Q2 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended May 31, 2021

Expressed in thousands of Canadian Dollars except share amounts

TSX: VLNS

OTCQX: VLNCF

The Valens Company Inc.

THE VALENS COMPANY INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Three and Six Months Ended May 31, 2021

(Expressed in Thousands of Canadian Dollars Except Share Amounts)

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of The Valens Company Inc. (the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three and six months ended May 31, 2021. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 - Continuous Disclosure Obligations. This discussion should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three and six months ended May 31, 2021 and 2020 together with the notes thereto and the audited annual consolidated financial statements for the Company for the years ended November 30, 2020 and 2019 together with the notes thereto. The results for the three and six months ended May 31, 2021 are not necessarily indicative of the results that may be expected for any future period.

All financial information contained in this MD&A is current as of July 14, 2021 unless otherwise stated.

All financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are expressed in thousands of Canadian dollars, unless otherwise specified.

Additional information regarding the Company is available on SEDAR at www.sedar.com, and the Company's website www.thevalenscompany.com. The date of this MD&A is July 14, 2021.

FORWARD-LOOKING INFORMATION

Inherent in forward-looking statements involve known and unknown risks, and factors may include, but are not limited to: unavailability of financing, changes in government regulation, general economic condition, general business conditions, limited time being devoted to business by directors, escalating professional fees, escalating transaction costs, competition, fluctuation in foreign exchange rates, stock market volatility, unanticipated operating events and liabilities inherent in industry.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, the following assumptions: that there is no material deterioration in general business and economic conditions; that there is no unanticipated fluctuation of interest rates and foreign exchange rates; that the supply and demand for, deliveries of, and the level and volatility of biomass, bulk cannabis oil and consumer packaged goods prices develop as expected; that the Company receives regulatory and governmental approvals as are necessary on a timely basis; that the Company is able to obtain financing as necessary on reasonable terms; that there is no unforeseen deterioration in the Company's activity costs; that the Company is able to procure equipment and supplies, as necessary, in sufficient quantities and on a timely basis; that there are no unanticipated changes to market competition; that no environmental and other proceedings or disputes arise; and that the Company maintains its ongoing relations with its employees, consultants and advisors.

Readers are cautioned that the foregoing list of important factors and assumptions is not exhaustive.

The global pandemic related to an outbreak of the novel coronavirus disease ("COVID-19") has cast uncertainty on each of these assumptions. There can be no assurance that they continue to be valid. The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the financial effect on our business remain unknown at this time. These impacts could include, amongst others, an impact on our ability to obtain debt or equity financing, increased credit risk on receivables, impairment of investments, net realizable value of inventory, impairments in the value of our long-lived assets, or potential future decreases in revenue or profitability of our ongoing operations. See "Risk Factors".

Forward-looking statements are not guarantees of future performance. Events or circumstances could cause the Company's actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information or future events or otherwise, except as may be required under applicable laws.

The forward-looking statements contained herein are based on information available as of July 14, 2021.

COMPANY OVERVIEW

The Valens Company Inc. was incorporated under the laws of British Columbia on January 14, 1981. On June 18, 2020, the Company completed a continuance under the Canada Business Corporations Act ("CBCA"), making the Company a federal corporation governed by the CBCA. At the same time, the Company changed its name from Valens GroWorks Corp. to The Valens Company Inc. The Company's common shares trade under the trading symbol "VLNS" on the Toronto Stock Exchange ("TSX") and under the trading symbol "VLNCF" on the OTC Markets. The Company delivers a diverse suite of extraction methodologies and end-to-end development and manufacturing of innovative, cannabinoid-based products. The Company also provides analytical testing services to third party licensed producers in the cannabis space through its ISO 17025 accredited analytical lab.

The Company operates through its seven wholly-owned subsidiaries, Valens Agritech Ltd. ("VAL"), Valens Labs Ltd. ("Labs"), Valens Farms Ltd. ("Farms"), VGR Merger Sub Inc. ("VGR"), and LYF Food Technologies Inc. ("LYF") all based in the Okanagan Valley of British Columbia, Southern Cliff Brands Inc. ("Pommies") in the greater Toronto area of Ontario, VGR Merger Sub Inc. ("VGR") in Delaware, U.S., and Valens Australia Pty Ltd. ("VAPL") in Australia.

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 of VAL pursuant to a share exchange agreement dated October 31, 2016. VAL was granted its Licensed Producer ("LP") license to cultivate and produce oil under the Access to Cannabis for Medical Purposes Regulations and subsequently, a standard processing and standard cultivation license under the Cannabis Act. This license was subsequently amended by Health Canada to permit sales directly to provinces and territories, sales of dried cannabis products to authorized provincial and territorial retailers, and the addition of the second production facility in Kelowna. VAL also holds an analytical testing license and received a cannabis research license from Health Canada under the Cannabis Act.

Labs was incorporated under the Business Corporations Act of the Province of British Columbia on October 18, 2018 to provide sector-leading analytical and proprietary testing services. Labs, in collaboration with Thermo Fisher Scientific (Mississauga) Inc., is developing a "Centre of Excellence in Plant Based Medicine Analytics" at the Company's 25,000 square foot facility in Kelowna, B.C.

Farms was incorporated under the Business Corporations Act of the Province of British Columbia on July 19, 2018. Farms currently holds the real estate interest of the Company's processing facilities in Kelowna, BC.

On November 8, 2019, the Company acquired 100% of the shares of Pommies. Pommies is an Ontario based manufacturer and distributer of alcoholic beverages within the cider industry. Pommies is also a mature cannabis micro-processing license applicant.

On June 26, 2020, VAPL was incorporated under the laws of Western Australia to begin to develop the Company's presence in the Australian market.

On March 5, 2021, the Company acquired 100% of the shares of LYF Food Technologies Inc. ("LYF"). LYF is a premier edibles manufacturer based in Kelowna, BC with expertise in novel product creation, white label manufacturing and infusion technologies. LYF also holds a standard processing license that was subsequently amended by Health Canada to permit sales directly to provinces and territories.

On April 21, 2021, VGR was incorporated under the laws of the state of Delaware to facilitate the acquisition of Green Roads Founders LLC and associated Companies ("Green Roads").

CORPORATE HIGHLIGHTS

International Expansion Initiatives

Australia
Effective May 14, 2020, the Company entered into a five-year non-exclusive distribution agreement with Cannvalate Pty Ltd. ("Cannvalate"). This agreement provides the Company strategic access to the Australian market, the second largest legalized cannabis market outside of North America, through a preferred supplier relationship with Cannvalate and the establishment of an asset-light operating platform in Australia. The agreement is based on a pay for performance model, providing Cannvalate achieves milestones based on certain financial targets and facility construction and licensing timelines outlined in the agreement.

The Company's wholly-owned subsidiary VAPL has received a wholesale license required to sell and supply Schedule 4 and Schedule 8 cannabis-derived products under its own title in accordance with the Drugs, Poisons and Controlled Substance Act 1981 in Australia. These wholesale licenses permit VAPL to provide premium derivative products containing Cannabidiol (CBD) and Tetrahydrocannabinol (THC) directly to the medicinal cannabis market in Australia. VAPL also received the licenses required to import and export Schedule 4 and Schedule 8 cannabis-derived products in Australia.

The Company continues to monetize the agreement and leverage its relationship with Cannvalate to expand the distribution and range of products being supplied into the Australian market.

United States
On June 21, 2021, the Company announced that it has closed the acquisition of all of the issued and outstanding shares of Green Roads in a cash and share transaction for closing consideration of $40,000 USD plus up to an additional $20,000 USD in consideration payable upon the business achieving certain earn-out EBITDA milestones. The earn-out payment to the vendors of Green Roads is capped at $20,000 USD to be settled in cash or common shares at the discretion of the Company based on the following schedule:

EBITDA Milestone #	Amount (USD $)	Deadline	Settlement
#1	0 – 20,000	December 31, 2022	Cash or common shares based on the 30 day volume weighted average price commencing January 1, 2023. The amount earned for the milestone is based on performance versus the EBITDA target. If less than 30% of the EBITDA target is accomplished, the amount is $nil. If over 30% of the EBITDA target is accomplished, the earn-out payment is equal to the percentage proportionate amount of $20,000 USD.

Green Roads was the largest privately-owned CBD company in the United States, with a focus on quality from its pharmacist-founded background. Based in South Florida, the company produces an award-winning lineup of health and wellness products using hemp-derived CBD across a variety of consumer categories such as oils, topicals, ingestibles, personal care and pet products.

Domestic Expansion Initiatives

LYF Food Technologies
On March 5, 2021, the Company announced that it has closed the acquisition of all of the issued and outstanding shares of LYF in a cash and share transaction for total consideration of $23,605. Total consideration consisted of closing consideration of $18,409 ($3,909 cash and $14,500 common shares) plus $1,713 indemnity shares, ($129) working capital adjustment, $802 financing liabilities assumed, and up to an additional $17,500 in consideration payable upon the business achieving certain earn-out EBITDA milestones (currently valued at $2,810 following the Monte Carlo calculation methodology). The earn-out payment

to the vendors of LYF is capped at $17,500 to be settled in cash or common shares at the discretion of the Company based on the following schedule:

EBITDA Milestone #	Amount (CAD $)	Deadline	Settlement
#1	2,500	February 28, 2022	1,282,051 of the Company’s common shares currently held in escrow.
#2	5,000	February 28, 2022	Cash or common shares based on the 20 day variable weighted average price prior to period milestone is achieved.
#3	5,000	February 28, 2023	Cash or common shares based on the 20 day variable weighted average price prior to period milestone is achieved.
#4	5,000	February 28, 2023	Cash or common shares based on the 20 day variable weighted average price prior to period milestone is achieved.

LYF is a premier edibles manufacturer based in Kelowna, British Columbia with expertise in novel product creation, white label manufacturing and infusion technologies. LYF operates from a licensed 10,500 square foot production facility with a product development and manufacturing platform focused on consumer-driven innovation, and product safety and consistency.

During the three and six months ended May 31, 2021, the Company’s consolidated revenue included $540 and $540 from LYF. In addition, for the three and six months ended May 31, 2021, the Company’s consolidated loss and comprehensive loss included a net loss of $805 and $805 from LYF.

Provincial and territorial distribution expansion

In addition to the existing provincial and territorial distribution channels in British Columbia, Alberta, Saskatchewan, Ontario, Manitoba and New Brunswick, the Company has commenced its first listings of cannabis derivative products in the Yukon territory. The company continues to expand its reach across the provinces and territories and evaluate new opportunities.

K2 Facility Expansion

The Company has commenced its first shipments of cannabis derivative products from its newly-operational K2 Facility located in Kelowna, including a wide range of products such as crumble, beverages, THC drops, vapes, and tinctures. Currently, the Company has commissioned the manufacturing of vapes, tinctures, beverages, pre-rolls, hash and bath bombs and packaging of cannabis flower in the K2 Facility. Valens intends to further operationalize the facility over the next few quarters to increase the production, packaging, and shipping of its existing portfolio.

Pommies Facility Expansion

Construction and retrofitting of the Pommies facility for use in the production of cannabinoid-based beverages is progressing and management anticipates that this facility will be operational late in the third quarter of 2021. The budget for the construction and retrofitting for the facility including equipment purchases was approximately $6,000. Of this amount, the Company has spent approximately $4,000 of the balance to date with a remaining amount to spend of $2,000.

On February 23, 2021 the Company submitted a site evidence package to Health Canada under its existing micro-processing application for the Pommies facility. Management currently anticipates that the micro-processing license application submitted by Pommies will be approved by Health Canada in the third quarter of 2021.

The earn-out payout to the vendors of Pommies pursuant to the Pommies Acquisition is capped at $500 cash and 345,172 Common Shares that will be proportionally earned upon the achievement of each of the following milestones: (i) receipt of the Micro-Processing License, (ii) the amendment of the Health Canada micro-processing license to permit sales, (iii) production of a target number of revenue earning units, and (iv) achieving a trailing twelve month EBITDA target. No earn-out milestones pursuant to the Pommies Acquisition have been fulfilled at this time.

Please see the chart below for a full summary and status update of the various construction and licensing milestones, related approximate spends to date, and anticipated further amounts required to be spent prior to project completion, for each of (i) the K2 Facility and (ii) the Pommies Facility.

Project	Milestones	Status	Spend to Date	Remaining Spend	Anticipated or Confirmed Quarter of Completion
K2 Facility	Completion of construction / equipment fit up	Substantially complete	$31,000	$1,000	Q3, 2021 (anticipated)
	Amendment to VAL's existing Health Canada standard processing license to include a second facility	Complete	N/A	N/A	Completed in Q1, 2021
	Facility operational / revenue generating	Complete	N/A	N/A	Completed in Q1, 2021
Construction and retrofit of the Pommies Facility	Completion of construction / equipment fit up	In Progress	$4,000	$2,000	Q3, 2021 (anticipated)
	Approval of Micro-Processing License	In Progress	N/A	N/A	Q3, 2021 (anticipated)
	Facility operational / revenue generating	Not yet commenced	N/A	N/A	Q3, 2021 (anticipated)

White Label Manufacturing Partnerships

During the six months ended May 31, 2021, the Company further expanded product offerings and operations with the following industry partners:

- *Verse Cannabis* In addition to the current product line offering, the Company began shipping four new vape SKUs, two SKUs of THC and CBD water-soluble drink drops, cannabis soft chew edible product SKUS, one cannabis infused confectionary product SKU, two pre-roll SKUs, one hash SKU and one cannabis flower SKU.
- *Nuance* The Company expanded the product lineup to include CBD 100, a high potency CBD-dominant oil, available in the Medical Cannabis by Shoppers marketplace.
- *Rubicon Organics* initial one-year manufacturing and distribution agreement to manufacture vape cartridges across three existing Rubicon brands; Simply Bare Organics, 1963, and Lab Theory, with the potential to later produce other innovative products. The Rubicon Organics agreement follows a fee for service basis and automatically renews for two subsequent one-year terms.
- *Experion Biotechnologies Inc.* The Company entered into an initial two-year agreement to provide end-to-end pre-roll manufacturing and product distribution services under Experion's Citizen Stash brand. The Experion Biotechnologies Inc. agreement follows a fee for service basis and automatically renews for subsequent one-year terms.
- *Swiss Luxe Products Inc.* The Company entered into an initial three-year agreement to provide end-to-end cannabis-infused beverage manufacturing and product distribution services under Swiss' Gallery Brands lines. The Swiss Luxe Products Inc. agreement follows a fee for service basis and automatically renews for two subsequent one-year terms.
- The Company continues to focus on analyzing SKUs and sales velocity of existing products that have proven to lead within their respective categories of the Canadian market. Based on this analysis the Company made the following decisions:
    - *TREC Brands Inc.* The Company gave six months notice to TREC of their intention to terminate the previously announced custom vape cartridge manufacturing agreement.
    - *BRNT Ltd.* The Company and BRNT mutually agreed to enter into an agreement to terminate the previously announced custom manufacturing agreement.

Production and Operational Highlights

The Company remains one of the largest cannabis extraction and custom manufacturing companies in Canada. In the second quarter of 2021, the Company continued to successfully execute on the shift in focus away from third party toll extraction processing to the formulation, manufacturing and launching of product SKUs into the cannabis 2.0 market for our industry partners.

The Company processed the following input cannabis and hemp biomass and produced the following cannabis 2.0 product SKUs over the last four consecutive quarters ended May 31, 2021.

	For the three months ended			
	May 31, 2021	February 28, 2021	November 30, 2020	August 31, 2020
Biomass extracted (kilograms)	24,569	17,813	10,311	8,054
% change over the prior period	38%	73%	28%	(73%)
Product SKUs manufactured (#)	57	53	62	56
% change over the prior period	8%	(15%)	11%	56%

Health Canada – Licensing

On February 10, 2021, one of the Company's wholly owned subsidiaries, VAL, received an amendment to its existing Health Canada standard processing license to permit the sale of dried cannabis products to authorized provincial and territorial retailers in Canada.

On February 23, 2021 the Company submitted a site evidence package to Health Canada under its existing micro-processing application for the Pommies facility.

Board of Directors and Management Team Appointments and Resignations

At the Company's Annual General and Special Meeting of shareholders ("AGM") held on Tuesday May 25, 2021, the following two independent directors joined the Board of the Company:

- Dr. Guy Beaudin, Senior Partner at RHR International. Dr. Guy Beaudin is a senior partner at RHR International, a global senior leadership development firm comprised of management psychologists and consultants. He is responsible for the firm's business development and marketing activities for clients around the world. Guy is a recognized and trusted advisor to CEOs, boards of directors, and senior executive teams across North America, Europe, Asia, and Australia, assisting them in the process of leading transformational change in their organizations. Guy's practice includes the assessment and development of high-potential talent, senior team and board effectiveness and CEO succession, in addition to post M&A work in aligning teams and cultures in cross-border acquisition. Prior to joining RHR 25 years ago, he worked as an internal HR director for an international organization and has also worked in senior-level marketing and finance positions in manufacturing and financial services organizations. Guy has an MBA from the University of Ottawa and a PhD in industrial and organizational psychology from the University of Montreal.
- Drew Wolff, Executive Vice President at Trupanion. Drew Wolff spent more than five years in senior finance roles at American multinational coffeehouse chain, Starbucks Coffee Company. He holds deep functional expertise in financial planning and analysis, accounting, tax, M&A, and investor relations. Drew first served as Global Treasurer of Starbucks before taking on the role of Vice President and Chief Financial Officer, International and Channel Development. In these roles, he was responsible for leading finance and accounting staff for the international retail stores and global consumer packaged goods business, global cash management, financial analytics and forecasting, and enterprise risk management for the Fortune 500 company. Before joining Starbucks, he had over fifteen years of experience in senior roles in banking and financial services including seven years at Barclays PLC in London with responsibilities that included financial planning, analysis and reporting as well as corporate affairs. Drew is an audit committee member at BECU, the largest community-based credit union in the US with $25B in assets, and an advisory board member at both Secure, a software platform for employer sponsored emergency savings accounts, and Academy Securities, a veteran-owned national investment bank. Drew has an MBA from the Ross School of Business, University of Michigan, and a B.Sc. in Economics, with distinction, from the U.S. Naval Academy in Annapolis, Maryland.

On May 25, 2021, Nitin Kaushal's term as member of the board concluded as he decided not to stand for re-election.

On May 25, 2021, Deepak Anand resigned from the board for personal reasons.

On May 17, 2021, Sunil Gandhi was appointed Chief Financial Officer of the Company. Sunil brings 25 years of corporate and operational finance experience largely in the consumer packaged goods and alcohol beverage industries, with a demonstrated track record in refining operations and supporting growth for both large public companies and high-growth private enterprises. Most recently, he served as Chief Financial Officer of Trophy Foods Inc., a leading supplier of nut-based snacks, baking and confectionary products with operations in Canada and the US. In this role, he provided the strategic leadership to transform the operation and drive a business turnaround to achieve record profitability and improved employee engagement. Prior to that, Sunil served as Vice President, Finance for one of North America's largest private alcohol beverage companies, where he helped open new lucrative beverage categories and substantially increased profits over a three-year period. Throughout his career, Sunil has received diversified exposure across all aspects of corporate finance, specializing in financial and strategic planning, M&A, cash flow management, risk management and compliance, in addition to demonstrated success in building high performance teams. Sunil is a Chartered Professional Accountant and holds a Bachelor of Commerce from Concordia University. He is also an active board member of FEI Canada.

On May 17, 2021 Adam Shea was appointed Chief Commercial Officer of the Company. Adam brings over 16 years of experience in commercial strategy with various consumer-focused organizations in the food, beverage, tobacco and cosmetics industries. Most recently, he served as the Vice President, General Manager – North American Foodservice of leading bakery company Weston Foods Ltd., where he developed commercial strategies for a complex portfolio of bakery categories among some of the top food fast-food chains, operators, and distributors across Canada and the US. In his prior role with Weston Foods, Adam led the North American sales strategy group which included customer insights and shopper marketing, trade marketing, category management, sales planning and commercialization. Before his career at Weston Foods, Adam held senior sales and marketing positions with Red Bull, Coty Beauty, and British American Tobacco, with core responsibilities ranging from category management and trade marketing to distribution, field sales and customer engagement. Adam specializes in product commercialization and has a strong knowledge of the Canadian and US consumer packaged goods landscape with significant B2B and B2C experience. Adam holds a Master of Arts from the Royal Military College of Canada, and an Honours Bachelor of Arts from Western University.

Capital Markets Strategy

On April 28, 2021, the Company submitted an initial application to list its common shares on the Nasdaq Capital Market.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization ("WHO") declared the COVID-19 outbreak a pandemic. The continued spread of COVID-19 nationally and globally could have an adverse impact on our business, operations and financial results, including through disruptions in our processing activities, supply chains and sales channels, as well as a deterioration of general economic conditions including a possible national or global recession.

The Company takes the health and safety of our people very seriously. Wherever feasible, the Company transferred personnel and functions from on-site to home-based platforms. For any functions which are required to remain on site we increased our focus on social distancing, utilization of personal protective equipment and additional hand sanitizing stations throughout our manufacturing and administrative facilities. In addition, travel restrictions have been put in place and visitor access has been restricted to our facility.

During the three and six months ended May 31, 2021, the Company was impacted by the overall market uncertainty as a result of COVID-19, through reduced shipments of biomass from extraction partners and reduced demand for bulk winterized and distillate oil and cannabis 2.0 products as the provincial boards and our partners adjusted their workforce and operations to manage through the uncertainty created by the pandemic.

Due to the continued uncertainty of the pandemic's magnitude, outcome and duration, it is not possible to estimate the future impact on our business, operations or financial results; however, the impact could be material.

Debt and Equity Transactions for the six months ended May 31, 2021 and subsequent to the period ended

On January 29, 2021, the Company closed a bought deal financing, pursuant to which the Company issued 19,364,000 units valued at $39,696 which were comprised of one common share of the Company and one-half share purchase warrant. Each full share purchase warrant is exercisable at a price of $2.55 per share for a period of thirty-six months from the date of closing. In connection with the financing, the Company incurred share issuance costs $2,929.

On May 29, 2020, the Company entered into a syndicated credit facility (the "Credit Facility") with a pair of Canadian Financial Institutions (together, the "Lenders"). As of May 31, 2021, there remains a balance outstanding under the term loan facility of $8,500 and the secured revolving facility of up to $10,000 remains undrawn. As of May 31, 2021, the Company was in breach of certain financial covenants under the credit facility. Accordingly, the remaining balance outstanding under the term facility of $8,500 was classified as current and recorded at the amount due on demand on the Company's balance sheet

On June 17, 2021, the Company entered into a second amending agreement with the lenders. Within the agreement, the Company received a waiver for the historical covenant defaults and received consent to the financial covenants relief (in the form of a pre-emptive waiver) for each of the fiscal quarters ending from the date of the waiver to February 28, 2022. The consent and waiver are subject to: (i) the Company agreeing that the availability under the revolving facility be reduced to zero, and (ii) the Company will continue to deliver a compliance certificate. In addition, during the covenant suspension period, the Company shall maintain liquidity of not less than $10,000, calculated monthly as of the last business day of each calendar month. This monthly calculation is to be included within a monthly liquidity report to be delivered monthly to the lenders.

On June 1, 2021, the Company closed a bought deal financing, pursuant to which the Company issued 13,940,300 units valued at $46,003 which were comprised of one common share of the Company and one-half share purchase warrant. Each full share purchase warrant is exercisable at a price of $4.15 per share for a period of thirty-six months from the date of closing. In connection with the financing, the Company incurred share issuance costs $2,484.

SELECTED FINANCIAL INFORMATION

Selected Consolidated Statements of Loss Information	For the three months ended May 31, 2021 $	May 31, 2020 $	For the six months ended May 31, 2021 $	May 31, 2020 $
Revenue	20,469	17,627	42,243	49,607
Excise taxes	(1,705)	-	(3,465)	-
Net revenue	18,764	17,627	38,778	49,607
Gross profit	4,136	6,318	8,906	24,405
Gross profit %	22.0%	35.8%	23.0%	49.2%
Operating expenses	14,974	9,981	26,891	21,533
Other (income) expenses	(299)	357	(324)	1,382
Provision for (recovery of) income taxes	(1,880)	(492)	(2,849)	2,475
Loss and comprehensive loss	(8,659)	(3,528)	(14,812)	(985)
Loss and comprehensive loss per share – basic	(0.05)	(0.03)	(0.10)	(0.01)
Loss and comprehensive loss per share – diluted	(0.05)	(0.03)	(0.10)	(0.01)
Weighted average number of shares outstanding – basic	157,671,801	127,821,288	146,792,924	126,764,839
Weighted average number of shares outstanding – diluted	157,671,801	127,821,288	146,792,924	126,764,839
Adjusted gross profit(1)	4,330	7,788	9,451	28,299
Adjusted gross profit %(1)	23.1%	44.2%	24.4%	57.0%
Adjusted EBITDA(2)	(4,960)	2,699	(7,202)	16,980
Adjusted EBITDA % (2)	(26.4%)	15.3%	(18.6%)	34.2%

(1) Management has adjusted the presentation of gross profit for the inventory valuation allowance which is a non-IFRS financial measure discussed in "Non-IFRS Measures" section below.

(2) Management has defined adjusted EBITDA as loss and comprehensive loss for the period before interest, taxes, depreciation and amortization adjusted for other one-time and non-cash items, which is a non-IFRS measure discussed in the "Non-IFRS Measures" section below.

Selected Consolidated Statements of Financial Position Information	May 31, 2021	November 30, 2020
Cash	23,926	20,344
Marketable securities and derivatives	-	1,032
Inventory	15,220	14,383
Other working capital	24,081	22,858
Non-current assets	117,013	89,098
Non-current liabilities	11,564	20,329
Equity	168,676	127,386

NON-IFRS MEASURES

Management has included certain non-IFRS performance measures in this MD&A, as defined in this section. Management employs these measures internally to measure our operating and financial performance. Management believes these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IRFS, enable investors to evaluate the Company's operating results, underlying performance and future prospects in a manner similar to management.

There are no standardized methods of calculating these non-IFRS measures, managements methods may differ from those used by others, and accordingly, these measures may not be directly comparable to similarly titled measures used by others. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")

The Company has identified adjusted EBITDA as a relevant industry performance indicator. Adjusted EBITDA is a non-IFRS financial measure used by management that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management defines adjusted EBITDA as loss and comprehensive loss from operations, as reported, before interest, tax, depreciation and amortization, and adjusted for removing share-based payments, non-recurring professional fees, realized gains and losses from marketable securities and derivatives and liabilities, and other non-cash items including impairment losses. Management believes this measure provides useful information as it is a commonly used measure in the capital markets to approximate operating earnings. See table below for determination of specific components of Adjusted EBITDA.

	For the three months ended		For the six months ended	
Adjusted EBITDA (non-IFRS measure)	**May 31, 2021 $**	**May 31, 2020 $**	**May 31, 2021 $**	**May 31, 2020 $**
Loss and comprehensive loss for the period	(8,659)	(3,528)	(14,812)	(985)
Adjustments:				
Financing cost	148	87	325	114
Interest income	(121)	(116)	(388)	(367)
Provision for (recovery of) income taxes	(1,880)	(492)	(2,849)	2,475
Depreciation and amortization (per statement of cash flows)	3,112	2,653	5,935	5,229
Share-based payments	1,245	2,152	2,976	4,871
Accretion	123	166	826	299
Foreign exchange (gain) loss	(449)	307	(658)	519
Inventory valuation allowance	194	1,470	545	3,894
Joint venture termination costs	-	-	-	931
Gain on disposal of capital assets	-	-	(34)	-
Gain on marketable securities and derivatives	-	-	(395)	-
Non-recurring professional fees	1,327	-	1,327	-
	3,699	6,227	7,610	17,965
Adjusted EBITDA	(4,960)	2,699	(7,202)	16,980

For the six months ended May 31, 2021, adjusted EBITDA decreased by $24,182 over the same period in fiscal 2020, as a result of the Company's continued transition away from toll extraction services to a consumer product development and manufacturing platform, including bulk cannabis oil sales.

Adjusted Gross Profit

Management utilizes this measure to provide a representation of performance in the period by excluding the inventory impairment measurement adjustments as required by IFRS. Management believes this measure provides useful information as it represents gross profit for management purposes based on costs to manufacture, package and ship inventory sold, exclusive of any impairments due to changes in internal or external influences impacting the net realizable value of inventory.

	For the three months ended		For the six months ended	
Adjusted Gross Profit (non-IFRS measure)	**May 31, 2021 $**	**May 31, 2020 $**	**May 31, 2021 $**	**May 31, 2020 $**
Gross profit for the period	4,136	6,318	8,906	24,405
Inventory valuation allowance	194	1,470	545	3,894
Adjusted gross profit	4,330	7,788	9,451	28,299

SEGMENTED INFORMATION

The Company has three reportable segments, cannabis operations, analytical testing and corporate, which is the way the Company reports information to its chief decision makers and Board of Directors.

Cannabis operations processing segment includes the extraction, post-processing, and white label manufacturing sales transactions under the standard processing and standard cultivation license issued by Health Canada. Segment assets include cash, inventories, and equipment relating to the Company's extraction, post-processing and white label manufacturing facility in Kelowna, BC, the LYF manufacturing facility in Kelowna, BC, and beverage facility in Bolton, Ontario.

The analytical testing segment includes the provision of testing services for cannabis products under an analytical testing license provided by Health Canada. Segment assets include cash, inventories, and equipment relating to the Company's laboratory facility located in Kelowna, BC.

The corporate segment includes corporate growth activities, administration, financial and other support to other business units and inter-segment eliminations.

The operating segments for the three months ended:

	May 31, 2021				May 31, 2020			
	Cannabis Operations $	**Analytical Testing $**	**Corporate $**	**Total $**	**Cannabis Operations $**	**Analytical Testing $**	**Corporate $**	**Total $**
Net revenue	18,635	1,023	(894)	**18,764**	17,233	730	(336)	**17,627**
Cost of sales & inventory allowance	15,039	153	(564)	**14,628**	11,255	221	(167)	**11,309**
	3,596	870	(330)	**4,136**	5,978	509	(169)	**6,318**
Other operating expenses	9,717	255	5,002	**14,974**	5,471	65	4,445	**9,981**
	(6,121)	615	(5,332)	**(10,838)**	507	444	(4,614)	**(3,663)**
Non-operating (income) expense	(1,185)	170	(1,164)	**(2,179)**	(205)	124	(54)	**(135)**
Net income (loss)	(4,936)	445	(4,168)	**(8,659)**	712	320	(4,560)	**(3,528)**

Total assets	73,657	1,602	134,725	**209,984**	71,624	1,599	128,081	**201,304**
Total liabilities	16,142	291	24,875	**41,308**	21,277	273	37,584	**59,134**

The geographical breakdown for the three months ended:

	May 31, 2021			**May 31, 2020**		
	Domestic $	**Foreign $**	**Total $**	**Domestic $**	**Foreign $**	**Total $**
Net revenue	18,716	48	**18,764**	17,627	-	**17,627**

Included in net revenue arising from the cannabis operations segment is $2,869 from Customer A, $2,423 from Customer B, $2,290 from Customer C, $2,100 from Customer D, and $2,068 from Customer E. Customers A through E each contributed 10 per cent or more to the Company's net revenue for the three months ended May 31, 2021 (Three months ended May 31, 2020 – Customer D $7,881, Customer G $4,183, Customer H $1,908, and Customer E $1,726).

The operating segments for the six months ended:

				May 31, 2021				**May 31, 2020**
	Cannabis Operations $	**Analytical Testing $**	**Corporate $**	**Total $**	**Cannabis Operations $**	**Analytical Testing $**	**Corporate $**	**Total $**
Net revenue	38,233	1,719	(1,174)	**38,778**	48,786	1,327	(506)	**49,607**
Cost of sales & inventory allowance	30,400	267	(795)	**29,872**	25,064	387	(249)	**25,202**
	7,833	1,452	(379)	**8,906**	23,722	940	(257)	**24,405**
Other operating expenses	17,463	478	8,950	**26,891**	11,935	209	9,389	**21,533**
	(9,630)	974	(9,329)	**(17,985)**	11,787	731	(9,646)	**2,872**
Non-operating (income) expense	(2,050)	184	(1,307)	**(3,173)**	3,174	192	491	**3,857**
Net income (loss)	(7,580)	790	(8,022)	**(14,812)**	8,613	539	(10,137)	**(985)**
Total assets	73,657	1,602	134,725	**209,984**	71,624	1,599	128,081	**201,304**
Total liabilities	16,142	291	24,875	**41,308**	21,277	273	37,584	**59,134**

The geographical breakdown for the six months ended:

	May 31, 2021			**May 31, 2020**		
	Domestic $	**Foreign $**	**Total $**	**Domestic $**	**Foreign $**	**Total $**
Net revenue	38,672	106	**38,778**	49,607	-	**49,607**

Included in net revenue arising from the cannabis operations segment is $5,728 from Customer C, $4,752 from Customer A, $4,581 from Customer F, $4,552 from Customer B, and $3,927 from Customer E. Customers A through F each contributed 10 per cent or more to the Company's net revenue for the six months ended May 31, 2021 (Six months ended May 31, 2020 – Customer D $13,978, Customer G $11,675, Customer E $6,997, and Customer H $5,301).

SUMMARY OF RESULTS

Net revenue

Net revenue is comprised mainly of revenue from ("Cannabis Operations") including proprietary and industry leading extraction services, white label product formulation and manufacturing, the sale of bulk winterized oil and distillate and the sale of cannabis 2.0 products. The Company also generates revenue from analytical testing from the Company's ISO 17025 accredited lab.

Three Months Ended May 31, 2021 compared to February 28, 2021

Net revenue decreased $1,250 or 6.2% to $18,764 for the three months ended May 31, 2021, compared to $20,014 in the previous quarter ended February 28, 2021. This decrease in revenue was driven by a $963 decrease in revenue from the Cannabis Operations which generated revenue of $18,635, compared to $19,598 in the previous quarter. Cannabis operations revenue associated with product sales decreased $969 or 5.4% as a result of decreased activity from cannabis partners sourcing bulk winterized and distillate oil and provincial boards sourcing cannabis 2.0 products, as both groups continue to work through the effects of the COVID-19 pandemic.

In addition, the Company generated $1,023 in revenue from analytical testing through the Company's lab, compared to $697 in the previous quarter ended February 28, 2021, including $631, (three months ended February 28, 2021 - $281) in intercompany testing revenue as the volume of third party tests completed by the lab remained strong and consistent quarter over quarter.

Three Months Ended May 31, 2021 compared to May 31, 2020

Net revenue increased $1,137 or 6.5% to $18,764 for the three months ended May 31, 2021, compared to revenues of $17,627 in the same period in fiscal 2020. This increase in revenue was driven by Cannabis Operations of $18,635, compared to $ 17,233 in the same period in fiscal 2020. Cannabis operations revenue associated with product sales revenue increased $6,979 or 70.5% with the scale up of white label product formulation and manufacturing to include tinctures, vaporizers, beverages, drink drops, edibles, bath bombs, pre-rolls, hash, cannabis flower and crumble and sourcing bulk winterized and distillate oil for our partners' cannabis 2.0 products. Cannabis operations revenue associated with toll extraction and co-packing decreased $5,839 or 79.7% as the Company continued to execute on its strategy of transitioning away from a focus on toll processing to a product development and manufacturing company. In addition to the shift in focus, the Company also incurred reduced shipments of biomass from extraction partners as partners adjusted their workforce and operations to manage through the uncertainty created by the COVID-19 pandemic.

In addition, the Company generated $1,023 in revenue from analytical testing through the Company's lab, compared to $730 in the same period in fiscal 2020, including $631, (three months ended May 31, 2020 - $336) in intercompany testing revenue as the volume of third-party tests increased compared to the same quarter last year.

Six Months Ended May 31, 2021 compared to May 31, 2020

Net revenue decreased $10,829 or 21.8% to $38,778 for the six months ended May 31, 2021, compared to revenues of $49,607 in the same period in fiscal 2020. This decrease in revenue was driven by Cannabis Operations of $38,233, compared to $48,786 in the same period in fiscal 2020. Cannabis operations revenue associated with toll extraction and co-packing decreased $20,415 or 86.3% as the Company continued to execute on its strategy of transitioning away from a focus on toll processing to a product development and manufacturing company. In addition to the shift in focus, the Company also incurred reduced shipments of biomass from extraction partners as partners adjusted their workforce and operations to manage through the uncertainty created by the COVID-19 pandemic. The continued execution of the product development and manufacturing strategy was highlighted by the increase in product sales of $9,600 or 38.2% with the scale up white label product formulation and manufacturing to include tinctures, vaporizers, beverages, drink drops, edibles, bath bombs, pre-rolls, hash, cannabis flower and crumble and sourcing bulk winterized and distillate oil for our partners cannabis 2.0 products.

In addition, the Company generated $1,719 in revenue from analytical testing through the Company's lab, compared to $1,327 in the same period in fiscal 2020, including $912, (six months ended May 31, 2020 - $506) in intercompany testing revenue as the volume of third-party tests increased compared to the same quarter last year.

Cost of sales and inventory valuation allowance

Three Months Ended May 31, 2021 compared to February 28, 2021
Cost of sales and inventory valuation allowance decreased $618 or 4.1% to $14,628 in the three months ended May 31, 2021, compared to $15,246 in the previous quarter ended February 28, 2021. Cost of sales and inventory valuation allowance for the Cannabis Operations was $15,039 compared to $15,363 in the previous quarter ended February 28, 2021. Cannabis Operations cost of sales are comprised of purchases of raw cannabis and hemp biomass, hardware and other product costs, packaging, analytical testing costs, shipping, consumables, wages and salaries including benefits, and an allocation of other operating expenses including facility overhead and depreciation costs. The Company recorded an inventory write-down of $194 for the three months ended May 31, 2021, compared to $352 for the three months ended February 28, 2021.

The cost of sales from analytical testing was $153 compared to $114 in the previous quarter ended February 28, 2021. Analytical testing cost of sales is comprised of wages and salaries including benefits, consumables, and an allocation of other operating expenses including facility overhead and depreciation costs. The increase in cost of sales from analytical testing in the quarter was driven largely by the increase in costs associated with the number of tests completed.

Three Months Ended May 31, 2021 compared to May 31, 2020
Cost of sales and inventory valuation allowance increased $3,319 or 29.3% to $14,628 for the three months ended May 31, 2021, compared to $11,309 in the same period in fiscal 2020. Cost of sales and inventory valuation allowance for the Cannabis Operations was $15,039 compared to $11,255 in the same period in fiscal 2020. Cannabis Operations cost of sales are comprised of purchases of raw cannabis and hemp biomass, hardware and other product costs, packaging, analytical testing costs, shipping, consumables, wages and salaries including benefits, and an allocation of other operating expenses including facility overhead and depreciation costs. The Company recorded an inventory write-down of $194 for the three months ended May 31, 2021 compared to $1,470 for the three months ended May 31, 2020. Finally, there has been a lower mix of toll processing extraction volumes (and a higher mix of product sales volumes) in the second quarter of 2021 compared to the same period in 2020, resulting in a higher cost of sales.

The cost of sales from analytical testing was $153 compared to $221 in the same period in fiscal 2020. Analytical testing cost of sales is comprised of wages and salaries including benefits, consumables, and an allocation of other operating expenses including facility overhead and depreciation costs. The decrease in cost of sales from analytical testing in the quarter was driven largely by the allocation of a portion of the Canadian Emergency Wage Subsidy (“CEWS”) received by the Company.

Six Months Ended May 31, 2021 compared to May 31, 2020
Cost of sales and inventory valuation allowance increased $4,670 or 18.5% to $29,872 for the six months ended May 31, 2021, compared to $25,202 in the same period in fiscal 2020. Cost of sales and inventory valuation allowance for the Cannabis Operations was $30,400 compared to $25,064 in the same period in fiscal 2020. Cannabis Operations cost of sales are comprised of purchases of raw cannabis and hemp biomass, hardware and other product costs, packaging, analytical testing costs, shipping, consumables, wages and salaries including benefits, and an allocation of other operating expenses including facility overhead and depreciation costs. The Company recorded an inventory write-down of $545 for the six months ended May 31, 2021 compared to $3,894 for the three months ended May 31, 2020. Finally, there has been a lower mix of toll processing extraction volumes (and a higher mix of product sales volumes) in the second quarter of 2021 compared to the same period in 2020, resulting in a higher cost of sales.

The cost of sales from analytical testing was $267 compared to $387 in the same period in fiscal 2020. Analytical testing cost of sales is comprised of wages and salaries including benefits, consumables, and an allocation of other operating expenses including facility overhead and depreciation costs. The decrease in cost of sales from analytical testing in the quarter was driven largely by the allocation of a portion of the Canadian Emergency Wage Subsidy (“CEWS”) received by the Company.

Gross profit

Three Months Ended May 31. 2021 compared to February 28, 2021
Gross profit decreased to $4,136 for the three months ended May 31, 2021, compared to $4,768 in the previous quarter ended February 28, 2021. The gross profit from Cannabis Operations for the second quarter was $3,596 or 19.3% compared to $4,235 or 21.6% in the previous quarter ended February 28, 2021. Gross profit was negatively impacted in the second quarter % as a result of decreased activity from cannabis partners sourcing bulk winterized and distillate oil and provincial boards sourcing cannabis 2.0 products, as both groups continue to work through the effects of the COVID-19 pandemic. Furthermore, gross profit was negatively impacted by the Company’s continued execution of the shift away from the historical focus on toll processing to the current strategic focus on product development and manufacturing.

The analytical testing operations saw an increase in gross profit dollars for the second quarter to $870 or 85.0% compared to $583 or 83.6% in the previous quarter ended February 28, 2021.

Three Months Ended May 31, 2021 compared to May 31. 2020
Gross profit decreased to $4,136 for the three months ended May 31, 2021, compared to $6,318 in the same period in fiscal 2020. The gross profit from Cannabis Operations for the second quarter of 2021 was $3,596 or 19.3% compared to $5,978 or 34.7% in the same period in fiscal 2020. Gross profit was negatively impacted in the second quarter by the Company's continued execution of the shift away from the historical focus on toll processing to the current strategic focus on product development and manufacturing.

The analytical testing operations saw an increase in gross profit for the second quarter of 2021 to $870 or 85.0% compared to $509 or 69.7% in the same period in fiscal 2020.

Six Months Ended May 31, 2021 compared to May 31, 2020
Gross profit decreased to $8,906 for the six months ended May 31, 2021, compared to $24,405 in the same period in fiscal 2020. The gross profit from Cannabis Operations for the first half of the year was $7,833 or 20.5% compared to $23,722 or 48.6% in the same period in fiscal 2020. Gross profit was negatively impacted in the first half of the year by the Company's continued execution of the shift away from the historical focus on toll processing to the current strategic focus on product development and manufacturing.

The analytical testing operations saw an increase in gross profit to $1,452 or 84.5% compared to $940 or 70.8% in the same period in fiscal 2020.

Operating expenses	For the three months ended May 31, 2021 $	For the three months ended May 31, 2020 $	For the six months ended May 31, 2021 $	For the six months ended May 31, 2020 $
Advertising and promotion	688	302	1,052	685
Depreciation and amortization	2,702	2,413	5,211	4,822
Facility costs	485	576	955	939
General and administrative	1,039	742	1,796	1,177
Impairment loss (recovery) on trade receivables	124	(112)	186	246
Insurance	586	434	958	719
Management and consulting fees	838	588	1,541	1,255
Professional fees	2,313	849	2,875	1,362
Research, extraction and lab supplies	764	525	1,425	1,437
Share-based payments	1,245	2,152	2,976	4,871
Travel and business development	35	38	53	248
Wages and salaries	4,155	1,474	7,863	3,772

Advertising and promotion

Advertising and promotion expenses increased to $688 for the three months ended May 31, 2021, compared to $302 in the same period in fiscal 2020. The increase is a result of increased marketing & promotional materials, as the Company continues to build relationships with retail storefronts as it continues to execute a focus on product sales and manufacturing. The Company also continues to experience increased activity in the capital markets. Offsetting the increase are expenses related to conferences, which decreased because of fewer conferences during the COVID-19 pandemic.

Advertising and promotion expenses for the six months ended May 31, 2021 increased to $1,052 from $685 in the same period in fiscal 2020 for the same reasons outlined above.

Depreciation and amortization

Depreciation and amortization expense increased to $2,702 for the three months ended May 31, 2021, compared to $2,413 in the same period in fiscal 2020. The increase in depreciation for the second quarter is attributable to the K2 production facility being put in-service during the quarter and additional extraction, post-processing, white label product formulation and manufacturing equipment to ramp up processing capacity to meet anticipated demand from industry partners. Furthermore, as a result of the LYF acquisition, fixed assets were depreciated in the quarter. During the three months ended May 31, 2021, $410 (three months ended May 31, 2020 - $240) of depreciation was allocated to inventory.

Depreciation and amortization expenses for the six months ended May 31, 2021 increased to $5,211 from $4,822 in the same period in fiscal 2020 for the same reasons outlined above. During the six months ended May 31, 2021, $724 (six months ended May 31, 2020 - $407) of depreciation was allocated to inventory.

Facility costs

Facility costs for the three months ended May 31, 2021 decreased to $485, compared to $576 in the same period of fiscal 2020. The decrease is a result cost savings made based on a lower level of repair and maintenance activity.

Facility costs for the six months ended May 31, 2021 increased to $955 from $939 in the same period in fiscal 2020. The increase is a result of increased rent, utilities and property tax associated with the K2 facility expansion, slightly offset by cost savings made based on a lower level of repair and maintenance activity.

General and administrative

General and administrative expenses for the three months ended May 31, 2021 increased to $1,039, compared to $742 in the same period of fiscal 2020. The overall increased level of activity within the Company as it continues the next stage of growth and the continued expansion of a corporate office in Toronto, ON, the Pommies manufacturing facility and the Kelowna LYF facility all contributed to the increased general and administrative costs in the current quarter. Due to increased activity throughout the facilities, security costs, cleaning costs, and other general office related costs all increased from 2020 to 2021.

General and administrative expenses for the six months ended May 31, 2021 increased to $1,796 from $1,177 in the same period in fiscal 2020 for the same reasons outlined above.

Impairment loss (recovery) on trade receivables

The Company recognized an impairment loss on the trade receivables provision of $124 for the three months ended May 31, 2021, compared to ($112) in the same period of fiscal 2020. The Company continually monitors all credit balances with customers and reviews them monthly for any potential impairment considering such factors as specific payment history of balances, discussions with associated customers and a review of the credit worthiness.

Impairment loss on trade receivables for the six months ended May 31, 2021 increased to $186 from $246 in the same period in fiscal 2020 for the same reasons outlined above.

Insurance

Insurance expense for the three months ended May 31, 2021 increased to $586, compared to $434 in the same period of fiscal 2020. The increase is a result of overall increased activity within the Company with production ramping up requiring additional coverage and higher limits for many components of coverage for the Company, the development of the K2, Pommies, and LYF manufacturing facilities, additional product insurance, and increased costs in D&O coverage.

Insurance expenses for the six months ended May 31, 2021 increased to $958 from $719 in the same period in fiscal 2020 for the same reasons outlined above.

Management and consulting fees

Management and consulting fees increased to $838 for the three months ended May 31, 2021, compared to $588 in the same period in fiscal 2020. The expense in 2021 was largely driven by the commencement of consulting fees to support international expansion initiatives.

Management and consulting fees for the six months ended May 31, 2021 increased to $1,541 from $1,255 in the same period in fiscal 2020 for the same reasons outlined above.

Professional fees

Professional fees increased to $2,313 for the three months ended May 31, 2021, compared to $849 in the same period of fiscal 2020. The increase is a result of increased legal and audit fees as the Company continues to increase scale of operations and expansion opportunities including the LYF and Green Roads acquisitions.

Professional fees for the six months ended May 31, 2021 increased to $2,875 from $1,362 in the same period in fiscal 2020 for the same reasons outlined above.

Research, extraction and lab supplies

Research, extraction and lab supplies for the three months ended May 31, 2021 increased to $764, compared to $525 in the same period of fiscal 2020 as a result of additional research and development activities and the ramp up of activity levels within the Company which were not at capacity during the period resulting in unallocated costs to inventory.

Research, extraction and lab supplies for the six months ended May 31, 2021 decreased to $1,425 from $1,437 in the same period in fiscal 2020. The decrease is a result of reduced external research and development activities as a result of managing impacts of the COVID-19 pandemic.

Share-based payments

Share-based payments decreased to $1,245 for the three months ended May 31, 2021, compared to $2,152 in the same period in fiscal 2020. The decrease is mainly a result of a decrease in stock option expense associated with the Company's LTIP plan. Additionally, there was an expense of $176 (May 31, 2020 - $408) related to employee compensation agreements with certain officers of the Company.

Share-based payments for the six months ended May 31, 2021 decreased to $2,976 from $4,871 in the same period in fiscal 2020 for the same reasons outlined above. Additionally, there was an expense of $379 (May 31, 2020 - $894) related to employee compensation agreements with certain officers of the Company.

Travel and business development

Travel and business development decreased to $35 in the three months ended May 31, 2021, compared to $38 in the same period of fiscal 2020.

Travel and business development for the six months ended May 31, 2021 decreased to $53 from $248 in the same period in fiscal 2020. The decrease is a result of lower travel as the Company implemented restrictions on travel to keep employees safe during the COVID-19 pandemic.

Salaries and wages

Salaries and wages increased to $4,155 in the three months ended May 31, 2021, compared to $1,474 in the same period in fiscal 2020. The increase reflects the general expanding scale of operations and required resources to support that growth in all areas of the business, including the continued expansion of the Toronto office and K2, Pommies, and LYF facilities. In addition, the company applied for a Government of Canada subsidy, the Canadian Emergency Wage Subsidy, as a result of the COVID-19 pandemic which reduced wages by $1,795 in the quarter ended May 31, 2021 (May 31, 2020 $919).

Salaries and wages for the six months ended May 31, 2021 increased to $7,863 from $3,772 in the same period in fiscal 2020 for the same reasons outlined above. In addition, the company applied for a Government of Canada subsidy, the Canadian Emergency Wage Subsidy, as a result of the COVID-19 pandemic which reduced wages by $3,327 in the six months ended May 31, 2021 (May 31, 2020 $919).

QUARTERLY RESULTS

The following table presents certain unaudited financial information for each of the eight quarters up to and including the quarter ended May 31, 2021. The information has been derived from our unaudited quarterly consolidated financial statements. Past performance is not a guarantee of future performance, and this information is not necessarily indicative of results for any future period.

	Three Months Ended			
	May 31, 2021 $	February 28, 2021 $	November 30, 2020 $	August 31, 2020 $
Revenue	20,469	21,774	17,932	18,517
Loss and comprehensive loss	(8,659)	(6,153)	(16,634)	(3,064)
Basic loss per share	(0.05)	(0.05)	(0.13)	(0.02)
Diluted loss per share	(0.05)	(0.05)	(0.13)	(0.02)

	Three Months Ended			
	May 31, 2020 $	February 29, 2020 $	November 30, 2019 $	August 31, 2019 $
Revenue	17,627	31,980	30,624	16,461
Income (loss) and comprehensive income (loss)	(3,528)	2,543	4,466	5,893
Basic income (loss) per share	(0.03)	0.02	0.04	0.05
Diluted income (loss) per share	(0.03)	0.02	0.04	0.05

FINANCIAL POSITION

The following table provides a summary of the Company's financial position as at May 31, 2021 and November 30, 2020.

	May 31, 2021 $	November 30, 2020 $
Total assets	209,984	167,567
Total liabilities	41,308	40,190
Share capital	212,970	162,585
Deficit	(71,595)	(56,783)

Total assets

Total assets increased to $209,984 as at May 31, 2021 from $167,567 as at November 30, 2020, primarily due to the acquisition of LYF, which increased the balances of goodwill $17,691 (preliminary purchase price allocation balance), and property, plant and equipment $6,086 (preliminary purchase price allocation balance). Property, plant and equipment increased by a further $6,755 (total increase $12,841) as a result of construction on the Company's expanded production facility adjacent to the existing Kelowna, BC facility and the Pommies facility. As at May 31, 2021, the Company had a cash balance of $23,926. Subsequent to the end of the quarter, the Company received $43,519 cash proceeds from the June 1, 2021 bought deal financing.

Total liabilities

Total liabilities increased to $41,308 as at May 31, 2021 from $40,190 as at November 30, 2020, primarily due to the addition of the $2,810 contingent liability (preliminary purchase price allocation balance) in relation to the LYF acquisition, which was offset by scheduled payments on the credit facility, contractual obligation and lease liabilities. In addition, the Company decreased the onerous contract provision balance as biomass volumes were received against the contract.

Share capital

Share capital increased to $212,970 as at May 31, 2021 from $162,585 as at November 30, 2020, primarily due to the LYF acquisition (9,318,095 shares - $16,214) the issue of units through the bought deal financing (19,364,000 shares - $32,701 net of $2,929 share issuance costs). In addition, share capital also increased due to an RSU release of $79, exercise of options of $913, exercise of warrants $10 and share based payments associated with certain employment agreements of $468.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Management intends to finance operating costs over the next twelve months with current cash on hand, proceeds from the exercise of warrants and stock options, and raising additional capital through equity or debt. There is no assurance that the Company will be successful in raising additional capital on commercially reasonable terms or at all. See "Risks and

Uncertainties". See discussion under K2 Facility and Pommies Build Out discussion under "Corporate Highlights" for discussion of capital requirements to execute on planned expansion opportunities.

On January 29, 2021, the Company closed a bought deal financing, pursuant to which the Company issued 19,364,000 units valued at $39,696 which were comprised of one common share of the Company and one-half share purchase warrant. Each full share purchase warrant is exercisable at a price of $2.55 per share for a period of thirty-six months from the date of closing. In connection with the financing, the Company incurred share issuance costs of $2,929.

On June 1, 2021, the Company closed a bought deal financing, pursuant to which the Company issued 13,940,300 units valued at $46,003 which were comprised of one common share of the Company and one-half share purchase warrant. Each full share purchase warrant is exercisable at a price of $4.15 per share for a period of thirty-six months from the date of closing. In connection with the financing, the Company incurred share issuance costs $2,484.

On May 29, 2020, the Company entered into a syndicated credit facility (the "Credit Facility") with a pair of Canadian Financial Institutions (together, the "Lenders"). As of May 31, 2021, there remains a balance outstanding under the term loan facility of $8,500 and the secured revolving facility of up to $10,000 remains undrawn. As of May 31, 2021, the Company was in breach of certain financial covenants under the credit facility. Accordingly, the remaining balance outstanding under the term facility of $8,500 was classified as current and recorded at the amount due on demand on the Company's balance sheet.

On June 17, 2021, the Company entered into a second amending agreement with the lenders. Within the agreement, the Company received a waiver for the historical covenant defaults and received consent to the Financial Covenants Relief (in the form of a pre-emptive waiver) for the fiscal quarters ended February 28, 2022. The consent and waiver are subject to: (i) the Company agreeing that the availability under the revolving facility be reduced to zero, and (ii) the Company will continue to deliver a compliance certificate. In addition, during the covenant suspension period, the Company shall maintain liquidity of not less than $10,000, calculated monthly as of the last business day of each calendar month. This monthly calculation is to be included within a monthly liquidity report to be delivered monthly to the lenders.

As at May 31, 2021, the Company had $23,926 of cash, $38,781 of trade and other receivables, $2,664 of income tax receivable, $16,397 of accounts payable and accrued liabilities, $8,500 term loan, $8,747 contractual obligation, lease liabilities of $4,179, contingent consideration of $2,810 and income tax payable of $153. As of November 30, 2020, the Company had $20,344 of cash, $1,032 of marketable securities and derivatives, $27,544 of trade and other receivables, $1,236 of income tax receivable, $14,396 of accounts payable and accrued liabilities, $8,938 term loan, $10,701 contractual obligation, lease liabilities of $4,450 and income tax payable of $6,280.

Cash flow summary of cash received and (cash used)

	For the six months ended May 31, 2021 $	May 31, 2020 $
Operating activities	(17,251)	(12,037)
Financing activities	35,534	19,753
Investing activities	(14,701)	(21,037)

Operating activities

Net cash used from operating activities for the six months ended May 31, 2021 was $17,251 as a result of a loss for the period of $14,812, increase in non-cash working capital of $8,861, recovery of income taxes of $2,849, foreign exchange gain of $658, interest income of $217, gain on disposal of capital assets of $34 and a gain on marketable securities and derivatives of $395, this decrease was partially offset by non-cash expenses related to share based payments of $2,976, depreciation and amortization of $5,935, impairment loss on trade receivables of $186, accretion of $826, interest expense of $107 and an impairment loss on inventory of $545.

During the comparative six months ended May 31, 2020 net cash used was $12,037 as a result of the loss for the period of $985 and an increase in non-cash working capital of $28,387, partially offset by non-cash expenses related to share based payments of $4,871, provision for income taxes $2,475, depreciation and amortization of $5,229, and an impairment loss on inventory of $3,894.

Financing activities

Net cash received from financing activities for the six months ended May 31, 2021 was $35,534 as a result of net proceeds received from the bought deal financing of $36,767, exercise of warrants of $9 and exercise of stock options of $481, which was offset by the payment on exercise of RSUs of $212, payment to settle obligation to issue shares $133, payments on the term loan of $1,000 and payments on the lease liability of $378. During the comparative six months ended May 31, 2020 cash flow from financing activities was $19,753 as a result of net proceeds received from securing the term loan facility of $19,394, the exercise of warrants $518 and options $60. Net cash received was partially offset by the payment on lease liability of $121 and repurchase of common shares under the normal course issuer bid of $98.

The Company filed a prospectus dated October 3, 2018 (the "2018 Prospectus"). Since the 2018 Prospectus, the Company has progressed with its business plan and continues to remain substantially in line with the budget and timing estimates disclosed in the 2018 Prospectus, with the exception of the geographic expansion facility buildout and related equipment purchase, which remains on time but the combined budget has decreased from $7,000 to $6,000. Set out below is an approximate breakdown of the funds spent by the Company to date from the proceeds disclosed in the 2018 Prospectus, compared with the estimated expenditures as disclosed in the 2018 Prospectus:

Expected expenditures	**Expected Expenditures for 2018 (As per the 2018 Prospectus) $**	**Expected Expenditures for 2019 (As per the 2018 Prospectus) $**	**Total Expected Expenditures (As per the 2018 Prospectus) $**	**Approximate Actual Expenditures (to May 31, 2021) $**
Acquisition of 230 Carion Road	4,000	-	4,000	4,500
Acquisition of additional extraction and post-processing equipment at 230 Carion Road to meet demand	6,000	-	6,000	5,900
Complete domestic geographic expansion analysis and acquire facility in strategic location	-	4,000	4,000	3,500
Complete buildout of facility selected for geographic expansion	-	2,000	2,000	1,400
Acquire equipment for new facility selected for geographic expansion	-	5,000	5,000	2,400
Total expenditures	**10,000**	**11,000**	**21,000**	**17,700**

The Company filed a prospectus dated April 2, 2019 (the "2019 Prospectus"). Since the 2019 Prospectus, the Company has progressed with its business plan and continues to remain substantially in line with the budget and timing estimates disclosed in the 2019 Prospectus, with the exception of the retrofit of the building at 180 Carion Road which on November 22, 2020 the Company received an amendment to its existing Health Canada processing license to allow operations to commence at the second facility. The scope of this build out and equipment fit up has increased resulting in an increase in the combined budget to between $29,000 and $32,000. Set out below is an approximate breakdown of the funds spent by the Company to date from the proceeds disclosed in the 2019 Prospectus, compared with the estimated expenditures as disclosed in the 2019 Prospectus:

Expected expenditures	**Expected Expenditures for 2019 / 2020 (As per the 2019 Prospectus) $**	**Approximate Actual Expenditures (to May 31, 2021) $**
Retrofit building located on the 180 Carion Road	9,000	21,300
Purchase equipment for 180 Carion Road	11,300	-
Expansion of processing facility and extraction capacity at the 230 Carion Road	5,200	7,500
Source and secure strategic partnerships and joint venture opportunities	7,000	2,000
Total expenditures	**32,500**	**30,800**

On January 28, 2021 the Company filed a prospectus supplement (the "2021 Prospectus"). The Company issued 19,364,000 units valued at $39,696 which were comprised of one common share of the Company and one-half share purchase warrant. Each full share purchase warrant is exercisable at a price of $2.55 per share for a period of thirty-six months from the date of closing. In connection with the financing, the Company incurred share issuance costs of $2,929. The Company intends to use the net proceeds from the offering to largely pursue strategic M&A and business expansion opportunities in Canada and international markets, including in connection with "Cannabis 3.0" - related products (i.e. where cannabis is an ingredient in a consumer product) and brands, including everything from skincare, to supplements, topicals, and other products and for working capital requirements and other general corporate purposes.

Expected expenditures	Expected Expenditures for 2021/2022 (As per the 2021 Prospectus) $	Approximate Actual Expenditures (to May 31, 2021) $
Pursue strategic M&A and international/domestic expansion opportunities	36,767	973
Total expenditures	**36,767**	**973**

On May 27, 2021 the Company filed a prospectus supplement (the "May 2021 Prospectus"). The Company issued 13,940,300 units valued at $46,003 which were comprised of one common share of the Company and one-half share purchase warrant. Each full share purchase warrant is exercisable at a price of $4.15 per share for a period of thirty-six months from the date of closing. In connection with the financing, the Company incurred share issuance costs of $2,484. The Company intends to use the net proceeds from the offering to largely pursue strategic M&A and business expansion opportunities in Canada and international markets, including in connection with "Cannabis 3.0" - related products (i.e. where cannabis is an ingredient in a consumer product) and brands, including everything from skincare, to supplements, topicals, and other products and for working capital requirements and other general corporate purposes.

Expected expenditures	Expected Expenditures for 2021/2022 (As per the May 2021 Prospectus) $	Approximate Actual Expenditures (to May 31, 2021) $
Pursue strategic M&A and international/domestic expansion opportunities	28,000	-
Capital expenditures	5,000	-
Working capital requirements and other global general operating expenses	10,519	-
Total expenditures	**43,519**	**-**

Investing activities

During the six months ended May 31, 2021, net cash used in investing activities was $14,701 due to the acquisition of property, plant and equipment of $12,562, acquisition of intangible assets of $157, acquisition of LYF $3,713 and issuance of promissory note receivable of $750. Net cash used was partially offset by proceeds from sale of marketable securities and derivatives of $794, repayment of the promissory note for $1,614, and proceeds from sale of capital assets of $73. During the comparative six months ended May 31, 2020, net cash used in investing activities was $21,037, due to the acquisition of property, plant and equipment of $12,116, acquisition of intangible assets of $7,921 and issuance of a promissory note to a Danish company $1,000.

Capital resources

The Company manages its capital structure and adjusts it based on the funds available to the Company in order to maintain existing operations and fund expansion opportunities. 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 and debt.

The Company is continually evaluating expansion opportunities both domestically and within certain international markets. Depending on the timing and scope of expansion opportunities identified by the Company, there will be a requirement for the investment of additional capital for the Company to continue to successfully execute on its growth strategy. Based on the ongoing analysis of potential growth opportunities, the Company is not able to currently quantify any specific non-committed future capital requirements.

The Company has historically relied on both the equity markets and debt markets to fund its activities. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable to ensure optimal capital structure to reduce cost of capital.

The Company is not currently subject to externally imposed capital requirements. As at May 31, 2021, total current assets less current liabilities totaled $63,227 (November 30, 2020 - $58,617).

OUTSTANDING SHARES, OPTIONS, SHARE UNITS AND WARRANTS

The Company is authorized to issue an unlimited number of common and preferred shares. The table below outlines the number of issued and outstanding common shares, warrants and options.

	July 14, 2021	May 31, 2021	November 30, 2020
Common shares	185,989,054	158,465,717	129,173,184
Warrants	17,648,650	10,678,500	8,901,098
Options	8,069,437	8,130,169	8,445,869
Restricted Share Units	452,612	500,231	680,707
Deferred Share Units	317,953	317,953	186,813

OFF-BALANCE SHEET AGREEMENTS

The Company has not engaged in any off-balance sheet arrangements such as obligations under guarantee contracts, a retained or contingent interest in assets transferred to an unconsolidated entity, any obligation under derivative instruments or any obligation under a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company or engages in leasing or hedging services with the Company.

COMMITMENTS

The Company has purchase commitments for hemp and cannabis biomass totalling $6,823 over the next year.

In May 2020, the Company renegotiated a biomass supply agreement to reduce the price paid per kilogram of biomass to address compression in pricing seen in the industry. The Company was able to proactively secure this amendment because of the reduction in prices of biomass in the market.

Management negotiated the aforementioned price reduction in order to ensure that Valens' input biomass would remain competitive with broader market prices. This amendment also resulted in a decrease in the Company's reported commitment under this agreement.

During the year ended November 30, 2020, the Company recognized a $1,819 onerous contract loss that has been included in the calculation of consolidated loss and comprehensive loss for the year. The onerous contract loss is related to these fixed price supply agreements, as the costs and purchase obligations under the contract exceed the economic benefits expected to be received. For agreements in which the Company recorded a prepaid deposit, the $1,819 loss was attributed against the prepaid balance of $1,000 and for all other agreements an onerous contracts provision was recorded of $819. As at May 31, 2021 the onerous contract liability remains with a balance of $411. The Company did not identify other onerous contracts in fiscal 2021.

Effective May 14, 2020, the Company entered into a five-year non-exclusive distribution agreement with Cannvalate Pty Ltd. ("Cannvalate"). The agreement is based on a pay for performance model, providing Cannvalate achieves milestones based on certain financial targets and facility construction and licensing timelines outlined in the agreement. The Company will pay $9,247 in consulting fees over the term of the agreement, subject to Cannvalate meeting the milestones as defined in the agreement. As at May 31, 2021, there remains $7,386 payable under the terms of this agreement.

Based on the above, the future commitments, which include other purchase commitments due in each of the next five reporting years are as follows:

	$
2021	7,746
2022	1,847
2023	1,847
2024	1,847
2025	923
Thereafter	-
	14,210

Obligation to issue shares

The Company has entered into an agreement with an officer, to issue the following shares:

	Number of shares to be issued			
	2021	2022	2023	Total
Officer	300,000	600,000	450,000	1,350,000

There were no new commitments entered into by the Company during the period ending May 31, 2021 to issue shares. Upon termination of the services, the entitlement to the shares may be forfeited. Any share-based payments previously recognized related to the remaining unvested tranches will be reversed against profit and loss.

FINANCIAL RISK MANAGEMENT

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

Interest risk

The Company's exposure to interest risk relates to its investment of surplus cash, restricted short-term investments and balances outstanding under the term loan. The Company may invest surplus cash in highly liquid investments with short terms to maturity and would accumulate interest at prevailing rates for such investments. At May 31, 2021, the Company had cash, and restricted short-term investments of $24,127 and a balance of $8,500 on a term loan (November 30, 2020 - $20,444 and $9,500). At May 31, 2021, a 1% decrease in interest rates would result in a reduction in interest income by $241 (November 30, 2020 - $204) and a reduction of interest expense of $85 (November 30, 2020 – $95), compared to a 1% increase in interest rates which would have an equal and opposite effect.

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, restricted short-term investments, and receivables. The Company's cash, and restricted short-term investments are held through large Canadian financial institutions and no losses have been incurred in relation to these items.

The Company's receivables are comprised of trade accounts receivable, GST input tax credits, unbilled revenues, and government assistance receivable. In addition, the Company has $19,295 in trade accounts receivable outstanding over 60 days at May 31, 2021 (November 30, 2020 – $11,127). The expected credit loss for overdue balances is estimated to be $759 (November 30, 2020 - $573) based on subsequent collections, discussions with associated customers and analysis of the credit worthiness of the customer. Of the total invoiced trade receivables at May 31, 2021, the Company has subsequently collected, has trade payables outstanding with the same customers or has recorded an expected credit loss provision representing 43% of the total balance. Of the Company's trade receivables outstanding at May 31, 2021, 49% are held with four Health Canada licensed customers of the Company and 9% are held with three provincial boards (November 30, 2020 – 50% held with two Health Canada licensed customer and 18% held with provincial boards).

The carrying amount of cash, restricted short-term investments, other non-current receivables and trade and other receivables represent the maximum exposure to credit risk, and as at May 31, 2021, this amounted to $63,805 (November 30, 2020 - $49,397).

Economic dependence risk

Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. The Company recorded sales from four Health Canada licensed customers of the Company representing 44% and 44% of total revenue in the three and six months ended May 31, 2021 (May 31, 2020 – four Health Canada licensed customers representing 89% and 77% of total revenue in the three and six months ended). The Company recorded sales from three provincial boards representing 32% and 36% of total revenue in the three and six months ended May 31, 2021 (May 31, 2020 – nil provincial boards representing nil% of total revenue).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. As at May 31, 2021, the Company has $24,127 of cash and restricted short-term investments (November 30, 2020 - $20,444). The Company is obligated to pay accounts payable and accrued liabilities, current portion of the lease liability, contractual obligation, contingent consideration and term loan with a carrying amount of $29,180 (November 30, 2020 - $18,628).

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, accounts payable and accrued liabilities, and contractual obligations that are denominated in US dollars. As at May 31, 2021, a 10% appreciation of the Canadian dollar relative to the US dollar would have increased net financial assets by approximately $878 (November 30, 2020 – $1,073). A 10% depreciation of the Canadian dollar relative to the US dollar would have had the equal but opposite effect.

In addition, the Company is exposed to foreign currency risk on fluctuations related to a commitment that is denominated in Australian dollars. As at May 31, 2021, a 10% appreciation of the Canadian dollar relative to the Australian dollar would have decreased the commitment by approximately $739 (November 30, 2020 – $851). A 10% depreciation of the Canadian dollar relative to the Australian dollar would have had the equal but opposite effect.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these condensed interim consolidated financial statements in conformity with IAS 34 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 payment expense included in loss and comprehensive loss.

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

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

iv) Valuation and impairment testing of intangible assets and goodwill. This assessment included a consideration of external and internal indicators that the asset may be impaired.

v) Inventory is carried at the lower of cost or net realizable value. The determination of net realizable value involves significant management judgement and estimates, including the estimation of future selling prices.

vi) The Company applied judgement in analysing fixed price supply agreements to determine whether the costs and purchase obligations under the contract exceed the economic benefits expected to be received from it. Management measures onerous contracts as a provision or a reduction to prepaid deposits associated with the agreement.

vii) Judgement is also required to assess whether the amounts paid on achievement of milestones represents contingent consideration or compensation for post-acquisition services. Judgment is also required to measure the contingent consideration and to assess whether it should be classified as equity or a liability. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

viii) In determining the allocation of the purchase price, estimates are used based on market research and appraisal values. Identified intangible assets are fair valued using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

CHANGES IN ACCOUNTING POLICIES

New IFRS Standards that are effective for the current year:

(i) Amendments to IFRS 3, Business combination ("IFRS 3")

In October 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)". The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments provide an assessment framework to determine when a series of integrated activities is not a business. The amendments are effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Company adopted this amendment during the six months ended May 31, 2021 and has determined that there will be no material impact to the Company's condensed interim consolidated financial statements.

New IFRS Standards in issue but not yet effective:

(ii) Amendments to IAS 37: Onerous Contracts and the Cost of Fulfilling a Contract

The amendment specifies that 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

(iii) Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023 The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

RELATED PARTY TRANSACTIONS

Goods and Services

The Company entered into certain transactions with related parties as follows:

		Three months ended		Six months ended		As at	
		May 31, 2021 $	May 31, 2020 $	May 31, 2021 $	May 31, 2020 $	May 31, 2021 $	May 31, 2020 $
Name and Relationship to Company	**Transaction**	**Expense**				**Balance Payable (Receivable)**	
Kosha Projects Inc., a company in which Ashley McGrath, a director, has a 50% interest	Farms Termination(1)	-	-	-	931	-	-

(1) On December 17, 2019, the Company terminated its joint venture agreement to create the Farms facility with Kosha, a company in which Ashley McGrath, a director of the Company, has a 50% interest.

Key Management Compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company has defined key management personnel to include the CEO, CFO, CCO, COO, President, Executive Vice Presidents, Senior Vice Presidents and directors of the Company.

The remuneration paid or accrued for the Company's key management personnel and directors are as follows:

	Three-months ended		Six-months ended	
	May 31, 2021 $	May 31, 2020 $	May 31, 2021 $	May 31, 2020 $
Management and consulting fees				
Tyler Robson, Chief Executive Officer and director	-	132	-	263
Irwin Professional Corp, a company controlled by Chris Irwin – former director of the Company	-	21	-	42
Total	**-**	**153**	**-**	**305**

	Three-months ended		Six-months ended	
	May 31, 2021 $	May 31, 2020 $	May 31, 2021 $	May 31, 2020 $
Wages and salaries(1)				
Tyler Robson, Chief Executive Officer and director	131	-	263	-
Jeff Fallows, President	88	87	175	175
Chantel Popoff, Chief Operating Officer	69	69	137	138
Chris Buysen, former Chief Financial Officer	65	65	130	130
Everett Knight, EVP Corporate Development & Capital Markets	56	70	112	120
Sunil Gandhi, Chief Financial Officer	13	-	13	-
Adam Shea, Chief Commercial Officer	12	-	12	-
Nitin Kaushal, former director	24	26	48	52
Ashley McGrath, director	35	20	70	40
Deepak Anand, former director	20	20	40	40
Andrew Cockwell, director	20	-	40	-
Karin McCaskill, director	21	-	42	-
Total	**554**	**357**	**1,082**	**695**

Share-based payments[2]				
Tyler Robson, Chief Executive Officer and director	404	420	922	906
Jeff Fallows, President	194	328	449	740
Chantel Popoff, Chief Operating Officer	77	108	186	250
Chris Buysen, former Chief Financial Officer	70	119	165	275
Everett Knight, EVP Corporate Development & Capital Markets	44	129	109	296
Sunil Gandhi, Chief Financial Officer	8	-	8	-
Adam Shea, Chief Commercial Officer	8	-	8	-
Nitin Kaushal, former director	40	24	81	54
Ashley McGrath, director	40	24	81	54
Deepak Anand, former director	40	24	81	54
Andrew Cockwell, director	30	-	60	-
Karin McCaskill, director	30	-	60	-
Chris Irwin, director	-	24	-	54
Total	**985**	**1,200**	**2,210**	**2,683**

(1) Wages and salaries includes both salary and short term incentive plan (STIP) amounts.
(2) Share-based payments are the fair value of options, RSU's and DSU's granted and vested to key management personnel and directors of the Company under the Company's Omnibus LTIP plan and legacy stock option plan and the grant of common shares of the Company under employment and consulting agreements.

Related Party Balances

The following related party amounts were included in (a) accounts payable and accrued liabilities and (b) receivables:

	As at	
	May 31, 2021	**November 30, 2020**
	$	**$**
Receivables:		
(b) Officers of the Company[1]	897	771

(1) On January 20, 2021, repayment terms on these receivable balances, related to withholding taxes on share-based payments, were agreed to with key management personnel. The balances are due January 20, 2024 and accrue interest at a rate of 2.45% per annum. For the three and six months ended May 31, 2021, the balances accrued $5 and $9 of interest income.

RISK FACTORS

Many factors could cause the Company's actual results, performance and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation, the following factors, which are discussed in greater detail under the heading "Risk Factors" in the Company's Annual Information Form dated February 24, 2021 available at www.sedar.com, which risk factors are incorporated by reference into this document, and should be reviewed in detail by all readers:

- The Company may be adversely affected by significant outbreak or threat of outbreaks of viruses or other infectious diseases or similar health threats, including the continued and ongoing outbreak of COVID-19 nationally and globally, which could disrupt our processing activities, supply chains and sales channels, and result in a reduction in supply of, or demand for, the Company's products as a result of travel restrictions, work refusals by and mandatory accommodations for employees, changing demand by consumers, mass quarantines, confinements, lock-downs or government-imposed closures in Canada or internationally, which could adversely impact materially the company's business, operations or financial results;

- The Company's credit facility, could expose the Company to risks that its cash flows may become insufficient to satisfy required payments of principal and interest, the risk of increased interest rates as certain of the Company's borrowings would likely be at variable rates of interest, and enforcement risk in the event of default;

- The credit facility contains covenants that require the Company to maintain certain financial ratios. If the Company does not maintain such ratios, it could have consequences for the availability of credit under the credit facility or result in repayment requirements that the Company may not be able to satisfy. Restrictions and covenants from those facilities may limit the Company's ability to execute its plans;

- Regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital;

- The Company could be negatively impacted by its customers' inability to raise additional capital;

- The Company's ability to process, store and sell cannabis in Canada is dependent upon licenses from Health Canada which are subject to ongoing compliance and reporting requirements;

- The Company may have difficulty accessing the service of banks and processing credit card payments in the future, which may make it difficult for the Company to operate;

- The activities of the Company are subject to regulation by governmental authorities, particularly Health Canada;

- The Company is subject to restrictions from the TSX which may constrain the Company's ability to expand its business internationally.

- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, marketing, management, transportation, storage and disposal of cannabis but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment;

- Third parties the Company does business with may perceive that they are exposed to reputational risk as a result of the Company's cannabis business activities;

- The operation of the Company can be impacted by adverse changes or developments affecting the facilities of the Company's wholly-owned subsidiaries;

- The Company's ability to recruit and retain management, skilled labour and suppliers is crucial to the Company's success;

- The Company's growth strategy contemplates outfitting its facilities with additional production resources. A variety of factors could cause these activities to not be achieved on time, on budget, or at all. As a result, there is a risk that the Company may not have product or sufficient product available to meet the anticipated demand or to meet future demand when it arises;

- The Company and its wholly-owned subsidiaries have limited operating histories;

- The Company has a history of net losses, may incur significant net losses in the future and may not achieve or maintain profitability;

- The adult-use cannabis industry is encountering price compression, which may adversely impact the Company's profitability. In addition, such price compression, as well as, or together with, oversupply of certain types of inventory in the industry, may result in the Company incurring additional impairment losses on inventory in the event the cost of our inventory exceeds its net realizable value. The continuing evolution of these market conditions represent ongoing uncertainties that may affect the Company's future financial results.

- Even if its financial resources are sufficient to fund its current operations, there is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company may require additional financing and there can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company;

- There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company;

- The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity;

- As a manufacturer and distributor of products designed to be ingested or inhaled by humans, we face an inherent risk of exposure to product liability claims, regulatory action and litigation if our products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of our products involve the risk of injury or loss to consumers due to tampering by unauthorized third parties, product contamination, unauthorized use by consumers or other third parties;

- The products of the Company's wholly-owned subsidiaries could be subject to the recall or return of their products for a variety of reasons. If a product recall or return should happen, the Company could be required to incur unexpected expenses and divert management attention and could see harm caused to its image and product sales decline. In addition, as result of the product recall or return, the Company and its wholly-owned subsidiaries could face increased operational scrutiny by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses;

- Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company;

- The Company is largely reliant on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the cannabis industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company;

- The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls;

- The Company's ability to implement and maintain internal controls over financial reporting and disclosure and procedures;

- The Company may engage in acquisitions or other strategic transactions or make investments that could result in significant changes or management disruption;

- The Company could fail to integrate acquired companies into the business of the Company;

- Completed acquisitions, strategic transaction or investments could fail to increase shareholder value;

- The Company may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business;

- There can be no assurance that an active and liquid market for the common shares will be maintained and an investor may find it difficult to resell any securities of the Company;

- The Company does not anticipate paying any dividends on the common shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings;

- The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land; the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety;
- In recent years, securities markets have experienced extremes in price and volume volatility. The market price of securities of many early stage companies, among others, have experienced fluctuations in price which may not necessarily be related to the operating performance, underlying asset values or prospects of such companies. It may

be anticipated that any market for the Company's shares will be subject to market trends generally and the value of the Company's shares on a stock exchange may be affected by such volatility;

- Rapid destabilization of global economic conditions, including as a result of the COVID-19 pandemic, may negatively impact the Company's financial viability as a result of increased financing costs and limited access to capital markets;

- The expansion into international operations will result in increased operational, regulatory and other risks;

- The cannabis industry is in its early stages of development and the Company, and their competitors, may seek to introduce new products in the future. In attempting to keep pace with any new market developments, the Company may need to expend significant amounts of capital in order to successfully develop and generate revenues from new products introduced by the Company, and additional regulatory approvals from government agencies and any other applicable regulatory authorities, which may take significant amounts of time. The Company may not be successful in developing effective and safe new products, bringing such products to market in time to be effectively commercialized, or obtaining any required regulatory approvals, which, together with any capital expenditures made in the course of such product development and regulatory approval processes, may have a material adverse effect on the Company;

- The Company's operations may depend, in part, on how well it and its suppliers protect networks, equipment, information technology systems and software against damage from a number of threats, including, but not limited to, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations may also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses;

- The cannabis business is subject to several risks that could result in damage to or destruction of properties or facilities or cause personal injury or death, environmental damage, delays in production and monetary losses and possible legal liability. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company;

- The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company; and

- The Company's directors and officers may serve as directors and officers or may be associated with other reporting companies or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the transaction. If a conflict of interest arises, the Company will follow the provisions of the Business Corporations Act, British Columbia ("Corporations Act") in dealing with conflicts of interest. These provisions state, where a director/officer has such a conflict, that the director/officer must at a meeting of the Board, disclose his interest and refrain from voting on the matter unless otherwise permitted by the Corporations Act. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith and in the best interests of the Company.

Dividends

The Company has no dividend record and is unlikely to pay any dividends over the next fiscal year as it intends to deploy available funds for growth opportunities in the cannabis sector. Any future determination to pay dividends will be at the discretion of the Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deem relevant.

Nature of the Securities

The purchase of the Company's securities involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company's securities should not constitute a major portion of an investor's portfolio.

Proposed Transactions

There are currently no significant proposed transactions except as otherwise disclosed in this MD&A. Confidentiality agreements and non-binding agreements may be entered into from time to time, with independent entities to allow for discussions of the potential acquisition and/or development of potential business relationships.

Approval

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of the Company has approved the financial statements and the disclosure contained in this MD&A.

CANADIAN SECURITIES ADMINISTRATORS NATIONAL INSTRUMENT 52-109

The Chief Executive Officer and Chief Financial Officer, in accordance with National Instrument 52-109 ("NI 52-109"), have both certified that they have reviewed the financial report and this MD&A (the "Filings") and that, based on their knowledge having exercised reasonable diligence, (a) the Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the filings; and (b) the financial report together with the other financial information included in the Filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the Filings.

The Company's internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining adequate ICFR for the Company. Management, including the CEO and CFO, does not expect that the Company's ICFR will prevent or detect all errors and all fraud or will be effective under all future conditions. A control system, no matter how well designed, is subject to inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable, but not absolute, assurance that the control objectives will be met with respect to financial statement preparation and presentation.

CSA National Instrument 52-109 requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for the Company and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to the Company's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. There have been no significant changes in the Company's internal controls during the quarter ended May 31, 2021 that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

Pursuant to NI 52-109, the Company has currently limited the scope of the design of and assessment DCP and ICFR to exclude controls, policies and procedures over entities acquired by the Company not more than 365 days before the end of the financial period. These recently acquired entities include LYF Food Technologies Inc. (acquired March 4,2021).

DIRECTORS AND OFFICERS

Tyler Robson – Chief Executive Officer, Director	Andrew Cockwell – Director
Sunil Gandhi - Chief Financial Officer	Ashley McGrath – Director
Adam Shea - Chief Commercial Officer	Dr. Guy Beaudin – Director
Chantel Popoff – Chief Operating Officer	Karin McCaskill – Director

Jeff Fallows - President
Paul Kunynetz – General Counsel and Corporate Secretary
Drew Wolff – Director

OTHER REQUIREMENTS

Additional disclosure of the Company's material change reports, news releases and other information can be obtained on SEDAR at www.sedar.com.

On Behalf of the Board,

THE VALENS COMPANY INC.

"Tyler Robson"	*"Drew Wolff"*
Tyler Robson	Drew Wolff


AT VALENS,
IT'S PERSONAL.
TSX: VLNS | OTCQX: VLNCF