



(FORMERLY GENOVATION CAPITAL CORP.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED - PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

THREE MONTH PERIOD ENDED FEBRUARY 28, 2017

VALENS GROWORKS CORP.
(formerly Genovation Capital Corp.)

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

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

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

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

VALENS GROWWORKS CORP.
(Formerly Genovation Capital Corp.)
Condensed Consolidated Interim Statements of Financial Position
(Unaudited-Expressed in Canadian Dollars)

	Notes	February 28, 2017 \$	November 30, 2016 \$
ASSETS			
Current			
Cash and cash equivalents		493,091	14,843
Receivables		97,371	68,583
Prepaid expenses		30,443	886
		620,905	84,312
Equipment	6	443,659	44,789
Leasehold construction in progress	7	1,502,102	1,497,898
Promissory note receivable MKHS, LLC	5	1,196,152	1,120,235
		3,762,818	2,747,234
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current			
Accounts payable and accrued liabilities		3,343,803	3,887,158
Convertible debentures	10	457,148	-
		3,800,951	3,887,158
Shareholders' deficiency			
Share capital	9	8,911,180	7,511,605
Convertible debentures – equity component	10	45,455	-
Contributed surplus	9	1,108,649	573,879
Deficit		(10,103,417)	(9,225,408)
		(38,133)	(1,139,924)
		3,762,818	2,747,234

Nature and Continuance of operations (Note 1)
Contingent liability (Note 13)
Subsequent events (Note 14)

Approved on behalf of the Board on April 28, 2017:

Signed

"Robert van Santen"
Director

Signed

"John Binder"
Director

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

VALENS GROWORKS CORP.**(Formerly Genovation Capital Corp.)**

Condensed Consolidated Interim Statements of Comprehensive Loss

(Unaudited-Expressed in Canadian Dollars)

		Three Months Ended February 28, 2017	Three Months Ended February 29, 2016
	Notes	\$	\$
Revenue			
Consulting		-	59,121
Operating expenses			
Advertising and promotion		8,039	-
Administration fees		7,000	-
Consulting fees		38,785	11,050
Depreciation	6	21,021	3,095
Interest and bank charges	8	3,646	561
Management fees	8	65,750	39,750
Office, rent and miscellaneous	8	14,417	2,302
Professional fees		24,360	21,801
Rent		69,305	59,651
Repair and maintenance		20,956	-
Share- based payments	10, 8	534,770	-
Telephone and utilities		29,434	15,009
Travel and business development		13,559	934
Transfer agent and filing fees		2,950	-
Wages and salaries		100,421	39,200
		954,413	193,353
Interest income		96,278	-
Foreign exchange loss	12	(19,874)	-
		76,404	-
Loss and comprehensive loss for the period		(878,009)	(134,232)
Basic and diluted loss per share		(0.02)	(0.02)
Weighted average number of shares outstanding-basic & diluted		52,438,078	7,000,000

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

VALENS GROWWORKS CORP.**(Formerly Genovation Capital Corp.)**

Condensed Consolidated Interim Statements of Changes in Shareholders' deficiency

(Unaudited-Expressed in Canadian Dollars)

	<u>Share Capital</u>						
	Number	Number	Amount	Contributed	Convertible	Deficit	Total
	Class A	Class B	\$	surplus	debenture- equity component	\$	\$
Balance, November 30, 2015	200	6,999,800	270	-	-	(892,770)	(892,500)
Loss for the year						(134,232)	(134,232)
Balance, February 29, 2016	200	6,999,800	270	-	-	(1,027,002)	(1,026,732)
Reverse takeover RTO transaction (Note 4):							
Elimination of Valens Agritech shares	(200)	(6,999,800)	-	-	-	-	-
Common shares issued on RTO	36,000,000	-	7,173,835	174,584	-	-	7,348,419
Common shares of Valens GroWorks recognized	14,347,667	-	-	-	-	-	-
Finders' fees	675,000	-	337,500	-	-	-	337,500
Share-based payments	-	-	-	399,295	-	-	399,295
Loss for the year	-	-	-	-	-	(8,198,406)	(8,198,406)
Balance, November 30, 2016	51,022,667	-	7,511,605	573,879	-	(9,225,408)	(1,139,924)
Shares issued for cash	800,442	-	1,040,575	-	-	-	1,040,575
Shares issued to settle debt	552,307	-	359,000	-	-	-	359,000
Convertible debenture-equity component	-	-	-	-	45,455	-	45,455
Share-based payments	-	-	-	534,770	-	-	534,770
Loss for the period	-	-	-	-	-	(878,009)	(878,009)
Balance, February 28, 2017	52,375,416	-	8,911,180	1,108,649	45,455	(10,103,417)	(38,133)

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

VALENS GROWWORKS CORP.
(Formerly Genovation Capital Corp.)
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited-Expressed in Canadian Dollars)
For the three months ended February 28 & 29

	2017	2016
	<u>\$</u>	<u>\$</u>
OPERATING ACTIVITIES		
Loss for the period	(878,009)	(134,232)
Adjustment for non-cash items:		
Depreciation	21,021	3,095
Share-based payments	534,770	-
Interest on promissory note	(96,278)	-
Foreign exchange	20,361	-
	<u>(398,135)</u>	<u>(131,137)</u>
Working capital adjustments		
Receivables	(28,788)	27,361
Prepaid expenses	(29,557)	-
Accounts payable and accrued liabilities	(382,395)	165,085
	<u>(838,875)</u>	<u>61,309</u>
INVESTING ACTIVITIES		
Acquisition of equipment	(225,098)	(404)
Leasehold improvement expenditures	(957)	(68,826)
	<u>(226,055)</u>	<u>(69,231)</u>
FINANCING ACTIVITIES		
Proceeds from share issuance	1,040,575	-
Proceeds from issuance of convertible debt	502,603	-
	<u>1,543,178</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	478,248	(7,922)
Cash and cash equivalents, beginning of period	<u>14,843</u>	<u>9,515</u>
Cash and cash equivalents, end of period	<u>493,091</u>	<u>1,593</u>

Supplemental disclosure with respect to cash flows:

Accounts payable and accrued liabilities settled through the issuance of common shares	359,000	-
Leasehold improvement costs included in accounts payable	198,040	-

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

VALENS GROWORKS CORP.
(Formerly Genovation Capital Corp.)
Notes to the Condensed Consolidated Interim Statements
For the Three Months Ended February 28, 2017
(Unaudited-Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

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

The Company has incurred losses since its inception and for the three months ended February 28, 2017 the Company incurred a loss of \$878,009 (February 29, 2016-\$134,232). As of February 28, 2017 the Company has an accumulated deficit of \$10,103,417 (November 30, 2016-\$9,225,408). The Company’s ability to continue as a going concern is dependent upon the ability of the Company to obtain financing and generate positive cash flows from its operations. Management of the Company does not expect that cash flows from the Company’s operations will be sufficient to cover all of its operating requirements, financial commitments and business development priorities during the next twelve months. Accordingly, the Company expects that it will need to obtain further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern.

The interim consolidated financial statements of the Company for the period ended February 28, 2017 were authorized for issue by the Board of Directors on April 28, 2017.

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

These condensed consolidated interim financial statements have been prepared on the accrual basis of accounting except for cash flow information, and on a historical cost basis except for certain financial assets measured at fair value. The condensed consolidated interim financial statements are presented in Canadian Dollars, which is also the Company’s functional currency, unless otherwise indicated.

VALENS GROWWORKS CORP.
(Formerly Genovation Capital Corp.)
Notes to the Condensed Consolidated Interim Statements
For the Three Months Ended February 28, 2017
(Unaudited-Expressed in Canadian Dollars)

2. BASIS OF PREPARATION-continued

Critical accounting estimates

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

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

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

- i) The inputs used in calculating the fair value for share-based compensation expense included in profit or loss.
- ii) The valuation of shares issued in non-cash transactions, including the settlement of debt and RTO transaction. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.
- iii) Collectability of promissory note receivable from MKHS, LLC.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

Functional and presentation currency

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

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

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(Formerly Genovation Capital Corp.)
Notes to the Condensed Consolidated Interim Statements
For the Three Months Ended February 28, 2017
(Unaudited-Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES-continued

Financial instruments

i. Financial assets

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

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

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

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

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

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

ii. Financial liabilities

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

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

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

The Company has classified its cash and cash equivalents as fair value through profit and loss, its investment in MKHS, LLC as available-for-sale, its receivables and advance receivable as loans and receivables and its accounts payable and accrued liabilities, promissory note payable and convertible debentures as other financial liabilities.

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For the Three Months Ended February 28, 2017
(Unaudited-Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES-continued

Equipment

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

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

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

Computer equipment	55% declining balance
Office equipment	20% declining balance
Leasehold improvements	7 years straight-line

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

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

Leasehold construction in progress

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

Impairment of non-financial assets

At the end of each reporting period, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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

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3. SIGNIFICANT ACCOUNTING POLICIES-continued

Provisions

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

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

Revenue recognition

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

Share-based compensation

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

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

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

Income taxes

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES-continued

Income taxes-continued

expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

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

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

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

Loss per share

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

Related party transactions

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

Segmented Reporting

An operation segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the Company's other components. As at February 28, 2017 and November 30, 2016 the Company operated in one business segment being the scientific research of phytopharmaceutical material, specifically producing cannabis and cannabis related products.

Accounting standards not yet effective

IFRS 9, Financial Instruments – Classification and Measurement

IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

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Notes to the Condensed Consolidated Interim Statements
For the Three Months Ended February 28, 2017
(Unaudited-Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES-continued

Accounting standards not yet effective-continued

IFRS 15, Revenue from Contracts with Customers

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative and relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2018.

IFRS 11, Joint Arrangements

IFRS 11 is amended to provide specific guidance on accounting for acquisition of an interest in a joint operation that is a business. The amended standard is effective for annual periods beginning on or after January 1, 2016.

IAS 16, Property, plant and equipment and IAS 38 – Intangibles

IAS 16 and IAS 38 were issued in May 2014 and prohibit the use of revenue-based depreciation methods for property, plant and equipment and limit the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016 and are to be applied prospectively.

The Company has initially assessed that there will be no material reporting changes as a result of adopting the above new standards; however, enhanced disclosure requirements are expected.

4. REVERSE TAKEOVER

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

- The Company acquired all the issued and outstanding shares of VAL in exchange for 36,000,000 common shares of the Company.
- Outstanding stock options and warrants of the Company were re-issued at the date of the Acquisition under the same terms of the originally granted stock options and warrants.
- The Company entered into a referral agreement with Greg Patchell and Tyler Robson, whereby the Company paid total finders' fee of 675,000 common shares on closing of the Acquisition. The fair value of the 675,000 common shares was determined to be \$337,500 using the minimum share price of the required financing as described below.
- As part of the Acquisition the Company was required to complete one of more financings within three months after the Acquisition date to raise net proceeds of not less than \$1,200,000 (Note 14). The financing must be completed at a minimum price per share of \$0.50.

As a result of the Acquisition, VAL controlled the Company and is considered to have acquired the Company. The Company did not meet the definition of a business and the Acquisition was accounted for as the purchase of the Company's net assets by VAL. The net purchase price was determined as equity settled share-based payment, under IFRS 2, Share-based payment, at the fair value of the equity instruments of the Company retained by the shareholders of the Company, based on the market value of the Company's common shares.

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

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For the Three Months Ended February 28, 2017
(Unaudited-Expressed in Canadian Dollars)

4. REVERSE TAKEOVER-continued

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

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

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

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

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

5. PROMISSORY NOTE RECEIVABLE

As at February 28, 2017 the Company has a loan receivable secured by a promissory note outstanding to MKV Ventures 1, LLC (“MKV Ventures”) a 100% owned subsidiary of MKHS LLC (“MKHS”). MKHS, is a fully licensed, Arizona-based marijuana cultivation, extraction and medicinal dispensary business. MKHS supplies medical marijuana pursuant to the Arizona Medical Marijuana Act, operates two state-licensed “healing center” dispensaries and distributes its own in-house prepared, branded line of edibles, concentrates and extracts.

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

On January 16, 2017 the Company entered into a 5-year, renewable, Professional Services Agreement (the “PSA”) with MKHS Ventures, having jointly agreed not to complete the share exchange transaction. As a result, MKHS Ventures will complete the buildout of a 28,000-sf Farmtek greenhouse expansion as proposed and funded by the Company under the original agreements (the “Buildout”). In accordance with the PSA, payments of US\$60,000 per month for management services will commence 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 will provide consulting services to be performed and invoiced monthly, and will be reimbursed for approved out-of-pocket expenses and sub-contracted services. The Buildout is currently under construction and is expected to be completed within the next year.

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

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5. PROMISSORY NOTE RECEIVABLE-continued

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

As at February 28, 2017 the balance outstanding relates to principal on the loan of \$1,023,442 and accrued interest of \$172,710. The loan has been present valued using a market interest rate of 15%. The Company recognized accretion of \$37,037 and interest of \$38,880 for the year, which is included in interest income.

6. EQUIPMENT

	Computer equipment and software	Office furniture and equipment	Lab equipment	Total
	\$	\$	\$	\$
Balance, November 30, 2015, February 29, 2016	12,840	1,099	49,056	62,995
Additions	-	4,100	8,736	12,836
Balance, November 30, 2016	12,840	5,199	57,792	75,831
Additions	47,941	300,260	71,690	419,891
Balance, February 28, 2017	60,781	305,459	129,482	495,722
Accumulated depreciation:				
Balance, November 30, 2015	3,531	110	13,736	17,377
Additions	1,280	49	1,766	3,095
Balance, February 29, 2016	4,811	159	15,502	20,472
Additions	3,840	559	6,171	10,570
Balance, November 30, 2016	8,651	718	21,673	31,042
Additions	6,465	10,958	3,598	21,021
Balance, February 28, 2017	15,116	11,676	25,271	52,063
Net book value:				
November 30, 2016	4,189	4,481	36,119	44,789
February 28, 2017	45,665	293,783	104,211	443,659

7. LEASEHOLD CONSTRUCTION IN PROGRESS

As at February 28, 2017, the Company had incurred \$1,502,102 (November 30, 2016 - \$1,497,898) in leasehold construction in progress costs which include all amounts spent on improvements to date at the Company's Winfield, B.C. location to expand the facility for operations pending receipt of a controlled drug and substance dealer's license from Health Canada. The leasehold additions relate to production lighting, growing benches, irrigation and nutrient systems, security installations and construction of growing rooms.

8. RELATED PARTIES TRANSACTIONS

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include officers, directors or companies with common directors of the Company. During the period ended February 28, 2017, the Company:

- (a) paid or accrued management fees of \$7,000 (2016 – \$39,750) to directors of the Company.
- (b) Paid or accrued management fees of \$48,750 (2016 – \$nil) to a company controlled by a director of the Company.

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8. RELATED PARTIES TRANSACTIONS-continued

(c) paid or accrued \$69,309 (2016 - \$59,651) in rent expense, to a director and a company controlled by a director of the Company.

(d) paid or accrued \$67,250 (2016-\$nil) in salary expense, to directors of the Company

Share-based payments includes stock options granted to directors and officers recorded at a fair value of \$440,575 (2016 - \$nil).

As at February 28, 2017, accounts payable and accrued liabilities included \$2,862,113 (November 30, 2016 - \$3,659,368) payable to directors, officers and companies controlled or related to directors and/or officers. Amounts payable to related parties have no specific terms of repayment, are unsecured and do not bear interest.

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized share capital

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

Issued shares:

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

- a) to effect the acquisition of the Company by the former shareholders of VAL, the Company implemented a share restructuring whereby the former 7,000,000 common shares of VAL were exchanged for 36,000,000 common shares of the Company. Furthermore, the existing shareholders of the Company received 14,347,668 common shares of the new consolidated entity replacing their pre-RTO shares of the Company.
- b) the Company issued 675,000 common shares as consideration for the finder's fee. The total \$337,500 fair value of these shares, estimated at \$0.50 per common share, was used in the calculation of the listing fee which was recorded on the statement of loss and comprehensive loss.

On December 20, 2016, the Company closed a non-brokered private placement of 994,576 units at a price of \$0.65 per unit. The Company received cash proceeds of \$646,475. Each unit consisted of one common share and one-half of a common share purchase warrant, with two warrants entitling the holder to purchase one common share at a price of \$1.15 up to December 21, 2017, subject to acceleration conditions.

On January 11, 2017 the Company closed a non-brokered private placement of 1,158,614 units at a price of \$0.65 per unit. The Company received cash proceeds of \$394,100 and settled accounts payable of \$359,000. Each unit consisted of one common share and one-half of a common share purchase warrant, with two warrants entitling the holder to purchase one common share at a price of \$1.15 up to January 11, 2018, subject to acceleration conditions.

Escrow shares

In connection with the RTO, 36,675,000 common shares were placed into escrow with 10% released upon closing of the Acquisition and 15% released every six months thereafter. At February 28, 2017, 33,007,500 shares were held in escrow (November 30, 2016 – 33,007,500).

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9. SHARE CAPITAL AND CONTRIBUTED SURPLUS-continued

Warrants

The Company's warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price \$
Balance, November 30, 2015 and 2016	944,444	0.75
Issued	1,076,594	1.15
Balance, outstanding and exercisable February 28, 2017	2,021,038	0.96

The following table summarizes the warrants outstanding as at February 28, 2017:

Warrants outstanding	Exercise price \$	Expiry date ⁽¹⁾
622,222	0.75	September 22, 2017
322,222	0.75	October 23, 2017
497,288	1.15	December 21, 2017
579,309	1.15	January 11, 2018
2,021,038		

⁽¹⁾ The Company is entitled to accelerate the expiry date of all the outstanding \$0.75 warrants to the date that is 30 days following the date the Company issues a news release announcing that the published closing price of the common shares on the CSE has been equal to or greater than \$0.90 for any 10 consecutive trading days after the statutory hold period prior to the expiry date.

Stock options

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

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9. SHARE CAPITAL AND CONTRIBUTED SURPLUS-continued

Stock options-continued

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

	Number of Options	Weighted Average Exercise Price \$
Balance, November 30, 2015	-	-
Issued upon RTO (Note 4)	405,000	1.06
Issued	2,500,000	0.65
Balance outstanding, November 30, 2016	2,905,000	0.69
Issued	320,000	1.25
Balance outstanding, February 28, 2017	3,225,000	0.75
Options exercisable, February 28, 2017	1,110,000	0.75

The following table summarizes the options outstanding as at February 28, 2017:

Options outstanding	Options exercisable	Exercise price \$	Expiry date
36,667	36,667	3.00	September 25, 2017
40,000	40,000	3.00	October 10, 2018
20,000	20,000	3.00	November 27/28, 2018
258,333	258,333	0.30	August 31, 2020
50,000	50,000	0.30	September 22, 2020
2,500,000	625,000	0.65	November 30, 2021
320,000	* 80,000	1.25	February 29, 2020
3,225,000	1,110,000		

* On March 2, 2017 20,000 of the \$1.25 options were exercised in accordance with the terms of Dr. O'Brien's Executive Services Agreement.

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

	February 28, 2017	November 30, 2016
Average dividend per share	-	-
Average forecasted volatility	209%	213%
Average risk-free interest rate	1%	0.59%
Average expected life	5 years	5 years
Fair value – weighted average of options issued	\$ 0.75	\$0.64

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10. CONVERTIBLE DEBENTURES

	Liability Component \$	Equity Component \$
Balance, November 30, 2015 and 2016	-	-
February 2, 2017 convertible debenture issuance	454,545	45,455
Balance, February 28, 2017	454,545	45,455

The debentures were subscribed for by Avmax Holdings Inc., a non-arm's-length party to the Company.

11. CAPITAL RISK MANAGEMENT

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

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

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

	Financial assets at fair value			February 28, 2017
	Level 1	Level 2	Level 3	
Fair value through profit and loss financial asset				
Cash and cash equivalents	\$ 493,091	-	-	\$ 493,091
Total financial assets at fair value	\$ 493,091	-	-	\$ 493,091

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12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT-continued

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

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

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

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

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

Liquidity risk

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

Market risk

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

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and accounts payable and accrued liabilities that are denominated in Canadian Dollars (CDN), and US Dollars (USD).

Price risk

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

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13. CONTINGENT LIABILITY

Lease Commitment

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

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

Based on the lease payments the remaining commitments are:

Short term (March 1, 2017-November 30, 2017)	\$ 152,955
Long term (December 1, 2017-December 31, 2022)	<u>851,110</u>
	\$1,004,065

Contingency

During the year ended November 30, 2015, a small claims action was brought against the Company from a vendor the Company had used for services in the year. The outcome of the claim is uncertain. The Company has completed the requisite filings and is working to resolve the claim.

14. SUBSEQUENT EVENTS

- a) On March 14, 2017 the Company granted incentive stock options to the newly appointed president of the Company to purchase up to 1,000,000 common shares of the Company at a price of \$1.40 per common share. The stock options are exercisable on or before March 15, 2019 and vest in stages over the first two years.
- b) On April 3, 2017 the Company entered into a letter of intent (“LOI”) to acquire 100% of a late stage applicant under the Access to Cannabis for Medical Purposes Regulations (“ACMPR”). Royal Green Acres Manufacturing Ltd. (“RGAM”) is currently in active final review stage with Health Canada for an application submitted in August 2013. Under the terms of the LOI, the Company will assume 100% of the costs and related expenses to complete the pre-inspection readiness of the RGAM site such that RGAM becomes a Licensed Producer of Marijuana for Medical Purposes.
- c) On April 5, 2017 the Company closed the acquisition of Supra THC Services Inc. (“Supra”), a Health Canada-licensed cannabis testing lab with an established Kelowna-based scientific team supporting its operations. The Company acquired all of the issued and outstanding shares of Supra for \$3.75 million, satisfied through the issuance of three million shares of Valens. The total share consideration is subject to a regulatory four month hold period as well as a 36-month escrow agreement. Supra holds a Health Canada Dealer’s License which allows for the possession of cannabis and related active ingredients, as well as the production of extracts for the purpose of analysis.
- d) On April 18, 2017 the Company issued a convertible unsecured note (the “Note”) to a non-arm’s length lender, 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 Note and accrued interest (the “Option Exercise”) into common shares of the Company under the same terms and conditions of, and as a participant in, an expected private placement funding the Company intends to undertake. The Note will mature in one year and bear interest at 10% per annum from the date the funds were advanced until the earlier of:

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14. SUBSEQUENT EVENTS-*continued*

- the date the Note, together with all accrued interest, is repaid in full; and
- the date of completion of the Option Exercise.