VALENS

Annual Information Form

VALENS GROWORKS CORP.

For the year ended November 30, 2018

Dated as of March 25, 2019

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ANNUAL INFORMATION FORM – PRELIMINARY NOTES

This annual information form ("**AIF**") of Valens GroWorks Corp. (the "**Company**") is prepared in the form prescribed by National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators. All dollar amounts in this AIF are expressed in Canadian dollars unless otherwise indicated. All information in this AIF is as of November 30, 2018, unless otherwise indicated.

Unless otherwise noted or the context indicates otherwise, the terms "cannabis", "CBD", "client", "licence" and "THC" have the meanings ascribed to such terms in the *Cannabis Act* (Canada) (the "**Cannabis Act**") and the Cannabis Regulations made under the Cannabis Act (the "**Cannabis Regulations**"), each of which came into force on October 17, 2018.

FORWARD-LOOKING INFORMATION

This AIF and the documents incorporated into this AIF contain forward looking statements and forward-looking information within the meaning of applicable Canadian securities laws (such forward looking statements and forward-looking information being collectively hereinafter referred to as "**forward-looking statements**"). Such forward-looking statements are based on expectations, estimates and projections as at the date of this AIF. Any statements that involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often but not always using phrases such as "expects", "is expected", "anticipates", "plans", "budget", "scheduled", "forecasts", "estimates", "believes" or "intends", or variations of such words and phrases (including negative and grammatical variations), or stating that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and may be forward-looking statements and are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements and information concerning: availability of financing, changes in domestic and international government regulation, general economic condition, general business conditions, limited time being devoted to business by directors, escalating professional fees, escalating transaction costs, completion of acquisitions and/or sales, competition, fluctuation in foreign exchange rates, competition, stock market volatility, unanticipated operating events and liabilities inherent in industry. Readers are cautioned that the foregoing list of important factors and assumptions is not exhaustive. Forward-looking statements are not guarantees of future performance and are inherently uncertain. 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.

Forward-looking statements are based on the beliefs of the Company's management, as well as on assumptions, which such management believes to be reasonable based on information available at the time such statements were made. Certain forward-looking statements relating to medical and recreational marijuana, extracts, domestic and international markets and regulation, the general expectations of the Company related thereto, and the Company's business and operations are based on estimates prepared by the Company using data from publicly available government sources, as well as from market-research and industry analysis and on assumptions based on data and knowledge of this industry that the Company believes to be reasonable. However, by their nature, forward-looking statements are based on assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements are subject to a variety of risks, uncertainties and other factors which could cause actual results, performance or achievements to differ from those expressed or implied by the forward-looking statements, including, without limitation, related to the following: credit risk; liquidity risk; market risk; currency risk; interest risk; concentration risk; dependence on senior management; sufficiency of insurance; competition; general business risk and liability; regulation of the marijuana industry; regulatory risks; change in laws, regulations and guidelines; reliance on licence renewal; reliance on a single facility; limited operating history; factors which may prevent realization of growth targets; risks inherent in an agricultural business; vulnerability to rising energy costs; publicity or consumer perception; product liability; product recalls; reliance on key inputs; difficulties with forecasts; exchange restrictions on business; management of growth; litigation; dividends; limited market for securities; environmental and employee health and safety regulations, which are outlined in the section entitled "*Risk Factors*" in this AIF. In addition, the global financial and credit markets have experienced significant debt and equity market and commodity price volatility which could have a particularly significant, detrimental and unpredictable effect on forward-looking statements.

The list of risk factors set out in this AIF is not exhaustive of the factors that may affect any forward-looking statements of the Company. Actual results, performance or achievements could differ materially from those projected in the forward-looking statements as a result of the matters set out in this AIF generally and certain economic and business factors, some of which may be beyond the control of the Company. 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 securities laws. For all of these reasons, the Company's securityholders should not place undue reliance on forward-looking statements.

CORPORATE STRUCTURE

Name, Address and Incorporation

The Company was incorporated under the laws of British Columbia as "Mayen Minerals Ltd." on January 14, 1981. Initially, the Company was a mineral exploration stage company engaged in acquiring, exploring and developing resource properties. In order to reflect the change of business of the Company to focus on oil and gas initiatives, on August 27, 2012, the Company changed its name to "Rift Basin Resources Corp." and it further changed its name to "Asean Energy Corp." on August 22, 2014.

In response to falling oil and gas prices, on March 16, 2015, the Company completed a corporate restructuring pursuant to a plan of arrangement (the "**Arrangement**") approved by the Supreme Court of British Columbia pursuant to which the Company distributed most of its assets to the shareholders of the Company and effective August 20, 2015, it changed its name to "Genovation Capital Corp." (the "**2015 Restructuring**").

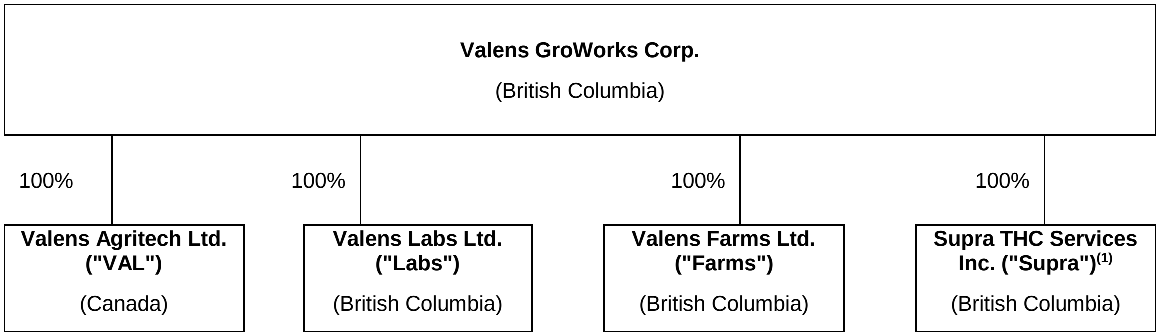
On November 24, 2016, the Company changed its name to its current name, "Valens GroWorks Corp.", to reflect the change in its business activities following the completion of the acquisition, pursuant to a reverse takeover, of Valens Agritech Ltd. ("**VAL**").

The Company's registered office is located at 230 Carion Road, Kelowna, British Columbia V4V 2K5. The Company is a reporting issuer in all of the provinces of Canada other than Quebec. The common shares of the Company (the "**Common Shares**") trade under the trading symbol "VGW" on the Canadian Securities Exchange (the "**CSE**") and are quoted on the OTCQB Venture Market in the United States under the symbol "VGWCF".

The Common Shares purchase warrants of the Company issued pursuant to the October 10, 2018 Financing (as hereinafter defined) trade under the trading symbol "VGW.WT" on the CSE.

Inter-corporate Relationships

Set out below is the corporate structure of the Company and its subsidiaries, including the corporate jurisdiction and the percentage of shares of the applicable subsidiary owned, controlled or directed by the Company.



Notes:

(1) *On October 29, 2018, the Company entered into the RotoGro Agreement (as hereinafter defined) to sell Supra to RotoGro (as hereinafter defined) in connection with the RotoGro Transaction (as hereinafter defined). See the section entitled "General Development of the Business – Three Year History – Fiscal Year Ending November 30, 2018" in this AIF. The RotoGro Transaction is in the process of being completed.*

GENERAL DEVELOPMENT OF THE BUSINESS

General

Initially, the Company was a mineral exploration stage company engaged in acquiring, exploring and developing resource properties. Starting in 2012, the strategic direction of the Company changed and the Company began focusing on building a junior international oil and gas exploration and development business and began concentrating on oil field redevelopment opportunities and advanced-stage exploration and near-production opportunities in Southeast Asia.

Following the 2015 Restructuring, the Company started focusing on a buildout strategy and seeking to capture a broad spectrum of medical cannabis users and adult recreational users as well as clinical trial and research and development clients, in pursuit of its seed-to-sale and farm-to-pharma objectives. The Company is a research-driven, vertically integrated Canadian cannabis company focused on downstream secondary extraction methodology, distillation and cannabinoid isolation and purification, as well as associated quality testing.

The Company operates out of its 25,000 square foot extraction, post processing and analytical testing facility located at 230 Carion Road in Kelowna, British Columbia (the "**Kelowna Facility**"). Initially, the Company leased the Kelowna Facility from NorthOk Properties Inc. ("**NorthOk**"). NorthOk is a company controlled by Ashley McGrath, a director of the Company. The lease agreement (the "**Kelowna Lease Agreement**") provided the Company an option to purchase the Kelowna Facility. On March 20, 2019, the Company acquired the Kelowna Facility for the purchase price of $4,400,000 by exercising its option to acquire the Kelowna Facility under the Kelowna Lease Agreement (the "**Kelowna Facility Acquisition**"). Mr. McGrath abstained from the approval of the Kelowna Facility Acquisition by the directors of the Company. The directors of the Company approved the Kelowna Facility Acquisition by written resolution (the "**Kelowna Facility Acquisition Resolution**"). In accordance with the *Business Corporations Act* (British Columbia), Mr. McGrath was required to sign the Kelowna Facility Acquisition Resolution in order for the Kelowna Facility Acquisition Resolution to be as valid as if passed at a meeting of the directors of the Company, however, his signature does not constitute a vote by Mr. McGrath to approve the Kelowna Facility Acquisition. In connection with the Kelowna Facility Acquisition, the Company engaged an independent appraiser to complete a market valuation which supports the purchase price.

Licences

The Company holds the following licences:

1. Licence issued by Health Canada to VAL on October 12, 2018 pursuant to the *Access to Cannabis for Medical Purposes Regulations* (Canada) ("**ACMPR**") which granted VAL the ability to cultivate cannabis as well as produce cannabis oil which was transitioned (the

"**VAL Producer Licence**"), on November 9, 2018, to equivalent licences under the Cannabis Act through the granting of a standard cultivation licence as well as a standard processing licence which permit the cultivation of cannabis and production of cannabis derivatives (the "**VAL Standard Cultivation and Processing Licences**"). The VAL Standard Cultivation and Processing Licences allow the materials generated by the Company to be sold to other licence holders through bulk transactions.

2. Licence initially issued by Health Canada to VAL (the "**VAL Dealer Licence**") on January 13, 2017 pursuant to the *Controlled Drugs and Substances Act* (Canada) ("**CDSA**"), granting VAL the authority to conduct research, possess, produce, sell, transport and deliver cannabis, cannabis resin, THC and CBD which was transitioned, on January 11, 2019, to a licence for analytical testing under the Cannabis Act (the "**VAL Analytical Testing Licence**") used for the purpose of conducting analytical testing on cannabis materials for both individuals as well as licence holders.

3. Licence initially issued by Health Canada to Supra (the "**Supra Dealer Licence**") on February 27, 2017 pursuant to the CDSA granting Supra the authority to conduct research, possess, produce, sell, transport and deliver cannabis, cannabis resin, THC and CBD which was transitioned, on March 8, 2019, to a licence for analytical testing under the Cannabis Act (the "**Supra Analytical Testing Licence**") used for the purpose of conducting analytical testing on cannabis materials for both individuals as well as licence holders.

Three Year History

During the fiscal year ending November 30, 2015, the Company entered into an arm's length non-binding letter of intent with MKHS, LLC ("**MKHS**") which outlined the general terms and conditions of a proposed transaction pursuant to which the Company proposed to acquire all of the issued and outstanding securities of MKHS in exchange for Common Shares (the "**MKHS Transaction**"). MKHS supplies medical marijuana pursuant to the *Arizona Medical Marijuana Act*, operating an 11,000 square foot warehouse cultivation, commercial kitchen and extraction facility and a nearby fully-secured 9.5-acre operation that includes a 3,000 square foot automated greenhouse and 21,780 square foot Airstream wind-assisted, air-supported greenhouse. MKHS also operates two state-licensed "healing center" dispensaries and distributes its own in-house prepared, branded line of edibles, concentrates and extracts.

The Company also entered into a binding commitment letter with MKHS (the "**MKHS Commitment Letter**") in respect of the MKHS Transaction. Under the terms of the MKHS Commitment Letter, the Company undertook, among other things, to fund MKHS' working capital needs and facilities expansion (the "**MKHS Funds Advances**"), including the build out and expansion of a larger greenhouse facility and purchase of property required for expansion (the "**MKHS Expansion**"). All MKHS Funds Advances to MKHS by the Company were secured and collateralized pending the closing of the MKHS Transaction.

<u>Fiscal Year Ending November 30, 2016</u>

On December 14, 2015, the Company entered into an arm's length non-binding letter of intent with VAL outlining the general terms and conditions of the proposed acquisition by the Company of all of the issued and outstanding securities of VAL in exchange for Common Shares (the "**VAL Transaction**"). VAL (now a wholly-owned subsidiary of the Company) is a biotechnology company based in the Okanagan Valley of British Columbia focused on the emerging cannabinoid market.

On January 4, 2016, in connection with the MKHS Transaction, MKHS entered into an operating agreement with Westland Capital Advisors S.A. ("**Westland**") and formed MKV Ventures 1, LLC ("**MKV1**"), a special purpose company, with MKHS as operating member, to manage the MKHS Expansion. In connection with the formation of MKV1, on January 4, 2016 the Company entered into a loan agreement with, among others, Westland and MKV1, which provided the Company with several non-interest-bearing loans to be used towards the MKHS Funds Advances.

During 2016, the Company contributed $1,907,293 towards the MKHS Funds Advances to MKHS as required under the MKHS Commitment Letter. The MKHS Funds Advances were used by MKHS in connection with the MKHS Expansion. In this regard, MKHS entered into purchase options on the warehouse property and the Littletown, Arizona greenhouse property and expanded the operations thereon through warehouse leasehold improvements and the purchase and set up of an additional 24,000 square feet of greenhouse capacity and 3,000 square feet of administrative space.

On January 21, 2016, the Company announced that it closed a private placement of 3,635 principal amount $100 convertible debentures for gross proceeds of $363,500.

On February 16, 2016, the Company closed a private placement of 3,011,984 Common Shares at a price of $0.24 per Common Share for gross proceeds of $722,876, to meet the terms and conditions associated with the MKHS Transaction.

On March 30, 2016, the Company entered into a binding commitment letter with VAL in respect of the VAL Transaction followed by a definitive share exchange agreement (the "**VAL Transaction Agreement**") entered into on October 31, 2016.

On July 8, 2016, the Company received conditional approval from the CSE for the proposed VAL Transaction.

On July 15, 2016, the Company completed a share consolidation, consolidating its issued and outstanding Common Shares on the basis of one (new) post consolidation Common Share for each three (old) pre-consolidation common shares.

On November 2, 2016 the Company completed the VAL Transaction. The following matters were effected in connection with the VAL Transaction:

a. VAL became a wholly-owned subsidiary of the Company.

b. The VAL Transaction was structured such that the shareholders of VAL received an aggregate of 36,000,000 Common Shares on a *pro rata* basis (with an additional 675,000 Common Shares paid as a finder's fee), resulting in the former shareholders of VAL owning approximately 72% of the Common Shares of the Company (assuming the conversion of 100% of the outstanding convertible debentures into Common Shares).

c. The 36,000,000 Common Shares issued to the shareholders of VAL were subject to escrow and pooling release agreements.

On November 17, 2016, the Company changed its name from "Genovation Capital Corp." to its present name.

<u>Fiscal Year Ending November 30, 2017</u>

On January 11, 2017, the Company closed a private placement of 2,153,190 units for proceeds of $1,399,574. Each unit consisted of one Common Share and one-half of one Common Share purchase warrant, with each whole warrant entitling the holder to purchase one Common Share at a price of $1.15 for a period of 12 months after the date of the closing.

On January 13, 2017, VAL was granted the VAL Dealer Licence.

On January 16, 2017 the Company entered into a 5-year, renewable, professional services agreement with MKV1 (the "**MKV1 PSA**"), the special purpose company originally formed with MKHS as operating member to manage the MKHS Expansion. Under the MKV1 PSA, MKV1 is required to complete the buildout of a 28,000-sf Farmtek greenhouse expansion as proposed and funded by the Company under the original agreements (the "**Buildout**"). In accordance with the MKV1 PSA, payments of US$60,000 per month for management services to the Company upon completion of the Buildout, with the three initial monthly payments to be deferred and paid at the end of third month following the Buildout to allow for an initial harvest. In addition, the Company is required to provide consulting services to be performed and invoiced monthly and will be reimbursed for approved out-of-pocket expenses and sub-contracted services.

On January 16, 2017, the Company entered into a loan agreement with MKV1 (the "**MKV1 Loan**") which is secured by a promissory note for an aggregate amount of $1,628,266 (US$1,212,500). The MKV1 Loan is guaranteed by MKHS and secures repayment of previous advances made by the Company. The loan accrues interest at the rate of 15% per annum effective May 15, 2016. Principal and interest, as well as $30,000 in cost recoveries for past accrued fees, are payable to the Company by MKHS in arrears commencing at the end of the third month following the completion of the Buildout, and on the 15th day of each month thereafter over a 5-year term.

The MKV1 PSA and the MKV1 Loan supersede and replaced all previous agreements and arrangements between the Company and MKHS and settled all outstanding issues between the parties.

On February 9, 2017, the Company issued a convertible unsecured note (the "**First Note**") to a non-arm's length lender, a company controlled by a director of the Company (the "**Lender**"), for an aggregate principal amount of $500,000. The Lender has the option but not an obligation to exchange all or part of the First Note and accrued interest (the "**Option Exercise**") into Common Shares under the same terms and conditions of, and as a participant in, an expected private placement funding the Company intends to undertake. The First Note matures in one year and bears interest at 10% per annum. First Note proceeds were dedicated for the purposes of meeting Company acquisition and expansion obligations and for general corporate purposes.

In February 2017, the Company entered into an arm's length non-binding letter of intent with DHomeNest Holdings Inc. to acquire Supra (now a wholly-owned subsidiary of the Company), a Kelowna-based Health Canada licensed cannabis testing lab (the "**Supra Transaction**").

On February 27, 2017, Supra was granted the Supra Dealer Licence and the Company entered into a definitive share purchase agreement with Supra and the shareholders of Supra (the "**Supra Transaction Agreement**") to acquire Supra. The Supra Transaction Agreement provided that the Company would acquire 100% of the issued and outstanding common shares of Supra for $3,900,000, fully satisfied through the issue of 3,000,000 Common Shares.

On April 5, 2017, the Company completed the Supra Transaction.

On April 18, 2017, the Company issued a second convertible unsecured note (the "**Second Note**") to a non-arm's length lender, a director of the Company, for an aggregate principal amount of $500,000, under similar terms to the First Note.

On May 8, 2017, the Company issued 23,862 Common Shares at a price of $1.45 per Common Share to settle $34,600 of indebtedness.

On August 14, 2017, the Company closed the first tranche of a private placement, issuing 3,250,615 units at a price of $1.00 per unit for aggregate gross proceeds of $3,250,615. The Company received cash proceeds of $250,000 and settled convertible notes of $1,036,539, promissory notes payable of $1,658,865 and accounts payable of $305,211. Each unit consisted of one Common Share and one-half of one Common Share purchase warrant, with each whole warrant entitling the holder to purchase one Common Share at a price of $1.50 for 12 months after the date of the closing, subject to acceleration conditions.

On September 22, 2017, a collaboration agreement (the "**Thermo Fisher Collaboration**") between Supra and Thermo Fisher Scientific (Mississauga) Inc. ("**Thermo Fisher**") was announced to develop a "Centre of Excellence in Plant Based Medicine Analytics" centered in the Company's Kelowna Facility. Pursuant to the Thermo Fisher Collaboration, Supra will utilize a suite of Thermo Fisher scientific analytical instrumentation to provide analytical services, research and development, forensic analysis and support for clinical trials. Supra's facilities will be utilized as a demonstration and training site for Thermo Fisher's clients and third parties involved in the cannabis sector as well as a regional resource center for universities and companies.

On October 3, 2017, the Company closed the second tranche of a private placement, issuing 85,000 units of the Company at a price of $1.00 per unit for gross proceeds of $85,000.

On October 3, 2017, the Company announced a research partnership with UBC Okanagan and Thompson Rivers University. The purpose of this collaborative research project is to explore the range of bioproducts that can be made from the cannabis, including pharmaceuticals, nutritional products and industrial fibre. The project has been awarded to the Company's subsidiaries VAL and Supra and comes with a three-year $330,000 Mitacs Canada Research Grant. Research and analysis on cannabis plants and by-products will to be supervised by VAL scientists.

On October 5, 2017, the Company announced that VAL had signed a supply and sales agreement with Canopy Growth Corporation ("**Canopy Growth**") for the distribution, marketing and sale of the Company's branded products through Canopy Growth's CraftGrow distribution network, including Tweedmainstreet.com.

On October 31, 2017, the Company entered into a memorandum of understanding (the "**Nelems MOU**") with the Bill Nelems Pain and Research Centre, which operates the Okanagan Interventional Pain Clinic ("**BNPRC**"), to form a strategic alliance for the purpose of conducting clinical research and development of cannabis products. BNPRC serves as the main referral pain centre for approximately 750,000 patients within the Interior Health region in British Columbia, as well as patients from the Northern Health region in British Columbia.

On November 1, 2017, the CSE announced the inclusion of the Company on its CSE25 Index, comprised of the securities of the largest companies trading on the CSE. The CSE25 Index is a subgroup of the CSE Composite Index. The composite index launched in 2015 and includes almost half of the exchange's listed companies and, according to the CSE, covers over 75% of the trading activity on the CSE.

On November 8, 2017, the Company announced it was entering into a three-year consulting agreement with Incanco Cannabis Consultants Co. Ltd., a company providing the services of John Conroy, a lawyer involved in various legal challenges to cannabis prohibition legislation.

On November 30, 2017, the Company closed the first tranche of a private placement and issued 737,700 units of the Company at a price of $1.00 per unit for aggregate gross proceeds of $737,700. The Company received cash proceeds of $429,700, settled $300,000 of indebtedness and recognized subscriptions receivable of $8,000. Each unit consisted of one Common Share and one-half of one Common Share purchase warrant, with each whole warrant entitling the holder to purchase one Common Share at a price of $1.50 for 12 months after the date of the closing.

<u>Fiscal Year Ending November 30, 2018</u>

On January 9, 2018, the Company closed the second and final tranche of a non-brokered private placement and issued 1,287,300 units at a price of $1.00 per unit for gross proceeds of $1,287,300 (the "**January 9, 2018 Financing**"). Each unit consisted of one Common Share and one-half of one Common Share purchase warrant. Each whole warrant entitles the holder to purchase one Common Share at a price of $1.50 for 12 months after the date of the closing, subject to acceleration conditions.

On February 9, 2018, the Company completed the closing of a non-brokered private placement of 8,847,050 Common Shares at a price of $1.40 per Common Share for aggregate proceeds of $12,385,870.

On February 28, 2018, the Company entered into an arm's length non-binding letter of intent with R Gold Venture Inc., doing business as Ross' Gold™, ("**Ross' Gold**") to acquire a 19.9% interest in Ross' Gold. Ross' Gold is a privately-held corporation with multi-location cannabis retail stores through franchising, with a full line of premium lifestyle consumables and hard goods. It is contemplated that the Company will acquire 19.9% of Ross' Gold for consideration of:

(a) a cash payment of $700,000 to Ross' Gold to be utilized under a pre-approved use of the proceeds;

(b) the issue of 550,000 Common Shares to Ross' Gold;

(c) the entry into of an exclusive supply agreement between the Company and Ross' Gold; and

(d) the grant by Ross' Gold to the Company of a right of first refusal with respect to the sale of any securities of Ross' Gold.

On March 9, 2018, the Company announced the completion of its initial batch of supercritical CO_2-extracted cannabis oil. The Company's 400 kg per month processing capacity was increased to 6,000 kg per month with the addition of several double-capacity machines.

On June 14, 2018, Supra obtained the ISO 17025 accreditation for cannabis testing. The ISO 17025 accreditation scope includes methods for cannabinoids, pesticides, toxic metals, terpenes and residual solvents. The International Standard, published jointly by ISO (International Organization for Standardization) and IEC (International Electrotechnical Commission), contains a set of requirements enabling laboratories to improve their ability to produce consistently valid results, by specifying the general requirements for the competence, impartiality and commitment to continuous improvement of the laboratory's operations.

On June 20, 2018, the Company entered into a joint venture agreement (the "**Kosha Joint Venture**") with Kosha Projects Inc. ("**Kosha**") for the construction of a purpose-built $75 million, 400,000 sq. ft commercial cannabis production facility. Pursuant to the Kosha Joint Venture, Kosha will contribute land and all facility development and construction costs and related expertise. The Company will provide design and outfitting inputs, budgetary guidance, consulting and advisory services. The Company will operate the facility to commercially provide premium cannabis. Upon initial construction and development cost recoupment by Kosha, the Company is entitled to a 51% interest in the assets and each of Kosha and the Company will earn 50% of revenues from operations.

On August 29, 2018, the Company announced that it has signed a letter of intent with Colombian-based licensed producer Eticann S.A.S. Zomac ("**Eticann**") for (i) the Company to purchase cannabis materials from Eticann; (ii) the exclusive right for the Company to provide extraction services for Eticann's premium cannabis oil product offerings; (iii) the provision by the Company of extraction service expertise to Eticann for toll processing services in Colombia and surrounding markets; and (iv) a option by the Company to purchase up to 50% of Eticann's issued and outstanding shares.

On September 7, 2018, the Company announced that it has signed a letter of intent with Medigrowth Australia Pty Ltd. ("**Medigrowth**") for the Company to (i) supply premium cannabis flower and oil product offerings to Medigrowth for sale and distribution in the Australian market; (ii) supply premium cannabis flower and oil product offerings to Medigrowth for research and development initiatives; and (iii) provide cultivation, extraction and lab service expertise to Medigrowth to support research and development partnerships and collaborations with Australian universities, governments and other institutions.

On September 21, 2018, the Company entered into a manufacturing and sales licence agreement (the "**Tarukino Manufacturing and Sales Licence Agreement**") with Tarukino Holdings, Inc. ("**Tarukino**"), a Delaware corporation operating in the state of Washington. During the term of the Tarukino Manufacturing and Sales Licence Agreement and subject to certain performance milestones, the Company is granted an exclusive limited licence to Tarukino-branded marijuana-derived cannabinoid and terpenes ("**CT**") in both liquid and powder form. The Tarukino Manufacturing and Sales Licence Agreement also allows the Company to produce, manufacture, market, sell and distribute CT-infused and hemp derived CBD-infused beverages, edibles and other consumer products within Canada under the Company's brand, or affiliate or partner brands and any such future brands as may be made by the Company. In connection with the Tarukino Manufacturing and Sales Licence Agreement, the Company (i) issued Tarukino 4,300,000 Common Shares valued at $9,288,000 and 1,000,000 Common Share purchase warrants valued at $1,958,226 that vest based on certain future milestones and are exercisable at prices ranging from $3.50 to $4.00 per Common Share for a five year term after the date of issue; and (ii) granted Tarukino a decreasing royalty on revenue related to the associated products and technologies over the term of the Tarukino Manufacturing and Sales Licence Agreement.

On October 10, 2018, the Company closed a bought-deal prospectus offering (the "**October 10, 2018 Financing**") underwritten by a syndicate of underwriters led by AltaCorp Capital Inc. as co-lead underwriter and sole bookrunner, along with Mackie Research Capital Corp. as co-lead underwriter, and including Beacon Securities Limited, pursuant to which the Company issued an aggregate of 12,820,513 units of the Company at a price of $1.95 per unit, each unit being comprised of one Common Share and one-half of one Common Share purchase warrant, with each full warrant exercisable at a price of $2.54 per Common Share until October 10, 2020, subject to acceleration conditions. In addition, as a partial exercise of the underwriters' over-allotment option granted to the underwriters in connection with the October 10, 2018 Financing, the Company issued 1,130,977 Common Shares and 961,538 Common Share purchase warrants, with each full warrant exercisable at a price of $2.54 per Common Share until October 10, 2020, subject to acceleration conditions, for aggregate gross proceeds to the Company from the October 10, 2018 Financing of $27,303,801.

On October 12, 2018, VAL was granted the VAL Producer Licence.

On October 29, 2018, the Company announced it has entered into a share purchase agreement (the "**RotoGro Agreement**") with Australian-based RotoGro International Limited ("**RotoGro**") to sell to RotoGro all of the Common Shares of Supra for an aggregate amount of $11,000,000 (the "**RotoGro Transaction**"). Concurrently with the closing of the RotoGro Transaction, the Company will transfer all of the existing assets of Supra, except the Supra Analytical Testing Licence, to Labs. The purchase price will be paid by RotoGro at four milestones and will be comprised of $2,000,000 in cash and 18,900,000 shares of RotoGro with a current estimated value of $9,000,000.

On October 29, 2018, the Company announced that, in connection with the RotoGro Transaction, it incorporated Labs as a wholly owned subsidiary which, upon the completion of the RotoGro Transaction, will hold all of the assets of Supra, other than the Supra Analytical Testing Licence, and will maintain Supra's ISO 17025 accreditation.

On November 5, 2018, the Company announced that it has entered into a multi-year cannabis extraction services agreement (the "**GTEC Agreement**") with GTEC Holdings ("**GTEC**"). Under the GTEC Agreement, GTEC will ship bulk quantities of dried cannabis to the Company for an initial four-year term. The Company will receive and process the cannabis on a fee for service basis into crude, distillate or other cannabis oil derivatives as required by GTEC before bulk shipping the desired product back to GTEC for final processing and sale.

On November 9, 2018, VAL was granted the VAL Standard Cultivation and Processing Licences.

On November 13, 2018, the Common Shares became quoted on the OTCQB Venture Market in the United States under the symbol "MYMSF". The symbol was subsequently changed to the current symbol, "VGWCF"

On November 14, 2018, the Company announced that it has entered into a multi-year cannabis extraction services agreement (the "**Harvest One Agreement**") with Harvest One ("**Harvest One**") for cannabis extraction and value-added services. Under the terms of the Harvest One Agreement, Harvest One's subsidiary, United Greeneries, will ship bulk quantities of dried cannabis to the Company over an initial three-year term. The Company will receive and process the cannabis on a fee for service basis into bulk resin or other cannabis oil derivative products. Under the Harvest One Agreement, the Company will also conduct R&D services for Harvest One to support their product line development including health and wellness products, beverages, vape pens, and nutraceuticals using cannabis oil derivative products.

On November 29, 2018, the Company announced that it has expanded the research collaboration agreement with Thermo Fisher to utilize Thermo Fisher's instruments and consumables to develop and validate analytical methods for the study of cannabis. The findings of this collaboration will be co-promoted through application notes, publication of peer-reviewed articles, conference presentations and webinars.

<u>After Fiscal Year Ending November 30, 2018</u>

On December 13, 2018, the Company announced that it has entered into a multi-year extraction services agreement (the "**Canopy Growth Agreement**") with Canopy Growth for cannabis extraction services. Under the terms of the Canopy Growth Agreement, the Company is partnering with Canopy Growth to provide extraction services, utilizing the Company's proprietary technology and methodologies to process Canopy Growth's whole flower and trim into high-grade cannabis resin. The Company previously joined Canopy Growth's CraftGrow program in October 2017.

On January 11, 2019, VAL was granted the VAL Analytical Testing Licence.

On January 21, 2019, the Company announced that it has entered into a multi-year extraction services agreement (the "**Sundial Agreement**") with privately-held Sundial Growers Inc. ("**Sundial**") for cannabis extraction services. Under the terms of the Sundial Agreement, Sundial will ship bulk quantities of dried cannabis to the Company over an initial three-year term. The Company will receive and process the cannabis on a fee for service basis into bulk resin or other cannabis oil derivative products desired by Sundial. Under the Sundial Agreement, the Company will also conduct R&D services for Sundial to support their product development initiatives using cannabis oil derivative products.

On January 29, 2019, the Company announced that it has entered into a multi-year extraction services agreement (the "**Organigram Agreement**") with Organigram Inc. ("**Organigram**") for cannabis and hemp extraction services. Under the terms of the Organigram Agreement, the Company will extract cannabis flowers and trim from Organigram's Moncton operation as well as hemp to produce extract concentrate. In turn, the concentrate will be used by Organigram to produce oils and, eventually, derivative edible and vaporizable cannabis products. In addition, under the terms of the Organigram Agreement, the Company will also provide lab services for Organigram as needed.

On February 13, 2019, the Company announced that it has expanded its annual extraction capacity from 72,000 kg to 240,000 kg of dried cannabis input.

On February 26, 2019, the Company announced that it has entered into a multi-year extraction services agreement (the "**Tilray Agreement**"), renewable annually after the initial two year term, to provide cannabis and hemp extraction services to Tilray Canada Ltd. ("**Tilray**"). Under the terms of the Tilray Agreement, the Company will extract a minimum annual quantity of 15,000 kg of dried cannabis and hemp. The Company will receive and process the cannabis and hemp on a fee for service basis into crude, distillate or other cannabis oil derivatives as required by Tilray before bulk shipping the desired product back to Tilray for final processing and sale.

On March 8, 2019, Supra was granted the Supra Analytical Testing Licence.

On March 11, 2019, the Company announced that it has entered into a multi-year extraction services agreement (the "**TGOD Agreement**") to provide cannabis and hemp extraction services to The Green Organic Dutchman Holdings Ltd. ("**TGOD**"). Under the terms of the initial tow-year TGOD Agreement, the Company will extract a minimum 30,000 kg of cannabis and hemp biomass in the first year and a minimum of 50,000 kg of cannabis and hemp biomass in the second year. The Company will receive and process the cannabis and hemp biomass into resins and distillates using certified organic extraction processing methods and ship back to TGOD for final processing.

On March 19, 2019, the Company announced that it has entered into an arms' length agreement to purchase a 18,000 square feet property located at 180 Carion Road in Kelowna, British Columbia, which is adjoining the Kelowna Facility (the "**180 Carion Road Acquisition**"). The new property is expected to be used for the purposes of increasing extraction production space, product development and to allow for additional white-labelling service capacity to the Company's current and future clients as well as additional office space for the Company's corporate team. The purchase price for the 180 Carion Road Acquisition is estimated to be $4,000,000 and the 180 Carion Road Acquisition is expected to be completed in April 2019.

On March 19, 2019, the Company announced that it is exercising its option to acquire the Kelowna Facility for the purchase price of $4,400,000 by exercising its option to purchase the Kelowna Facility under the Kelowna Lease Agreement. The Company completed the Kelowna Facility Acquisition on March 20, 2019.

On March 19, 2019, as amended on March 20, 2019, the Company announced a bought-deal prospectus offering underwritten by a syndicate of underwriters led by AltaCorp Capital Inc. as lead underwriter and sole bookrunner, and including GMP Securities L.P., Raymond James Ltd., Haywood Securities Inc. and Mackie Research Capital Corp., pursuant to which the Company agreed to issue an aggregate of 12,711,864 units of the Company at a price of $2.95 per unit, each unit being comprised of one Common Share and one-half of one Common Share purchase warrant, with each full warrant exercisable at a price of $4.00 per Common Share for a period of two years after the closing date of the offering, subject to acceleration conditions, for aggregate gross proceeds to the Company of $37,499,999. In addition, the underwriters have the option, exercisable in whole or in part, to acquire up to an additional 1,906,780 units at a price of $2.95 per unit at any time after the date of closing of the offering and ending 30 days after the date of closing of the offering for additional gross proceeds to the Company of up to $5,625,001. The underwriters can elect to exercise this option by acquiring units, Common Shares, warrants or any combination thereof.

DESCRIPTION OF THE BUSINESS

Summary

The Company is a research-driven, vertically integrated Canadian cannabis company focused on downstream secondary extraction methodology, distillation and cannabinoid isolation and purification, as well as associated quality testing through the VAL Standard Processing and Cultivation Licences, the VAL Analytical Testing Licence and the Supra Analytical Testing Licence.

The Company currently operates through its four wholly-owned subsidiaries, VAL, Supra, Farms and Labs, all of which are based in the Okanagan Valley of British Columbia.

VAL was incorporated under the *Canada Business Corporations Act* on April 14, 2014 and holds the VAL Standard Cultivation and Processing Licences and the VAL Analytical Testing Licence.

Supra was incorporated under the *Business Corporations Act* (British Columbia) on December 10, 2015 and holds the Supra Analytical Testing Licence. The Company is in the process of completing the RotoGro Transaction as described above, pursuant to which the Company will sell Supra together with the Supra Analytical Testing Licence to RotoGro. All of the other assets of Supra, including Supra's ISO 17025 accreditation, will be transferred to Labs, a wholly-owned subsidiary of the Company incorporated on October 18, 2018 under the *Business Corporations Act* (British Columbia) in connection with the RotoGro Transaction.

Farms was incorporated under the *Business Corporations Act* (British Columbia) on July 19, 2018 to hold the interest of the Kosha Joint Venture.

Production and Services

Medical marijuana can be ingested in a variety of ways, including smoking, vaporizing, consumption in the form of oil, or edibles. Unlike the pharmaceutical options, individual elements within medical marijuana have not been isolated, concentrated and synthetically manipulated to deliver a specific therapeutic effect. Instead medical marijuana addresses ailments holistically through the synergistic action of naturally occurring phytochemicals.

Sativa and Indica are the two main types of cannabis plants, and hybrids can be created when the genetics of each of the two plants are crossed. Within these different types of cannabis plants there are many different varieties. Within each variety of medical cannabis there are many different cannabinoids, with the most common being THC, the psychoactive ingredient, and CBD, which is responsible for many of the non-psychoactive effects from medical marijuana. The Company has access to many strain varieties and will continue to establish a variety of strains to best suit patient needs.

The Company is also authorized for wholesale shipping of medical marijuana plant cuttings and dried bud to other licensed producers. The Company has already completed several sales through its wholesale strategy and based on current costs, management expects the wholesale shipment strategy to continue. This sales channel requires minimal selling, general and administrative costs over and above the cost to produce plant cuttings and dried bud.

Storage and Security

Health Canada conducts *ad hoc*, unscheduled site inspections of licensed dealers. The Company has experienced these inspections numerous times, often on a monthly basis. The Company has responded to and complied with all requests from Health Canada within the time frames indicated in such requests. As of the date hereof, there are no outstanding inspection issues with Health Canada beyond day-to-day adjustments that may occur in order to ensure ongoing compliance. The Company is not currently in non-compliance with any material order or regulation of Health Canada.

Specialized Skill and Knowledge

Knowledge with respect to cultivating and growing medical marijuana is important to the medical marijuana industry. Variables such as temperature, humidity, lighting, air flow, watering and feeding cycles are meticulously defined and controlled to produce consistent product and to avoid contamination. The product is cut, sorted and dried under defined conditions that are established to protect the activity and purity of the product. Once processing is complete, every processing batch is subjected to full testing against stringent quality specifications set for activity and purity.

The Company has recruited grow team with specialized skill sets unique to indoor agricultural cultivation and growing marijuana.

The Company has assembled a capable management team with significant experience in the management and growth of successful enterprises. Coupled with operational experience, the Company expects to be a low-cost producer of medical marijuana, owing to various cost-saving attributes of its operations, such as: (i) among the lowest power costs among licensed producers in Canada; (ii) among the lowest labour costs among licensed producers; (iii) a growing operation which maximizes real property square footage; (iv) among the lowest real property costs among licensed producers; (v) the adoption of industry leading efficiencies; and (vi) access to various government assistance programs based on the geographical location of the facility.

Competitive Conditions

The legalization of recreational cannabis in Canada has served to expand strong demand for cannabis products in both the medical and recreational markets which continue to be in short supply at the time of this AIF. While Health Canada has issued a number of licences leading up to and subsequent to legalization on October 17, 2018, shortages of product continue. In December 2018, Health Canada proposed regulations permitting additional product types such as edibles (including beverages), concentrates, and topical creams. The Company believes its focus on extraction services and the production of cannabis derivatives will benefit greatly from the increased scope of available offerings.

Currently there are only a small number of licensed companies specializing in offering extraction services to the cannabis industry in Canada. These range from direct competition to others utilizing different technologies in their processing of material. To date, the Company has led against its competitors in securing long-term extraction service agreements with several of the larger cannabis companies. The Company expects these contracts to expand in scope to include the additional products proposed by Health Canada, expected to be permitted in October 2019.

Pricing and quality will be key to the Company's ability to not only outperform its direct competitors, but also to encourage the outsourcing of extraction services by larger licensed producers rather than insourcing these processes. Attractive pricing will be maintained through driving efficiencies as well as deploying technologies that enhance service offerings and/or the ability of the Company to execute existing services

Employees

Entity	November 30, 2018	Current
Company	0	12
VAL	21	22
Supra	4	0
Farms	0	0
Labs	0	5

Components

The Company requires the customers they have entered into extraction agreements with to provide input cannabis and hemp material for processing. Shortages in the supply of this material may have an impact on the Company's ability to generate revenue.

CANADIAN REGULATORY FRAMEWORK

The following summary addresses the primary Canadian federal and provincial laws and regulations associated with the production and distribution of legal cannabis and related products. It does not address the laws and regulations of any other jurisdiction.

Background

On October 17, 2018, the Cannabis Act and the Cannabis Regulations came into force, legalizing the sale of cannabis for adult recreational use. Prior to the Cannabis Act and the Cannabis Regulations coming into force, only the sale of medical cannabis was legal and was regulated by the ACMPR made under the CDSA. The Cannabis Act and the Cannabis Regulations replaced the CDSA and the ACMPR as the governing laws and regulations in respect of the production, sale and distribution of medical cannabis and related oil extract. Given that the Cannabis Act and the Cannabis Regulations are very new, the impact of such regulatory changes on the Company's business is unknown. See the section entitled *"Risk Factors – Changes in Laws, Regulations and Guidelines"* in this AIF.

The Cannabis Act provides a licensing and permitting scheme for the production, importation, exportation, testing, packaging, labelling, sending, delivery, transportation, sale, possession and disposal of cannabis for non-medicinal use (i.e. adult use), to be implemented by regulations made under the Cannabis Act. The Cannabis Act maintains separate access to cannabis for medical purposes, including providing that import and export licences and permits will only be issued in respect of cannabis for medical or scientific purposes or in respect of industrial hemp.

The Cannabis Regulations, among other things, set out regulations relating to the following matters: (i) licences, permits and authorizations; (ii) security clearances; (iii) cannabis tracking system; (iv) cannabis products; (v) packaging and labelling; (vi) cannabis for medical purposes; and (vii) drugs containing cannabis.

Licences, Permits and Authorizations

The Cannabis Regulations establish six classes of licences under the Cannabis Act: (i) cultivation licences; (ii) processing licences; (iii) analytical testing licences; (iv) sales for medical purposes licences; (v) research licences; and (vi) cannabis drug licences. The Cannabis Regulations also create subclasses for cultivation licences (standard cultivation, micro-cultivation and nursery) and processing licences (standard processing and micro-processing). Different licences and each subclass therein, carry differing rules and requirements that are intended to be proportional to the public health and safety risks posed by each licence category and each subclass. The Cannabis Regulations provide that all licences issued under the Cannabis Act will be valid for a period of no more than five years.

The Cannabis Regulations permit cultivation licence holders to conduct both outdoor and indoor cultivation of cannabis, however no licensed activities (except for destruction, antimicrobial treatment and distribution) can take place in a "dwelling-house". The implications of the proposal to allow outdoor cultivation are not yet known, but such a development could be significant as it may reduce start-up capital required for new entrants in the cannabis industry. It may also ultimately lower prices as capital expenditure requirements related to growing outside are typically much lower than those associated with indoor growing.

Security Clearances

Certain people associated with cannabis licensees, including individuals occupying a "key position" such as directors, officers, large shareholders and individuals identified by the Canadian Minister of Health (the "**Minister**"), must hold a valid security clearance issued by the Minister. Under the Cannabis Regulations, the Minister may refuse to grant security clearances to individuals with associations to organized crime or with past convictions for, or an association with, drug trafficking, corruption or violent offences. This was largely the approach in place under the ACMPR and other related regulations governing the licensed production of cannabis for medical purposes. Individuals who have histories of non-violent, lower-risk criminal activity (for example, simple possession of cannabis, or small-scale cultivation of cannabis plants) are not precluded from participating in the legal cannabis industry, and the grant of security clearance to such individuals is at the discretion of the Minister and such applications will be reviewed on a case-by-case basis.

Security clearances issued under the ACMPR are considered to be security clearances for the purposes of the Cannabis Act and the Cannabis Regulations. In addition, the Cannabis Regulations provide a three-month grace period for current licence holders to identify those individuals that require security clearances and to apply for such security clearances (i.e. until January 17, 2019).

Cannabis for Medical Purposes

With the Cannabis Act and the Cannabis Regulations coming into force on October 17, 2018, the medical cannabis regime migrated from the CDSA and the ACMPR to the Cannabis Act and the Cannabis Regulations. The medical cannabis regulatory framework under the Cannabis Act and the Cannabis Regulations remains substantively the same as existed under the CDSA and the ACMPR, with adjustments to create consistency with rules for non-medical use, improve patient access and reduce the risk of abuse within the medical access system.

Under Part 14 of the Cannabis Regulations, patients have three options for obtaining cannabis for medical purposes: (i) they can continue to access cannabis by registering with licensed producers; (ii) they can register with Health Canada to produce a limited amount of cannabis for their own medical purposes; or (iii) they can designate someone else to produce cannabis for them. With respect to (ii) and (iii), starting materials, such as marijuana plants or seeds, must be obtained from licensed producers. It is possible that (ii) and (iii) could significantly reduce the addressable market for the Company's products and could materially and adversely affect the business, financial condition and results of operations of the Company. However, management of the Company believes that many patients may be deterred from opting to proceed with options (ii) or (iii) since such steps require applying for and obtaining registration from Health Canada to grow cannabis, as well as the up-front costs of obtaining equipment and materials to produce such cannabis.

Cannabis Tracking System

Under the Cannabis Act, the Minister is authorized to establish and maintain a national cannabis tracking system. The purpose of this system will be to track cannabis throughout the supply chain to help prevent diversion of cannabis into, and out of, the legal market. The Cannabis Regulations provide the Minister with the authority to make a ministerial order that would require certain persons named in such order to report specific information about their authorized activities with cannabis, in the form and manner specified by the Minister. The Minister has introduced the Cannabis Tracking and Licensing System, and licence holders are required to use this system to, among other things, submit monthly reports to the Minister.

Health Products

Health Canada has taken a scientific, evidenced-based approach for the oversight of health products with cannabis that are approved with health claims, including prescription and non-prescription drugs, natural health products, veterinary drugs and veterinary health products, and medical devices.

U.S. MARIJUANA INDUSTRY INVOLVEMENT

Nature of U.S. Involvement

The Company does not directly engage in any U.S. cannabis-related activities as defined in Canadian Securities Administrators Staff Notice 51-352. The Company has an ancillary involvement in the U.S. marijuana industry. Such ancillary involvement is limited to the following arrangements:

MKHS LLC – On November 24, 2015, the Company entered into a the MKHS Commitment Letter under which, the Company undertook to fund MKHS' working capital needs and facilities expansion. All MKHS Funds Advances to MKHS by the Company were secured and collateralized pending the closing of the MKHS Transaction. MKHS supplies medical marijuana pursuant to the *Arizona Medical Marijuana Act*, operating a warehouse cultivation, commercial kitchen and extraction facility and two nearby automated greenhouses. MKHS also operates two state-licensed "healing center" dispensaries and distributes its own in-house prepared, branded line of edibles, concentrates and extracts. On January 16, 2017, the MKV1 PSA and the MKV1 Loan superseded and replaced all previous agreements and arrangements between the Company and MKHS and settled all outstanding issues between the parties. See the section entitled *"General Development of the Business – Three Year History – Fiscal Year Ending November 30, 2017"* in this AIF.

At November 30, 2018, the Company wrote off all remaining balances outstanding under the MKHS Agreement and has no further investment or association with MKHS.

Tarukino Holdings Inc. – On September 21, 2018, the Company entered into the Tarukino Manufacturing and Sales Licence Agreement with Tarukino, whereby the Company will receive exclusive and non-exclusive licences to sell Tarukino-branded products in Canada based on meeting certain milestones. Tarukino owns all rights, title and interest in and to certain proprietary oil emulsion technology that transforms cannabis oil into water-compatible forms. To the Company's knowledge, Tarukino operates in compliance with the applicable licensing requirements of the state of Washington.

Washington State Marijuana Laws

Washington State has both medical and adult-use marijuana programs. The original medical marijuana law, passed by voters in 1998, allows physicians to authorize cannabis for an inclusive set of qualifying conditions including chronic pain and created a patient/caregiver system without explicitly permitting businesses. When Initiative 502 legalized marijuana for adults 21 years of age and older in 2012, it regulated adult-use marijuana businesses and left the unregulated medical marijuana establishments in a precarious situation. In 2015, the Governor of Washington signed Senate Bill 5052, which forced the closure of existing unregulated medical dispensaries and allows existing adult-use retail marijuana stores to apply for a "medical marijuana endorsement" to sell medical marijuana tax free to registered qualifying patients and their designated caregivers.

The Washington State Liquor and Cannabis Board ("**WSLCB**") regulates adult-use marijuana businesses and those with a medical endorsement. The WSLCB licenses cultivation facilities, product manufacturing facilities, retail stores, transportation licensees, and testing facilities. All individuals and entities considered a "true party of interest" in a marijuana business license must have at least six months of Washington residency. Unlike many other states, Washington prohibits vertical integration between adult-use marijuana retailers and cultivators. Common ownership between cultivation and processors is permitted. A single entity, and/or principals within an entity, are limited to no more than three marijuana producer licenses, and/or three marijuana processor licenses, or five retail marijuana licenses.

The WSLCB re-opens its application process for growers, processors or retail stores at its discretion, taking into consideration factors such as patient consumption data and population dynamics. The state is currently not accepting new applications for growers, processors or retail stores.

Enforcement of U.S. Federal Laws

Unlike in Canada, which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the Cannabis Act, in the United States, cannabis is largely regulated at the state level. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the CSA and as such the state laws conflict with the federal laws. As a result, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored a memorandum (the "**Cole Memorandum**") addressed to all United States district attorneys, outlining certain priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority for prosecution at the federal level. However, in March 2017, the then newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit; however, he disagreed that it had been implemented effectively and, on January 4, 2018, former Attorney General Jeff Sessions issued a memorandum (the "**Sessions Memorandum**") that rescinded the guidance in the Cole Memorandum.

As a result of the Sessions Memorandum, federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute marijuana-related activities despite the fact that such activities may be legal at the state-level. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis-related activities, and it is uncertain how actively federal prosecutors will prosecute in relation to such activities. Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. Due to the ambiguity of the Sessions Memorandum in relation to medical cannabis, there can be no assurance that the U.S. federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded securities. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See the section entitled "*Risk Factors*" in this AIF.

RISK FACTORS

The risks presented in this AIF may not be all of the risks that the Company may face, although they are management's current assessment of the risk factors that may cause actual results to be different from expected and historical results. The risks and uncertainties described herein are not the only ones the Company faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect the Company's business. If any of the following risks actually occur, the Company's business may be harmed and its financial condition and results of operations may suffer significantly.

Regulatory Risks

The adult-use and medical cannabis industries and markets are subject to a variety of laws in Canada, the United States and elsewhere.

For instance, in Canada, the Cannabis Act came into force on October 17, 2018, legalizing the sale of cannabis for adult recreational use. Prior to the Cannabis Act coming into force, only the sale of medical cannabis was legal. The Cannabis Act provides a licensing and permitting scheme for the production, importation, exportation, testing, packaging, labelling, sending, delivery, transportation, sale, possession and disposal of cannabis for non-medicinal use (i.e., adult use), implemented by the Cannabis Regulations. The Cannabis Act also maintains separate access to cannabis for medical purposes.

The activities of the Company are subject to regulation by governmental authorities. The Company's business objectives are contingent upon, in part, compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products in each jurisdiction in which it operates. The Company cannot predict the time required to secure all appropriate regulatory approvals and licences for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company. New risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

Furthermore, although the operations of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to research, possess, produce, sell, transport and deliver products including, but not limited to, cannabis, cannabis resin, tetrahydrocannabinol and other cannabis-related products. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of cannabis and cannabis-related products, or more stringent implementation thereof could have a substantial adverse impact on the Company.

Involvement in the United States Cannabis Market

There is a significant risk that third party service providers could suspend or withdraw services and regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S. See the section entitled *"U.S. Marijuana Industry Involvement"* in this AIF.

The Company has an ancillary involvement in the medical and adult-use marijuana industry in the United States where local state law permits such activities. Outlined below is a summary of certain risks that the board of directors of the Company has identified as being appropriate to highlight to investors at this time. These risks will continue to be considered, evaluated, reassessed, monitored and analyzed on an on-going basis and will be supplemented, amended and communicated to investors as necessary or advisable in the Company's future public disclosure.

Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a controlled substance under the CSA and as such, cultivation, distribution, sale and possession of cannabis violates federal law in the United States. The inconsistency between federal and state laws and regulations is a major risk factor. As a result of the Sessions Memorandum, federal prosecutors are free to utilize their prosecutorial discretion to decide whether to prosecute cannabis-related activities despite the legality of these activities at the state-level. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities. Due to the ambiguity of the Sessions Memorandum, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis-related businesses that are otherwise compliant with state law.

U.S. federal law pre-empts state law in these circumstances, so that the federal government can assert criminal violations of federal law despite state law. The level of prosecutions of state-legal cannabis operations is entirely unknown, nonetheless the stated position of the current administration is hostile to legal cannabis, and furthermore may be changed at any time by the Department of Justice, to become even more aggressive. Now that the Cole Memorandum has been rescinded, the Department of Justice under the current administration or an aggressive federal prosecutor could allege that the Company and its board of directors and its shareholders "aided and abetted" violations of federal law by providing finances and services to MKHS and Tarukino.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, the listing of its securities on the CSE or other applicable exchanges, its financial position, operating results, profitability or liquidity or the market price of the Common Shares.

United States Border Crossing and Travel Ban

Investors in the Company and the Company's directors and officers may be subject to travel and entry bans into the United States. Recent media articles have reported that certain Canadian citizens have been rejected for entry into the United States, due to their involvement in the marijuana sector. In at least one widely reported incident, an investor in companies operating in the marijuana sector in states where it is legal to do so, received a lifetime ban.

The majority of persons travelling across the Canadian and U.S. border do so without incident, whereas some persons are simply barred entry one time. The U. S. Department of State and the Department of Homeland Security has indicated that the United States has not changed its admission requirements in response to the pending legalization in Canada of recreational cannabis, but anecdotal evidence indicates that the United States may be increasing its scrutiny of travelers and their cannabis related involvement.

Admissibility to the United States may be denied to any person working or 'having involvement in' the marijuana industry, including in U.S. states where it is deemed legal, according to United States Customs and Border Protection. Additionally, legal experts have indicated that the criteria are applied broadly such that a determination that the act of investing, working or collaborating with a U.S. cannabis company may be considered trafficking illegal drugs or aiding, abetting, assisting, conspiring or colluding in its trafficking. Inadmissibility in the United States implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver.

Reliance on Licences

The Company's ability to grow, store and sell medical marijuana in Canada is dependent on the VAL Standard Cultivation and Processing Licences, the VAL Analytical Testing Licence and the Supra Analytical Testing Licence (collectively the "**Valens Licences**"). The Valens Licences are subject to ongoing compliance and reporting requirements. Failure to comply with the requirements of the Valens Licences or any failure to maintain the Valens Licences would have a material adverse impact on the business, financial condition and operating results of the Company.

Although the Company and its subsidiaries believe they will meet the requirements of the Cannabis Act for future extensions or renewals of the Valens Licences, there can be no guarantee that Health Canada will extend or renew these Valens Licences or, if extended or renewed, that they will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the Valens Licences or should they renew the Valens Licences on different terms, the business, financial condition and results of the operation of the Company would be materially adversely affected.

Expansion of Facilities

There is no guarantee that Health Canada will approve the contemplated expansions in a timely fashion, nor is there any guarantee that the expansion will be completed in its currently proposed form, if at all. The failure of the Company to successfully execute its expansion strategy (including receiving the expected Health Canada approvals in a timely fashion) could adversely affect the business, financial condition and results of operations of the Company and may result in the Company not meeting anticipated or future demand when it arises.

Competition

On October 17, 2018, the Canadian Government enacted the Cannabis Act, which outlines the regulatory framework for the legalization of adult-use cannabis, providing laws to address impaired driving, protect public health and safety and prevent youth access to cannabis. The Cannabis Act provides for the ability of individuals over the age of 18 to be able to purchase fresh or dried cannabis, cannabis oil, cannabis plants or seeds and the ability to possess up to 30 grams of dried cannabis, or the equivalent amount in fresh cannabis or cannabis oil. The Cannabis Act also allows for households to grow a maximum of four marijuana plants. The four-plant limit applies, regardless of the number of adults that reside in the household.

The Canadian Government has also introduced new penalties under the *Criminal Code* (Canada), including penalties for the illegal sale of cannabis, possession of cannabis over the prescribed limit, production of cannabis beyond personal cultivation limits, taking cannabis across the borders, selling cannabis to youth and involving youth to commit cannabis-related offences.

The impact of these new regulations on the business of the Company is unknown at this time.

While it is understood that licensed producers will continue to operate under the medical and recreational regimes until the provinces release their regulations regarding retail and distribution, it is still unclear what the landscape of the legalization regime will look like. It is expected that this will have an impact on the operations of the Company. The number of licensed producers is set to increase to meet the demand of the recreational market, which could negatively impact the Company's market share and demand for products.

The introduction of a recreational model for cannabis production and distribution may impact the medical marijuana market. The impact of this potential development may be negative for the Company and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

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. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

If the number of users of medical marijuana in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

In addition, the legal landscape for medical and recreational marijuana is changing internationally. More countries have passed laws that allow for the production and distribution of medical and recreational marijuana in some form or another. Increased international competition might lower the demand for the Company's products on a global scale.

Reliance on Key Inputs

The Company's business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the financial condition and operating results of the Company. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

Financial Risk Factors

It is possible that the Company may not be able to foresee all of the risks that it may have to face. The market in which the Company currently competes is complex, competitive and changes rapidly. Sometimes new risks emerge and management may not be able to predict all of them or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. Readers of this AIF should not rely upon forward-looking statements as a prediction of future results.

Liquidity Risk

The Company's liquidity risk is the risk the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: currency rate risk and interest rate risk.

Dependence on Senior Management

The success of the Company and its strategic focus is dependent to a significant degree upon the contributions of senior management. The loss of any of these individuals, or an inability to attract, retain and motivate sufficient numbers of qualified senior management personnel could adversely affect its business. This risk is partially mitigated by the fact that the senior management team are significant shareholders in the Company. As well, the implementation of employee compensation packages, composed of monetary short-term compensation and long-term stock-based compensation, has been designed for the retention of key employees.

Sufficiency of Insurance

The Company maintains various types of insurance which may include financial institution bonds; errors and omissions insurance; directors', trustees' and officers' insurance; property coverage; and, general commercial insurance. There is no assurance that claims will not exceed the limits of available coverage; that any insurer will remain solvent or willing to continue providing insurance coverage with sufficient limits or at a reasonable cost; or, that any insurer will not dispute coverage of certain claims due to ambiguities in the policies. A judgment against any member of the Company in excess of available coverage could have a material adverse effect on the Company in terms of damages awarded and the impact on the reputation of the Company.

General Business Risk and Liability

Given the nature of the Company's business, it may from time to time be subject to claims or complaints from investors or others in the normal course of business. The legal risks facing the Company, its directors, officers, employees or agents in this respect include potential liability for violations of securities laws, breach of fiduciary duty and misuse of investors' funds. Some violations of securities laws and breach of fiduciary duty could result in civil liability, fines, sanctions, or the suspension or revocation of the Company's right to carry on its existing business. The Company may incur significant costs in connection with such potential liabilities.

Regulation of the Marijuana Industry

The Company is heavily regulated in all jurisdictions where it carries on business. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over the activities of the Company, including the power to limit or restrict business activities as well as impose additional disclosure requirements on the Company's products and services.

Possible sanctions include the revocation or imposition of conditions on licences to operate the Company's business; the suspension or expulsion from a particular market or jurisdiction or of its key personnel; and, the imposition of fines and censures. To the extent that existing or future regulations affect the sale or offering of the Company's product or services in any way, the Company's revenues may be adversely affected.

Change in Laws, Regulations and Guidelines

The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. While to the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws.

Health Canada inspectors routinely assess the Company's facilities against and provides the Company with follow up reports noting observed deficiencies. The Company is continuously reviewing and enhancing its operational procedures and facilities both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner.

The Company endeavours to comply with all relevant laws, regulations and guidelines. To the best of the Company's knowledge, the Company is in compliance or in the process of being assessed for compliance with all such laws, regulations and guidelines as described elsewhere in this AIF.

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage, sale, health and safety and disposal of medical marijuana, including the Cannabis Act. Any amendment to or replacement of the Cannabis Act may cause adverse effects to the Company's operations. The risks to the business of the Company represented by this decision and subsequent regulatory changes could reduce the addressable market for the Company's products and could materially and adversely affect the business, financial condition and results of operations of the Company.

While the impact of such changes is uncertain and are highly dependent on which specific laws or regulations are changed, the impact on the Company and its subsidiaries should be comparable to companies in the same business as the Company.

Reliance on a Single Facility

To date, the Company's activities and resources have been primarily focused on its Kelowna Facility and the Company will continue to rely on the Kelowna Facility for the foreseeable future. Adverse changes or developments affecting the Kelowna Facility could have a material and adverse effect on the Company's business, financial condition and prospects.

Limited Operating History

The Company is subject to many of the risks common to early-stage enterprises, including limitations with respect to personnel and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investments and the likelihood of success must be considered in light of the early stage of operations.

Factors Which May Prevent Realization of Growth Targets

The Company's growth strategy contemplates outfitting the Kelowna Facility with additional production resources. There is a risk that these additional resources will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- failure to obtain anticipated licence capacity increases;
- plant design errors, non-performance by third party contractors, increases in materials or labour costs; or, construction performance falling below expected levels of output or efficiency;
- environmental pollution;
- contractor or operator errors; or, breakdowns, aging or failure of equipment or processes;
- labour disputes, disruptions or declines in productivity; or, inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

As a result, there is a risk that the Company may not have product, or sufficient product, available for shipment, to meet the expectations of its potential customers or in its business plan.

Vulnerability to Rising Energy Costs

The Company's medical marijuana growing operations consume considerable energy, making the Company vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Conflicts of Interest

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and officers who may from time to time deal with persons, firms, institutions or corporations with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

Unfavourable Publicity or Consumer Perception

The Company believes the medical marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marijuana 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 medical marijuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and the Company's cash flows. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical marijuana in general, or the Company's products specifically, or associating the consumption of medical marijuana with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Product Liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of the Company's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Company.

There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products. The Company holds directors' & officers' insurance and general liability insurance.

<u>Product Recalls</u>

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

<u>Client Acquisitions</u>

The Company's success depends on its ability to attract and retain clients. There are many factors which could impact the Company's ability to attract and retain clients, including but not limited to the Company's ability to continually produce desirable and effective product, the successful implementation of the Company's client-acquisition plan and the continued growth in the aggregate number of patients selecting medical marijuana as a treatment option. The Company's failure to acquire and retain patients as clients would have a material adverse effect on the Company's business, operating results and financial condition.

<u>Difficulties with Forecasts</u>

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical marijuana 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.

<u>Management of Growth</u>

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. If the Company is unable to deal with this growth; that may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

<u>Litigation</u>

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for the Company's common shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

<u>Dividends</u>

The Company has no earnings or dividend record and may not pay any dividends on the Common Shares in the foreseeable future. Dividends paid by the Company could be subject to tax and, potentially, tax withholdings.

<u>Limited Market for Securities</u>

The Common Shares are listed on the CSE and quoted on the OTCQB Venture Market, however, 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.

<u>Currency Risk</u>

Fluctuations in exchange rates could affect the Company's expenses or result in losses. Royalty payments under the Tarukino Manufacturing and Sales Licence Agreement are set in U.S. dollars; however, the Company's revenues and expenses will be denominated in Canadian dollars. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar could impact the Company's expenses and have an adverse effect on the financial performance and condition of the Company.

<u>Sales of the Common Shares May Have an Adverse Effect on the Market Price of the Common Shares</u>

Sales of a substantial number of Common Shares, or the availability of such securities for sale, could adversely affect the prevailing market prices for the Common Shares. A decline in the market prices of the Common Shares could impair the Company's ability to raise additional capital through the sale of securities should it desire to do so.

DIVIDENDS AND DISTRIBUTIONS

The Company has never paid any dividends or distributions on any of its securities and presently has no intention of paying dividends. The future dividend policy will be determined by the directors of the Company on the basis of earnings, financial requirements and other relevant factors.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of Common Shares without par value. As at November 30, 2018 there were 93,213,657 Common Shares issued and outstanding, and as of the date hereof there are 94,046,242 Common Shares issued and outstanding.

All of the Common Shares are of the same class and, once issued, rank equally as to entitlement to dividends, voting powers (one vote per share) and participation in assets of the Company upon dissolution or winding up. No Common Shares have been issued subject to call or assessment.

The Common Shares contain no pre-emptive rights, no conversion or exchange rights, no redemption, retraction, purchase for cancellation or surrender provisions. There are no sinking or purchase fund provisions, no provisions permitting or restricting the issue of additional securities or any other material restrictions, and there are no provisions which are capable of requiring a securityholder to contribute additional capital.

Warrants

The Company currently has the following warrants outstanding, each such warrant exercisable for one Common Share, on the terms set out below:

Number of Warrants	Exercise Price	Expiry Date
7,414,837	$2.54	October 10, 2020[(1)]
774,767	$1.95	October 10, 2020[(1)]
400,000	$3.50	October 26, 2023
300,000	$3.75	October 26, 2023
300,000	$4.00	October 26, 2023

Notes:

(1) The Company is entitled to accelerate the expiry of these outstanding warrants to the date that is 15 days following the date the Company issues a news release announcing that the published closing price of the common shares has been equal to or greater than $3.81 for any 10 consecutive trading days.

Stock Options

The Company currently has the following stock options outstanding, each such stock option exercisable for one Common Share, on the terms set out below:

Number of Options	Exercise Price	Expiry Date
141,667	$0.30	August 31, 2020
50,000	$0.30	September 22, 2020
1,938,462	$0.65	November 30, 2021
50,000	$1.00	November 7, 2020
100,000	$1.95	October 31, 2019
1,000,000	$2.50	February 23, 2023
600,000	$1.07	July 9, 2023
2,552,000	$1.95	October 13, 2023
50,000	$1.25	November 27, 2020

Stock Option Plan

The outstanding stock options of the Company were issued pursuant to the Company's stock option plan (the "**Stock Option Plan**"). The Stock Option Plan permits the reservation of a maximum of 10% of the issued and outstanding Common Shares at any given time. The number of Common Shares reserved for issue shall not exceed (i) 5% of the issued and outstanding Common Shares to any one individual in any 12 month period; (ii) 2% of the issued and outstanding Common Shares to any one consultant retained by the Company in any 12 month period; or (iii) 2% of the issued and outstanding Common Shares to any one employee of the Company conducting "Investor Relations Activities" in any 12 month period. The board of directors of the Company determines the price per Common Share and the number of Common Shares which may be allotted to each director, officer, employee and consultant and all of other terms and conditions of the stock option. The exercise price per Common Share set by the board of directors of the Company shall not be less than the discounted market price of the Common Shares trading on the CSE or such other principal market on which the Common Shares are traded at the applicable time. Stock options issued under the Stock Option Plan are non-assignable. Stock options granted to any service provider must be exercised within 90 days of cessation of position with the Company, provided that if the cessation of office, directorship, consulting arrangement or employment was by reason of death, the stock option must be exercised within 12 months after such death, subject to the expiry of such stock option.

MARKET FOR SECURITIES

Common Shares

The following table sets out the high and low closing market prices and the volume traded of the Common Shares on the CSE for each month of the financial year ended November 30, 2018:

Month	HIGH	LOW	VOLUME
December 2017	$3.20	$0.98	5,068,674
January 2018	$2.92	$1.94	2,727,653
February 2018	$2.79	$2.00	1,478,975
March 2018	$2.26	$1.78	982,252
April 2018	$2.10	$1.33	827,566
May 2018	$1.47	$1.23	1,082,965
June 2018	$1.33	$1.15	2,504,641
July 2018	$1.20	$1.01	1,385,792
August 2018	$1.40	$1.04	4,186,009
September 2018	$3.05	$1.45	23,681,538
October 2018	$2.04	$1.40	8,791,889
November 2018	$1.75	$1.17	4,231,767

Warrants

The following table sets out the high and low closing market prices and the volume traded of the Common Share purchase warrants of the Company issued pursuant to the October 10, 2018 Financing and listed on the CSE on October 16, 2018 for each month of the financial year ended November 30, 2018:

Month	HIGH	LOW	VOLUME
October 16, 2018 to October 31, 2018	$0.40	$0.22	904,450
November 2018	$0.39	$0.17	194,805

PRIOR SALES

The following table summarizes details of the following securities that are not listed or quoted on a marketplace issued by the Company during the year ended November 30, 2018:

Security	Number of Securities	Issue/Exercise Price per Security	Date of Issue
Warrants(1)	643,650	$1.50	January 9, 2018
Warrants(2)	1,000,000	$3.50 to $4.00	September 21, 2018
Broker Warrants(3)	860,852	$1.95	October 20, 2018
Stock options(4)	1,000,000	$2.50	February 27, 2018
Stock options(5)	625,000	$1.07	July 9, 2018
Stock options(6)	2,652,000	$1.95	October 14, 2018
Stock options(7)	50,000	$1.25	November 27, 2018

Notes:

(1) *The warrants were issued pursuant to the January 9, 2018 Financing.*

(2) *The warrants were issued in connection with to the Tarukino Manufacturing and Sales Licence Agreement.*

(3) *The broker warrants were issued pursuant to the October 10, 2018 Financing. The broker warrants entitle the holder to purchase one unit at a price of $1.95 per unit, each unit being comprised of one Common Share and one half one Common Share purchase warrant. Each full warrant has an exercise price of $2.54 per Common Share, subject to acceleration conditions.*

(4) *The stock options are exercisable at a price of $2.50 per Common Share for a period of five years pursuant to the Stock Option Plan.*

(5) *The stock options are exercisable at a price of $1.07 per Common Share for a period of five years pursuant to the Stock Option Plan.*

(6) *2,552,000 of these stock options are exercisable at a price of $1.95 per Common Share for a period of five years pursuant to the Stock Option Plan. The remaining 100,000 of these stock options are exercisable at a price of $1.95 per Common Share until October 31, 2019.*

(7) *The stock options are exercisable at a price of $1.25 per Common Share for a period of two years pursuant to the Stock Option Plan.*

ESCROWED SECURITIES

The following table summarizes details of the Company's securities of each class held, to the Company's knowledge, in escrow or that are subject to a contractual restriction on transfer as of the Company's fiscal year end, November 30, 2018:

Designation of class	Number of securities held in escrow or that are subject to a contractual restriction on transfer (as at November 30, 2018)(1)	Percentage of class (as at November 30, 2018)
Common Shares	11,902,500	12.8%

Notes:

(1) Currently held by Computershare Trust Company of Canada, 1040 West Georgia Street, 14th Floor, Vancouver, British Columbia V6E 4H1. The Common Shares currently held in escrow or that are subject to a contractual restriction on transfer will be released as per the terms and conditions of escrow agreements dated October 20, 2016 and March 31, 2017.

DIRECTORS AND OFFICERS

Name, Occupation and Security Holdings

The following table sets forth all current directors and executive officers of the Company as at the date hereof, their principal occupations or employment, the period or periods of service, and the approximate number of voting securities of the Company beneficially owned, directly or indirectly, or over which control or direction is exercised as of the date hereof. The Board currently consists of five directors, to be elected annually. The term of office of each director will be from the date of the meeting at which he or she is elected until the next annual meeting, or until his or her successor is elected or appointed.

Name, Province and Country of Residence, Position	Position Since	Number and Percent of Common Shares Beneficially Owned(1)(9)	Principal Occupation During Past Five Years
A. Tyler Robson British Columbia, Canada Chief Executive Officer and Director	May 4, 2017	5,005,028 5.32%(2)	Chief Executive Officer of the Company, director of the company since April 2016 and previously Chief Grower of Valens Agritech Ltd. since May 2013.
Christopher Buysen British Columbia, Canada Chief Financial Officer and Director	June 7, 2018	52,300 0.06%(2)	Chief Financial Officer since July 2018, director of the Company since September 2018 and high net worth family office advisor since 2014.
Chris Irwin(3) Ontario, Canada Director	September 4, 2018	30,000 0.03%(2)	Partner at Irwin Lowy LLP, a law firm.
Nitin Kaushal(3) Ontario, Canada Director	September 4, 2018	30,000 0.03%(2)	Managing Director, Corporate Finance, PricewaterhouseCoopers Canada, an accounting firm, since April 2012.

Name, Province and Country of Residence, Position	Position Since	Number and Percent of Common Shares Beneficially Owned(1)(9)	Principal Occupation During Past Five Years
Ashley McGrath(3) British Columbia, Canada Director	September 4, 2018	230,000 0.24%(2)	President and Owner of Glencoe Developments Inc., a real estate development company, for the past 15 years.
Everett Knight British Columbia, Canada Executive Vice-President, Strategy and Investments	January 3, 2019	62,320 0.07%(2)	Portfolio Manager at Matco Financial Inc., managing the Matco Cannabis Mandates and the Matco Small Cap Fund, since January 2013.

Notes:

(1) *The information as to voting securities beneficially owned, controlled or directed, not being within the knowledge of the Company, has been furnished by the respective director and/or executive officer individually.*
(2) *Based on 94,046,242 Common Shares issued and outstanding as of the date hereof.*
(3) *Member of the Audit Committee.*
(4) *The directors and executive officers of the Company, as a group, collectively beneficially own, or control or direct, directly or indirectly, 5,409,648 Common Shares representing 5.72% of the number of Common Shares outstanding as of the date hereof.*

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

For the purposes of this section "Order" means:

(a) a cease trade order;
(b) an order similar to a cease trade order; or
(c) an order that denied the relevant company access to any exemption under securities legislation;

that was in effect for more than 30 days.

Other than as set out below, none of the directors or executive officers of the Company or any shareholder holding a sufficient number of securities of the Company to materially affect control of the Company:

(a) is, as of the date of this AIF, or has been, within 10 years before the date of this AIF, a director or executive officer of any company that:

   (i) was the subject of an Order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer;
   (ii) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer; or
   (iii) while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceeding, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

Mr. Irwin was a director, President and Secretary of Brighter Minds Media Inc. ("**Brighter Minds**") from March 2009 to July 2014. Brighter Minds is subject to cease trade orders resulting from a failure to file financial statements as issued on May 11, 2009 by the British Columbia Securities Commission ("**BCSC**"), May 13, 2009 by the Manitoba Securities Commission, May 8, 2009 and May 20, 2009 by the OSC and August 19, 2009 by the Alberta Securities Commission. As of the date of this AIF, the cease trade orders have not been revoked or rescinded.

Mr. Irwin was a director from June 2015 to December 2017 and an officer from September 2015 to April 2016 of Blocplay Entertainment Inc. (formerly Stompy Bot Corporation) ("**Blocplay**"), which was subject to a management cease trade order resulting from a failure to file financial statements as issued on May 2, 2016 by the BCSC and May 4, 2016 and May 16, 2016 by the OSC. These cease trade orders were revoked on July 5, 2016 by the BCSC and July 6, 2016 by the OSC. Blocplay was subject to a management cease trade order resulting from a failure to file financial statements as issued on May 2, 2017 by the BCSC and May 4, 2017 by the OSC. These cease trade orders were revoked on July 5, 2017 by the BCSC and July 6, 2017 by the OSC.

Mr. Irwin was appointed as the President, Chief Executive President, Secretary and a director of Blocplay on September 28, 2018. Blocplay was subject to a management cease trade order resulting from a failure to file financial statements as issued on December 3, 2018 and amended on December 4, 2018 by the BCSC and December 4, 2018 by the OSC. These cease trade orders were revoked on February 6, 2019.

Mr. Irwin is a director and an officer of Intercontinental Gold and Metals Ltd. ("**Intercontinental**") which was subject to a management cease trade order resulting from a failure to file financial statements as issued by the BCSC on July 30, 2015. The cease trade order was revoked on September 22, 2015.

Mr. Irwin is a director and an officer of Intercontinental which was subject to a management cease trade order resulting from a failure to file financial statements as issued on August 2, 2018 by the BCSC. Intercontinental was subject to a cease trade order from a failure to file financial statements as issued on October 5, 2018 by the BCSC. These cease trade orders were revoked on October 9, 2018.

None of the directors or executive officers of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company has, within the last 10 years, been subject to: (i) any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered a settlement agreement with a Canadian securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

<u>Conflicts of Interest</u>

There are no known existing or potential conflicts of interest among the Company and the directors and officers of the Company as a result of their outside business interests except that certain of the directors and officers may serve as directors, officers, promoters and members of management of other companies and therefore it is possible that a conflict may arise between their duties as a director and officer of the Company and their duties as a director, officer, promoter or member of management of such other companies.

The directors and officers of the Company have been advised of the existence of laws governing accountability of directors and officers regarding corporate opportunity and requiring disclosures by directors of conflicts of interest, and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of the directors or officers. All such conflicts shall be disclosed by such directors or officers and treated in accordance with the applicable laws of British Columbia and the Company's constating documents.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company was not subject to any material legal proceedings during its most recently completed financial year, nor is the Company or any of its properties a party to or the subject of any such proceedings, and no such proceedings are known to be contemplated. The Company may be involved in routine, non-material litigation arising in the ordinary course of business, from time to time.

There were no penalties or sanctions imposed against the Company by a court relating to provincial and territorial securities legislation or by a securities regulatory authority during its most recently completed financial year, nor have there been any other penalties or sanctions imposed by a court or regulatory body against the Company, and the Company has not entered into any settlement agreements before a court relating to provincial and territorial securities legislation or with a securities regulatory authority.

INTERESTS OF MANAGEMENT IN MATERIAL TRANSACTIONS

To the knowledge of management of the Company, no director or executive officer of the Company, person or company that beneficially owns, controls or directs, directly or indirectly, more than 10% of the Common Shares, or any associate or affiliate of any such persons, has or had any material interest, direct or indirect, in any transaction within the Company's three most recently completed financial years which has materially affected or will materially affect the Company or any of its subsidiaries other than as set out herein.

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent of the Company is Computershare Trust Company of Canada, having an address of 8th Floor, 100 University Avenue, Toronto, Ontario, Canada M5J 2Y1.

MATERIAL CONTRACTS

The Company did not enter into any material contracts during the year ended November 30, 2018 that are still in effect as at the date of this AIF.

EXPERTS AND INTERESTS OF EXPERTS

Davidson & Company LLP is the external auditor of the Company. Davidson & Company LLP has audited the consolidated financial statements of the Company as at and for the financial year ended November 30, 2018, which were filed with the Canadian securities regulators on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com. Davidson & Company LLP has informed the Company that it is independent with respect to the Company within the meaning of the Code of Professional Conduct of Chartered Professional Accountants of British Columbia.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found through a database search at SEDAR. Additional information on the Company, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, securities authorized for issuance under equity compensation plans and audit committee disclosure, is contained in the Company's management information circular dated August 31, 2018, which may be found on SEDAR.

Additional financial information regarding the Company is provided in the Company's audited annual consolidated financial statements and management's discussion and analysis for the year ended November 30, 2018, which may be found on SEDAR.