-	-	-	-	1,006,311
Shares issued to settle convertible loans	1,036,539	1,036,539	-	-	-	-	1,036,539
Shares issued to settle promissory notes	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 3)	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
Shares issued for cash	10,134,350	13,673,170	-	(38,000)	8,000	-	13,643,170
Shares issued costs	-	(909,865)	-	-	-	-	(909,865)
Shares issued for finders' fee	70,565	-	-	-	-	-	-
Share issued for exercise of warrants	520,655	598,750	-	-	-	-	598,750
Share-based payments	-	-	2,299,126			-	2,299,126
Loss for the period	-	-	-	-	-	(3,777,446)	(3,777,446)
Balance, February 28, 2018	72,192,879	31,296,784	5,164,538	-	(12,608)	(17,386,307)	19,062,407

VALENS GROWORKS CORP.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
For the three month periods ended February 28, 2018 and 2017

	Three months ended February 28, 2018 $	Three months ended February 28, 2017 $
OPERATING ACTIVITIES		
Loss for the period	(3,777,446)	(878,009)
Adjustment for non-cash items:		
Depreciation	61,413	21,021
Share-based payments	2,299,126	534,770
Interest on promissory note receivable	(72,321)	(96,278)
Accretion on promissory note receivable	(167)	-
Loss on disposal of assets	2,807	-
Foreign exchange	(34,082)	20,361
Working capital adjustments		
Receivables	(186,359)	(28,788)
Prepaid expenses	202,255	(29,557)
Accounts payable and accrued liabilities	1,077,469	(382,395)
	(427,305)	(838,875)
INVESTING ACTIVITIES		
Acquisition of equipment	(669,960)	(225,098)
Leasehold improvement expenditures	(1,191,348)	(957)
	(1,861,308)	(226,055)
FINANCING ACTIVITES		
Proceeds from issuance of shares	12,733,305	1,040,575
Proceeds from exercise of warrants	598,750	-
Proceeds from issuance of convertible debt	-	502,603
Repayment of promissory notes payable	(860,507)	-
	12,471,548	1,543,178
CHANGE IN CASH, and CASH EQUIVALENTS	10,182,935	478,248
Cash, and cash equivalents, beginning of period	291,623	14,843
Cash, and cash equivalents, end of period	**10,474,558**	**493,091**
Supplemental disclosure with respect to cash flows:		
Shares issued to settle accounts payable	-	395,000
Equipment and leasehold improvements accrued through accounts payable and accrued liabilities	241,541	198,040

The accompanying notes are an integral part of these unaudited interim condensed 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"). 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 3). 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 unaudited interim condensed 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 three month period ended February 28, 2018 the Company incurred a loss of $3,777,446 (2017 - $878,009). As of February 28, 2018, the Company has an accumulated deficit of $17,386,307 (November 30, 2017 - $13,608,861). The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain financing and generate positive cash flows from its operations. 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 unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, Interim financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), and its interpretations. Accordingly, these condensed interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for year-end reporting purposes.

The unaudited interim condensed consolidated financial statements of the Company for the three months ended February 28, 2018 were authorized for issue by the Board of Directors on April 30, 2018.

Basis of preparation

The notes herein include only significant transactions and events occurring since the Company's last fiscal year end and are not fully inclusive of all matters required to be disclosed in the annual audited consolidated financial statements. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with our most recent annual audited financial statements for the year ended November 30, 2017.

These unaudited interim condensed 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 unaudited interim condensed consolidated financial statements are presented in Canadian Dollars, which is also the Company's functional currency, unless otherwise indicated.

Critical accounting estimates

The preparation of these unaudited interim condensed 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.

2. BASIS OF PREPARATION-*continued*

Accounting standards not yet effective

IFRS 9 – Financial Instruments ("IFRS 9")

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

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

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

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

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

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.

3. 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.

4. PROMISSORY NOTE RECEIVABLE

As at February 28, 2018 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 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.

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 February 28, 2018 the face value of the loan was $2,030,688 (US$1,585,360) (November 30, 2017 - $1,923,606 (US$1,532,678). 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 February 28, 2018 was $1,997,068 (November 30, 2017 - $1,890,498). For the three month period ended February 28, 2018, the Company recognized accretion of $167 (2017 - $37,037), interest of $72,321 (2017 - $38,880) and a foreign exchange loss of $34,082 (2017 – $nil). The loan was transferred to the Company under the RTO transaction, 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)

5. CASH AND CASH EQUIVALENTS

The balance at February 28, 2018 consists of cash on deposit with major Canadian banks in general interest bearing accounts totaling $3,085,802 (November 30, 2017 - $291,623), cashable guaranteed investment certificates with major Canadian banks of $7,005,750 (November 30, 2017 - $nil), and funds held in trust with the Company's lawyer in the amount of $383,006 (November 30, 2017 - $nil), for total cash and cash equivalents of $10,474,558 (November 30, 2017 - $291,623).

6. EQUIPMENT

	Computer equipment and software	Office furniture and equipment	Lab equipment	Total
	$	$	$	$
Balance, November 30, 2016	12,840	5,199	57,792	75,831
Additions	388,151	56,084	71,690	515,925
Balance, November 30, 2017	400,991	61,283	129,482	591,756
Additions	-	-	669,960	669,960
Disposals	(2,463)	(1,134)	-	(3,597)
Balance, February 28, 2018	398,528	60,149	799,442	1,258,119
Accumulated depreciation				
Balance, November 30, 2016	8,651	718	21,673	31,042
Additions	76,148	14,747	14,393	105,288
Balance, November 30, 2017	84,799	15,465	36,066	136,330
Additions	27,691	5,331	28,391	61,413
Disposals	(677)	(113)	-	(790)
Balance, February 28, 2018	111,813	20,683	64,457	196,953
Carrying value				
November 30, 2017	316,192	45,818	93,416	455,426
February 28, 2018	286,715	39,466	734,985	1,061,166

7. LEASEHOLD CONSTRUCTION IN PROGRESS

As at February 28, 2018, the Company had incurred $3,222,181 (November 30, 2017 - $1,789,292) 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.

(Expressed in Canadian Dollars)

8. 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 three month period ended February 28, 2018 and 2017 are as follows:

	2018	2017
	$	$
Management fees	618,141	55,750
Rent	63,041	69,309
Wages and salaries	11,494	67,250
Share-based payments	-	440,575
Purchase of property, plant and equipment	293,331	-
	986,007	632,884

As at February 28, 2018, accounts payable and accrued liabilities included $723,455 (November 30, 2017 - $409,296) payable to directors, officers and companies controlled or related to directors and/or officers. Amounts payable to related parties have no specific terms of repayment, are unsecured and do not bear interest.

As at February 28, 2018, accounts receivable included $88,592 (November 30, 2017 -$22,500) due to the Company from various directors and officers and companies related thereto.

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 9) 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 9).

During the three month period ended February 28, 2018, the Company recorded total interest on the Notes of $17,374 (2017 - $3,646). During the three month period ended February 28, 2018 the remaining outstanding balance of the Notes was settled and $nil (November 30, 2017 - 860,507) remains outstanding.

9. 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:

Three month period ended February 28, 2018:

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

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

(c) 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.

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 8) 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 3);

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 8), promissory notes payable of $1,658,865 (Note 8) 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;

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES-*continued*

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.

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.

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 February 28, 2018, 23,805,000 shares were held in escrow (November 30, 2017 – 23,805,000).

Warrants

The Company's warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price $
Balance, outstanding 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
Issued	643,650	1.50
Exercised	(520,653)	1.15
Expired	(554,442)	1.15
Balance, outstanding and exercisable February 28, 2018	2,680,308	1.50

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES-*continued*

The following table summarizes the warrants outstanding as at February 28, 2018:

Warrants outstanding	Exercise price $	Expiry date(1)
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
643,650	1.50	January 9, 2019
2,680,308		

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
577,807	1.15	January 11, 2018
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.

(Expressed in Canadian Dollars)

9. 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 outstanding, November 30, 2016	2,905,000	0.69
Issued	2,400,000	1.00
Exercised	(191,666)	0.48
Cancelled	(625,000)	1.00
Expired	(36,667)	3.00
Balance outstanding, November 30, 2017	4,451,667	0.80
Issued	1,000,000	2.50
Cancelled	(25,000)	0.30
Balance outstanding, February 28, 2018	5,426,667	1.12
Options exercisable, February 28, 2018	4,776,667	1.14
Options exercisable, November 30, 2017	3,520,417	0.75

Three month period ended February 28, 2018:
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. The total share-based payments expense for options granted and vested during the year was $2,056,000.

The Company also recorded share-based payment expense in relation to vesting of options issued in prior periods in the amount of $243,126 for total share-based payment expense of $2,299,126 for the three month period ended February 28, 2018.

Year ended November 30, 2017:
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.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES-*continued*

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

	February 28, 2018	November 30, 2017
Average dividend per share	-	-
Average forecasted volatility	118%	173%
Average risk-free interest rate	2.05%	1.32%
Average expected life	5 years	5 years
Fair value – weighted average of options issued	$ 2.05	$ 0.94

The following table summarizes the options outstanding as at February 28, 2018:

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
141,667	141,667	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	1,125,000	1.00	July 19, 2022
150,000	-	1.00	November 7, 2020
1,000,000	1,000,000	2.50	February 23, 2023
5,426,667	4,776,667		

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		

(Expressed in Canadian Dollars)

10. 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.

11. 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**	**February 28, 2018**
Fair value through profit and loss financial asset				
Cash, and cash equivalents	$ 3,468,808	$ 7,005,750	-	$ 10,474,558
Total financial assets at fair value	$ 3,468,808	$ 7,005,750	-	$ 10,474,558

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

Cash, and cash equivalents is classified as fair value through profit or loss and is measured using level 1 inputs of the fair value hierarchy, except for guaranteed investment certificates which are classified as level 2. 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.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT-*continued*

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 cash equivalents and promissory note receivable. The Company's cash, and cash equivalents is held through large Canadian financial institutions and the Company's lawyer, 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, and cash equivalents. 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.

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, and cash equivalents, the MKHS promissory note receivable and accounts payable and accrued liabilities that are denominated in US dollars. As at February 28, 2018, a 10% appreciation of the Canadian dollar relative to the US dollar would have decreased net financial assets by approximately $199,000 (2017 - $120,000). 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.

(Expressed in Canadian Dollars)

12. COMMITMENTS AND CONTINGENCY

Lease Commitment

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.

13. SUBSEQUENT EVENTS

(a) On February 28, 2018, the Company entered into a Letter of Intent 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.

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

(c) On April 11, 2018, the Company incorporated a new subsidiary company, Valens Farms, to commercially produce premium quality specialty-strain cannabis using dedicated, sustainable monocropping technology, and to further expand the Company's CO2-extracted cannabis oil capacity.

Valens Farms has broken ground and initiated construction on a purpose built $75 million 400,000 square foot commercial cannabis production facility, being built in joint venture partnership with Kosha Projects Inc. ("Kosha"). The municipality of the City of Armstrong has approved the building of up to 851,200 square feet of greenhouse and indoor facilities, representing 40% site coverage on the 50-acre property currently owned by Kosha.

The joint venture partnership will see Kosha contribute the land and all facility development and construction costs and related expertise. Valens will provide design and outfitting inputs, budgetary guidance, consulting and advisory services during construction and development of the facility. Valens Farms will operate the facility to commercially produce premium quality cannabis and expand the Company's CO2-extracted cannabis oil capacity. Upon initial construction and development cost recoupment by Kosha, each of Valens Farms and Kosha are entitled to 50% of the revenues earned, and a 50% interest in all the assets connected therewith.