



VALENS GROWORKS CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTH PERIOD ENDED FEBRUARY 28, 2019

VALENS GROWORKS CORP.

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VALENS GROWWORKS CORP.Condensed Interim Consolidated Statements of Financial Position
(Unaudited, in Canadian Dollars)

<i>As at</i>	Notes	February 28, 2019 \$	November 30, 2018 \$
ASSETS			
Current			
Cash		488,565	1,726,530
Short-term investments	4	20,063,721	23,505,750
Receivables	11	2,010,645	1,750,609
Prepaid expenses and deposits	5	538,230	1,086,544
Promissory note receivable	6	1,025,685	1,007,192
Inventory	7	904,966	506,772
		25,031,812	29,583,397
Asset classified as held for sale	8,10	2,636,501	2,636,501
		27,668,313	32,219,898
Equipment and leaseholds	9,11	9,523,661	7,188,657
Intangible assets	10	13,909,083	14,265,726
TOTAL ASSETS		51,101,057	53,674,281
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	11	1,276,703	961,493
Shareholders' equity			
Share capital	12	65,537,543	65,048,638
Reserves	12	13,847,009	12,770,160
Obligation to issue shares	12	6,326,684	4,414,622
Deficit		(35,886,882)	(29,520,632)
		49,824,354	52,712,788
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		51,101,057	53,674,281

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 16)

Subsequent events (Note 17)

Approved on behalf of the Board on April 24, 2019:

Signed

"Tyler Robson"
Director

Signed

"Nitin Kaushal"
Director

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

VALENS GROWORKS CORP.Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited, in Canadian Dollars)

		February 28, 2019	February 28, 2018
	Notes	\$	\$
<i>For the three months ended</i>			
Revenue		2,220,200	-
Cost of goods sold	9	1,369,675	-
Gross Profit		850,525	-
Operating expenses			
Advertising and promotion		1,259,773	154,038
Depreciation and amortization	9,10	675,378	61,413
Foreign exchange (gain) loss		907	(32,364)
Interest		3,247	21,917
Management and consulting fees	11,12	330,007	755,391
Office and miscellaneous		321,352	277,989
Professional fees		133,786	79,030
Rent	11	62,945	71,441
Repairs and maintenance		37,967	14,498
Share-based payments	11,12	3,318,287	2,299,126
Travel and business development		130,863	5,346
Wages and salaries	11	718,422	142,109
		6,992,934	3,849,934
		(6,142,409)	(3,849,934)
Accretion	6	-	167
Interest income	6	106,938	72,321
Unrealized loss on short-term investments	4	(330,779)	-
		(223,841)	72,488
Loss and comprehensive loss for the period		(6,366,250)	(3,777,446)
Basic and diluted loss per common share		(0.07)	(0.06)
Weighted average number of common shares outstanding-basic and diluted		93,305,424	64,782,942

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

VALENS GROWWORKS CORP.Condensed Interim Consolidated Statements of Cash Flows
(Unaudited, in Canadian Dollars)

	Share Capital		Reserves	Obligation to issue shares	Subscriptions receivable	Deficit	Total
	Number	Amount					
<i>For the three months ended February 28, 2019 and 2018</i>		\$	\$	\$	\$	\$	\$
Balance, November 30, 2017	61,467,309	17,934,729	2,865,412	38,000	(20,608)	(13,608,861)	7,208,672
Share issued for exercise of warrants	520,655	598,750	-	-	-	-	598,750
Shares issued through private placement	10,134,350	13,673,170	-	-	-	-	13,673,170
Share issuance costs	70,565	(909,865)	-	-	-	-	(909,865)
Share-based payments	-	-	2,299,126	(38,000)	-	-	2,261,126
Prior year subscriptions received	-	-	-	-	8,000	-	8,000
Loss for the period	-	-	-	-	-	(3,777,446)	(3,777,446)
Balance, February 28, 2018	72,192,879	31,296,784	5,164,538	-	(12,608)	(17,386,307)	19,062,407
Balance, November 30, 2018	93,213,657	65,048,638	12,770,160	4,414,622	-	(29,520,632)	52,712,788
Share issued for exercise of warrants	6,500	9,750	-	-	-	-	9,750
Share issued for exercise of options	25,000	51,905	(25,155)	-	-	-	26,750
Share-based payments	270,000	427,250	1,102,004	1,912,062	-	-	3,441,316
Loss for the period	-	-	-	-	-	(6,366,250)	(6,366,250)
Balance, February 28, 2019	93,515,157	65,537,543	13,847,009	6,326,684	-	(35,886,882)	49,824,354

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

VALENS GROWWORKS CORP.Condensed Interim Consolidated Statements of Cash Flows
(Unaudited, in Canadian Dollars)

	February 28, 2019	February 28, 2018
<i>For the three months ended</i>	\$	\$
OPERATING ACTIVITIES		
Loss for the year	(6,366,250)	(3,777,446)
Adjustment for non-cash items:		
Depreciation and amortization	791,752	61,413
Share-based payments	3,318,287	2,299,126
Interest on promissory note receivable	(18,493)	(72,321)
Consulting fees	123,030	-
Accretion on promissory note receivable	-	(167)
Foreign exchange	-	(34,082)
Loss on disposal of assets	1,906	2,807
Unrealized loss on short-term investments	330,779	-
Working capital adjustments		
Short-term investments	50	-
Receivables	(1,148,836)	(186,359)
Prepaid expenses and deposits	548,314	202,255
Inventory	(456,277)	-
Accounts payable and accrued liabilities	339,729	1,077,469
	<u>(2,536,009)</u>	<u>(427,305)</u>
INVESTING ACTIVITIES		
Acquisition of equipment and leaseholds	(2,738,456)	(1,861,308)
Redemption of guaranteed investment certificates	4,000,000	-
	<u>1,261,544</u>	<u>(1,861,308)</u>
FINANCING ACTIVITIES		
Proceeds from exercise of warrants	9,750	598,750
Proceeds from exercise of stock options	26,750	-
Repayment of promissory notes payable	-	(860,507)
Proceeds from issuance of shares	-	12,733,305
	<u>36,500</u>	<u>12,471,548</u>
CHANGE IN CASH	<u>(1,237,965)</u>	<u>10,182,935</u>
Cash, beginning of period	<u>1,726,530</u>	<u>291,623</u>
Cash, end of period	<u>488,565</u>	<u>10,474,558</u>

Supplemental disclosure with respect to cash flows:

Equipment accrued through accounts payable	82,536	241,541
Settlement of obligation to issue shares	207,250	-
Receipt of shares for Rotogro transaction	888,800	-

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

VALENS GROWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited, in Canadian Dollars)

For the Three Months Ended February 28, 2019 and 2018

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 operates in the cannabis industry and is focused on extraction services. The Company’s common shares trade under the trading symbol “VGW” on the Canadian Securities Exchange (“CSE”) and under the trading symbol “VGWCF” on the OTC Markets.

The address of the Company’s registered and records office and head office address is 230 Carion Road, Kelowna, BC V4V 2K5.

Valens Agritech Ltd. (“VAL”), a subsidiary company, was granted its Licensed Producer (“LP”) license to cultivate and produce oil under the Access to Cannabis for Medical Purposes Regulations and subsequently, a standard processing and standard cultivation license under the Cannabis Act. VAL also holds an analytical testing license from Health Canada.

On April 5, 2017, the Company acquired Supra THC Services Inc. (“Supra”) (Note 10). Supra was incorporated under the Business Corporations Act of the Province of British Columbia on December 10, 2015. Supra holds an analytical testing license from Health Canada which allows Supra to process and produce extract from cannabis and related active ingredients for scientific purposes. On October 23, 2018, the Company entered into an agreement to sell Supra to Rotogro International Limited (“Rotogro”) (Note 8).

On July 19, 2018, Valens Farms Ltd. (“Farms”) was incorporated under the laws of British Columbia. Farms was incorporated to hold the interest in the cannabis production facility with Kosha Projects Inc.

On October 18, 2018, Valens Labs Ltd. (“Labs”) was incorporated under the laws of British Columbia. Labs was incorporated to transfer the assets and operations of Supra upon the closing of the Rotogro transaction.

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

The Company has incurred losses since its inception and for the three months ended February 28, 2019, the Company incurred a loss of \$6,366,250 (February 28, 2018 - \$3,777,446). As of February 28, 2019, the Company has an accumulated deficit of \$35,886,882 (November 30, 2018 - \$29,520,632). 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. The Company estimates it has sufficient working capital to continue operations for the upcoming twelve months.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim consolidated financial statements have been prepared in conformity with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company’s annual audited financial statements for the year ended November 30, 2018, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). It is suggested that these interim condensed consolidated financial statements be read in conjunction with the annual audited financial statements.

These condensed interim consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on April 24, 2019.

VALENS GROWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited, in Canadian Dollars)

For the Three Months Ended February 28, 2019 and 2018

2. BASIS OF PREPARATION - *continued*

Basis of preparation

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

Critical accounting estimates and judgements

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

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

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

- i) The inputs used in calculating the fair value for share-based compensation expense included in profit or loss.
- ii) The valuation of shares and other equity instruments issued in non-cash transactions. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.
- iii) Amortization of equipment, leaseholds and intangible assets are dependent upon the estimated useful lives, which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

3. APPLICATION OF NEW ACCOUNTING STANDARDS

New IFRS Effective December 1, 2018

IFRS 15, Revenue from contracts with customers

IFRS 15 was issued by the IASB in May 2014 and provides guidance on how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing.

The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative period or transitional adjustments required as a result of the adoption. The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

1. Identifying the contract with the customer;
2. Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligation(s).

VALENS GROWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited, in Canadian Dollars)

For the Three Months Ended February 28, 2019 and 2018

3. APPLICATION OF NEW ACCOUNTING STANDARDS - *continued*

Revenue from toll processing services and the direct sale of cannabis or cannabis oil to customers for a fixed price is recognized when the Company completes the performance obligation as outlined in the contract.

IFRS 9, Financial Instruments

The Company adopted IFRS 9 retroactively and determined that there is no change to the comparative period or transitional adjustments required as a result of adoption.

IFRS 9 was issued by the International Accounting Standards Board in November 2009 and October 2010 and replaces IAS 39. IFRS 9 uses a single approach to determine if a financial asset is classified and measured at fair value or amortized cost. Financial assets under IFRS 9 are initially measured at fair value and are subsequently measured at either amortized cost; fair value through other comprehensive income or fair value through profit and loss.

Amortized Cost

Financial assets classified and measured at amortized cost are those assets that are held with the objective to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest. Financial assets classified at amortized cost are measured using the effective interest method.

Fair Value Through Other Comprehensive Income (“FVTOCI”)

Financial assets classified and measured at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

Fair Value Through Profit and Loss (“FVTPL”)

Financial assets classified and measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not solely payments of principal and interest or are not held with the objective to collect contractual cash flows, or to both collect contractual cash flows and sell the financial asset.

Classification and measurement of financial liabilities

Accounting for financial liabilities remains largely the same under IFRS 9 and subsequently the Company’s liabilities were not significantly impacted by the adoption.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designates a financial liability at fair value through profit and loss. Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

Impairment of financial assets at amortized cost

An expected credit loss impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset’s original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been reversed.

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited, in Canadian Dollars)

For the Three Months Ended February 28, 2019 and 2018

3. APPLICATION OF NEW ACCOUNTING STANDARDS - *continued*

Derecognition – Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss.

The following table summarizes the Company's financial instruments under IAS 39 and IFRS 9:

	IAS 39 Classification	IFRS 9 Classification
Cash	FVTPL	FVTPL
Short-term investments	FVTPL	FVTPL
Receivables	Loans and receivables	Amortized cost
Promissory note receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

The adoption of IFRS 9 did not have a material impact to the Company's classification and measurement of financial assets and liabilities.

New IFRS Not Yet Effective

IFRS 16 – Leases

IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted, but only in conjunction with IFRS 15.

The Company has not yet completed the process of assessing the impact that IFRS 16 will have on its consolidated financial statements.

4. SHORT-TERM INVESTMENTS

	February 28, 2019	November 30, 2018
	\$	\$
Shares in Rotogro	557,971	-
Guaranteed investment certificates	19,505,750	23,505,750
	20,063,721	23,505,750

The shares in Rotogro are recorded at fair value with any changes in fair value recorded through profit and loss. For the three months ended February 28, 2019, the fair value of the Rotogro shares decreased \$330,779, resulting in an unrealized loss on short-term investments through loss and comprehensive loss for the period.

Guaranteed investment certificates mature on dates between October 8, 2019 and October 11, 2019 with annual interest rates ranging from 1.85% to Bank Prime less 2.45%.

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited, in Canadian Dollars)

For the Three Months Ended February 28, 2019 and 2018

5. PREPAID EXPENSES AND DEPOSITS

	February 28, 2019	November 30, 2018
	\$	\$
Deposits – extraction equipment	349,433	686,959
Prepaid insurance, advertising and promotion and other	188,797	399,585
	538,230	1,086,544

6. PROMISSORY NOTE RECEIVABLE

	Tarukino Holdings Inc	MKV Ventures 1, LLC	Total \$
Balance, November 30, 2017	-	1,890,498	1,890,498
Additions	1,000,000	-	1,000,000
Interest	7,192	228,784	235,976
Accretion	-	(14,718)	(14,718)
Foreign exchange gain (loss)	-	79,438	79,438
Transfer from receivables	-	30,000	30,000
Write off	-	(2,214,002)	(2,214,002)
Balance, November 30, 2018	1,007,192	-	1,007,192
Interest	18,493	-	18,493
Balance, February 28, 2019	1,025,685	-	1,025,685

Tarukino Holdings Inc.

The Company advanced \$1,000,000 to Tarukino Holdings Inc (“Tarukino”) under a promissory note dated October 26, 2018. The promissory note will accrue interest at 7.5% per annum and will be repayable on or before March 31, 2019. As security for the promissory note, the Company and Tarukino entered into a share pledge agreement dated October 26, 2018, under which 2,150,000 shares of the Company issuable to Tarukino under the manufacturing and sales license agreement (Note 10) dated September 21, 2018 will be held in escrow. Subsequent to the end of the period, the Company entered into an agreement with Tarukino to extend the promissory note on the same terms for an additional 60-day period.

MKV Ventures 1 LLC

The Company had 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.

On January 16, 2017, the Company entered into the loan agreement with MKV Ventures which is secured by a promissory note for the total loan amount of \$1,628,266 (US\$1,212,500). The loan is guaranteed by MKHS and secures repayment of previous advances made by the Company. The loan accrues interest at the rate of 15% per annum effective May 15, 2016. Principal and interest, as well as \$30,000 in cost recoveries for past accrued fees, are payable in equal monthly payments, to the Company by MKHS in arrears commencing at the end of the third month following the buildout of a 28,000 square foot Farmtek greenhouse expansion (the “Buildout”), and on the 15th day of each month thereafter over a 5-year term. The agreements entered into on January 16, 2017, supersede and replaces all previous agreements entered into between the Company and MKHS and settles all outstanding issues between the parties.

The Buildout of the MKHS Ventures project has continued to experience significant delays. The Company estimated the loan to be fully impaired and wrote off the balance outstanding at November 30, 2018.

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited, in Canadian Dollars)

For the Three Months Ended February 28, 2019 and 2018

7. INVENTORY

	February 28, 2019	November 30, 2018
	\$	\$
Dried cannabis	454,795	466,656
Oils	391,174	-
Packaging and supplies	58,997	40,116
	904,966	506,772

Inventory expensed to cost of goods sold in the three months ended February 28, 2019 was \$1,369,675 (February 28, 2018 - \$nil)

8. ASSET CLASSIFIED AS HELD FOR SALE

The intangible asset associated with Supra's Health Canada analytical testing license (the "License"), is presented as an asset held for sale following the receipt by the Company of an offer from Rotogro on October 23, 2018 to acquire the issued and outstanding shares of Supra. Under the terms of the agreement, prior to closing, all assets, liabilities, employees and customers are to be transferred from Supra into Labs, effectively leaving the License in Supra. Upon completion of this transaction, the Company will maintain the existing business of Supra within Labs.

	February 28, 2019	November 30, 2018
	\$	\$
Opening designation of asset as held for sale (Note 10)	2,636,501	3,725,301
Allocation of installments ⁽¹⁾	-	(1,088,800)
Carrying amount of asset held for sale	2,636,501	2,636,501

⁽¹⁾ Under the terms of the Share Purchase Agreement ("SPA") between the Company and Rotogro, the Company will sell all of the issued and outstanding shares in Supra in exchange for \$2,000,000 in cash and 18,900,000 ordinary shares in Rotogro, to be paid in four installments. The first non-refundable installment is comprised of \$200,000 in cash (received) and 2,250,000 ordinary shares in Rotogro (received) which was valued at \$888,800 and recorded as a reduction in the carrying value of the license. The second installment of \$200,000 in cash and 16,650,000 ordinary shares in Rotogro, of which 14,400,000 ordinary shares in Rotogro are to be held in escrow and the remaining 2,250,000 shares in Rotogro are freely trading, is due on closing the transaction which is anticipated to be in the third quarter of 2019, the third installment of \$600,000 in cash and 5,400,000 ordinary shares in Rotogro to be released from escrow is due on the earlier of twenty one days from Rotogro's receipt of a processing license or December 31, 2019, and the final installment of \$1,000,000 and 9,000,000 ordinary shares in Rotogro to be released from escrow is due on the earlier of twenty one days from Rotogro's receipt of a cultivation license or December 31, 2020. The delays in closing the transaction, from the original timeline, are a result of certain regulatory requirements and the requirements to transition the license from the original dealers license to the current analytical testing license (completed) and for Health Canada to transfer the location of the license from the current facility in British Columbia to Rotogro's facility in Ontario.

The Company assessed the carrying amount of the intangible asset held for sale and the fair value less cost to sell and determined that there is no impairment in the value of the asset.

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited, in Canadian Dollars)

For the Three Months Ended February 28, 2019 and 2018

9. EQUIPMENT AND LEASEHOLDS

	Computer equipment and software	Office furniture and equipment	Lab equipment	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
Opening Balance					
Balance, November 30, 2017	400,991	61,283	129,482	-	591,756
Additions	48,216	301,971	2,594,308	2,839,680	5,784,175
Transfers	-	-	-	1,789,292	1,789,292
Disposals	(15,305)	(1,134)	-	-	(16,439)
Balance, November 30, 2018	433,902	362,120	2,723,790	4,628,972	8,148,784
Additions	11,166	87,605	2,555,802	59,364	2,713,937
Disposals	-	-	(2,119)	-	(2,119)
Balance, February 28, 2019	445,068	449,725	5,277,473	4,688,336	10,860,602
Accumulated Depreciation					
Balance, November 30, 2017	84,799	15,465	36,066	-	136,330
Additions	131,258	94,986	278,114	330,641	834,999
Disposals	(11,088)	(114)	-	-	(11,202)
Balance, November 30, 2018	204,969	110,337	314,180	330,641	960,127
Additions	21,314	32,657	168,956	154,099	377,026
Disposals	-	-	(212)	-	(212)
Balance, February 28, 2019	226,283	142,994	482,924	484,740	1,336,941
Carrying Value					
November 30, 2018	228,933	251,783	2,409,610	4,298,331	7,188,657
February 28, 2019	218,785	306,731	4,794,549	4,203,596	9,523,661

During the three months ended February 28, 2019, the Company allocated \$58,083 (February 28, 2018 - \$nil) of depreciation to cost of goods sold.

10. INTANGIBLE ASSETS

Cost	Tarukino		Total
	Holdings Inc.	Supra License	
	\$	\$	\$
Balance, November 30, 2017	-	3,900,000	3,900,000
Additions	14,265,726	-	14,265,726
Transfer to held for sale assets (Note 8)	-	(3,900,000)	(3,900,000)
Balance, November 30, 2018	14,265,726	-	14,265,726
Additions	-	-	-
Balance, February 28, 2019	14,265,726	-	14,265,726
Accumulated amortization			
Balance, November 30, 2017	-	-	-
Additions	-	174,699	174,699
Transfer to held for sale assets (Note 8)	-	(174,699)	(174,699)
Balance, November 30, 2018	-	-	-
Additions	356,643	-	356,643
Balance, February 28, 2019	356,643	-	356,643
Carrying value			
November 30, 2018	14,265,726	-	14,265,726
February 28, 2019	13,909,083	-	13,909,083

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited, in Canadian Dollars)

For the Three Months Ended February 28, 2019 and 2018

10. INTANGIBLE ASSETS - *continued*

Tarukino Holdings Inc.

On September 21, 2018, the Company signed a manufacturing and sales license agreement with Tarukino Holdings Inc. ("Tarukino"). Under the agreement, Tarukino granted the Company the exclusive Canadian rights to the production and distribution of its proprietary emulsion technology that transforms cannabis oil and oil-based terpenes into water-soluble forms for use in beverages, edibles, topicals and other consumer products. The agreement also provides the Company with the exclusive rights to produce, sell and distribute, in Canada, when and where permitted, Tarukino branded products including Happy Apple™, a cannabis-infused sparkling cider, and Pearl20™, a cannabis infused food and beverage mixer. In exchange for these exclusive Canadian rights, the Company has issued 4,300,000 shares of the Company on signing the agreement valued at \$9,288,000, 1,000,000 warrants valued at \$1,958,226 that vest based on certain future milestones and a decreasing royalty on revenue related to the associated products and technologies over the term of the agreement. The warrants are exercisable at prices ranging from \$3.50 to \$4.00 per share for a five-year term from the date of issuance. The Company accrued a fee to a consultant on signing the Tarukino agreement of 1,650,000 common shares of the Company, valued at \$3,019,500. This fee was recorded as an obligation to issue shares at November 30, 2018 and remains as an obligation to issue shares at February 28, 2019.

The Company valued the exclusive Canadian license agreement based on the fair market value of 4,300,000 common shares on the date the license agreement was executed. In addition, the Company utilized the Black Scholes model to estimate the fair value of the 1,000,000 warrants issued under the agreement utilizing the following assumptions: discount rate of 2.33%, volatility of 159%, expected life of 5 years and exercise prices ranging from \$3.50 to \$4.00.

Supra THC Services Inc.

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

During the period ended February 28, 2019, the Company recorded amortization of \$nil (February 28, 2018 - \$nil).

The Company has entered into an agreement to sell the asset (Note 8).

11. RELATED PARTY TRANSACTIONS

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

	February 28, 2019	February 28, 2018
	\$	\$
For the three-month period ended		
Management fees	120,000	555,083
Rent	62,945	71,345
Wages and salaries	225,044	7,500
Share-based payments	1,982,926	-
Purchase of equipment	-	293,331
	<hr/>	<hr/>
	2,390,915	927,259

VALENS GROWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited, in Canadian Dollars)

For the Three Months Ended February 28, 2019 and 2018

11. RELATED PARTY TRANSACTIONS - *continued*

As at February 28, 2019, accounts payable and accrued liabilities included \$89,031 (November 30, 2018 - \$9,086) payable to directors, officers and companies controlled or related to directors and/or officers. Amounts payable to related parties have no specific terms of repayment, are unsecured and do not bear interest.

As at February 28, 2019, receivables included \$94,288 (November 30, 2018 - \$319,029) from two officers and a former director of the Company. The amount was received subsequent to the end of the period.

12. SHARE CAPITAL AND RESERVES

Authorized share capital

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

Issued shares

Three-month period ended February 28, 2019:

- (a) On January 3, 2019, the Company issued 6,500 common shares in connection with the exercise of warrants for gross proceeds of \$9,750;
- (b) On February 22, 2019, the Company issued 25,000 common shares in connection with the exercise of options for gross proceeds of \$26,750. As a result of the exercise of options, the fair value of the options amounting to \$25,155 was reclassified from reserves to share capital; and
- (c) During the three-month period ended February 28, 2019, the Company issued 270,000 common shares in connection with employment, consulting and board of directors' compensation agreements resulting in a reduction in the obligation to issue shares \$304,220 an increase in share capital by \$427,250 and management and consulting fees of \$123,030.

Three-month period ended February 28, 2018:

- (a) On January 9, 2018, the Company closed the second and final tranche of a non-brokered private placement and issued 1,287,300 units at a price of \$1.00 per unit for proceeds of \$1,287,300. Each unit consisted of one common share of the Company and one-half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$1.50 until December 27, 2018, subject to acceleration conditions.
- (b) On February 9, 2018, the Company closed a two-tranche non-brokered private placement and issued a total of 8,847,050 shares at a price of \$1.40 per share for proceeds of \$12,385,870. In connection with the financing, the Company paid a finder's fee equal to 8% of the proceeds raised from subscribers introduced by certain finders of which a portion was settled through the issuance of 70,565 common shares valued at \$98,791.
- (c) During the three-month period ended February 28, 2018, the Company issued 520,655 common shares in connection with the exercise of warrants for gross proceeds of \$598,750.

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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For the Three Months Ended February 28, 2019 and 2018

12. SHARE CAPITAL AND RESERVES - continued**Obligation to issue shares**

The Company has entered into agreements with directors, officers, employees and consultants, to issue the following shares:

	Number of shares to be issued						Total	Total Value	Amount
	2018	2019	2020	2021	2022	2023		\$	Recognized
								\$	\$
Directors	-	135,000	-	-	-	-	135,000	195,750	137,755
Officers and employees	150,000	1,050,000	1,200,000	650,000	600,000	450,000	4,100,000	6,848,000	1,994,429
Consultants	1,850,000	400,000	-	-	-	-	2,250,000	4,194,500	4,194,500
Total	2,000,000	1,585,000	1,200,000	650,000	600,000	450,000	6,485,000	11,238,250	6,326,684

Of the amount recognized for the obligation to issue shares, \$2,216,282 was recorded as share-based payments expense for the three-month period ended February 28, 2019 (February 28, 2018 - \$nil).

Upon termination of the services, the entitlement to the shares may be forfeited. Any share-based payments previously recognized related to the remaining unvested tranches will be reversed against profit and loss.

Escrow shares

In connection with the RTO, 39,675,000 common shares were placed into escrow with 10% released upon closing of the Acquisition and 15% released every six months thereafter. As at February 28, 2019, 11,902,500 shares were held in escrow (November 30, 2018 – 11,902,500).

Warrants

The following table summarizes warrant activity during the three-month period ended February 28, 2019 and the fiscal year ended November 30, 2018:

	Number of Warrants	Weighted Average Exercise Price
		\$
Balance, outstanding November 30, 2017	3,111,753	1.38
Issued	9,876,297	2.54
Exercised	(735,405)	1.25
Expired	(2,492,348)	1.42
Balance, outstanding November 30, 2018	9,760,297	2.55
Exercised	(6,500)	1.50
Expired	(521,150)	1.50
Balance, outstanding February 28, 2019	9,232,647	2.61

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For the Three Months Ended February 28, 2019 and 2018

12. SHARE CAPITAL AND RESERVES - continued

The following table summarizes the warrants outstanding as at February 28, 2019:

Warrants Outstanding	Warrants Exercisable	Exercise price \$	Expiry date
7,371,795	7,371,795	2.54	October 10, 2020 ⁽¹⁾⁽³⁾
860,852	860,852	1.95	October 10, 2020 ⁽²⁾⁽³⁾
400,000	-	3.50	October 26, 2023
300,000	-	3.75	October 26, 2023
300,000	-	4.00	October 26, 2023
9,232,647	8,232,647		

⁽¹⁾ The Company is entitled to accelerate the expiry date of these outstanding warrants. The warrants with an exercise price of \$2.54 can be accelerated 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 on the CSE has been equal to or greater than \$3.81 for any 10 consecutive trading days.

⁽²⁾ The broker warrants entitle the holder to purchase one unit at a price of \$1.95 per unit, comprised of one common share and one-half share purchase warrant. Each full warrant has an exercise price of \$2.54 and can be accelerated 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 on the CSE has been equal to or greater than \$3.81 for any 10 consecutive trading days.

⁽³⁾ Subsequent to period end, a total of 430,426 broker warrants were exercised for gross cash proceeds of \$839,331 resulting in the issuance of 430,426 common shares of the Company and 215,212 warrants with an exercise price of \$2.54 and can be accelerated 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 on the CSE has been equal to or greater than \$3.81 for any 10 consecutive trading days. 172,170 of these warrants were subsequently exercised for gross proceeds of \$437,312.

Stock options

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

The following table summarizes stock option activity during the three-month period ended February 28, 2019 and the fiscal year ended November 30, 2018:

	Number of Options	Weighted Average Exercise Price \$
Balance outstanding, November 30, 2017	4,451,667	0.80
Issued	4,327,000	1.94
Exercised	(2,086,538)	0.92
Cancelled	(25,000)	0.30
Expired	(60,000)	3.00
Balance outstanding, November 30, 2018	6,607,129	1.49
Exercised	(25,000)	1.07
Cancelled	(45,834)	1.95
Balance outstanding, February 28, 2019	6,536,295	1.49
Options exercisable, February 28, 2019	3,878,790	1.27

VALENS GROWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited, in Canadian Dollars)

For the Three Months Ended February 28, 2019 and 2018

12. SHARE CAPITAL AND RESERVES-continued

The following table summarizes the options outstanding as at February 28, 2019:

Options outstanding	Options exercisable	Exercise price	Expiry date
		\$	
141,667	141,667	0.30	August 31, 2020
50,000	50,000	0.30	September 22, 2020
1,938,462	1,938,462	0.65	November 30, 2021
150,000	50,000	1.00	November 7, 2020
100,000	100,000	1.95	October 31, 2019
1,000,000	1,000,000	2.50	February 23, 2023
600,000	300,000	1.07	July 9, 2023
2,506,166	248,661	1.95	October 13, 2023
50,000	50,000	1.25	November 27, 2020
6,536,295	3,878,790		

Stock-based compensation

For the three months ended February 28, 2019, the Company recorded \$1,102,004 (February 28, 2018 - \$2,056,000) in stock-based compensation expense related to vested options, which are measured at fair value at the date of grant and are expensed over the vesting period. The Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following weighted average assumptions:

	February 28, 2019	November 30, 2018
Average dividend per share	-	-
Average forecasted volatility	-	149%
Average risk-free interest rate	-	2.26%
Average expected life	-	5 years
Fair value – weighted average of options issued	-	\$ 1.72

13. CAPITAL MANAGEMENT

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

The Company has historically relied on the equity markets to fund its activities. 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 other than corporate assets securing a lease commitment (Note 16). There were no changes in the Company's approach to capital management.

VALENS GROWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited, in Canadian Dollars)

For the Three Months Ended February 28, 2019 and 2018

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying values of the financial instruments as at February 28, 2019 are summarized in the following table:

	Amortized cost \$	Financial assets designated as fair value through profit and loss \$	Total \$
Assets			
Cash	-	488,565	488,565
Short-term investments	-	20,063,721	20,063,721
Receivables	2,010,645	-	2,010,645
Promissory note receivable	1,025,685	-	1,025,685
Liabilities			
Accounts payable and accrued liabilities	1,276,703	-	1,276,703

The carrying values of receivables and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity.

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

Interest risk

The Company's exposure to interest risk only relates to its investment of surplus cash. The Company may invest surplus cash in highly liquid investments with short terms to maturity and would accumulate interest at prevailing rates for such investments. At February 28, 2019, the Company had short term investments of \$20,063,721. At February 28, 2019, a 1% decrease in interest rates would result in a reduction in interest income by \$200,637 compared to a 1% increase in interest rates which would have an equal and opposite effect.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, short-term investments, receivables and promissory note receivable. The Company's cash and short-term investments are held through large Canadian financial institutions. The Company's receivables are comprised of trade accounts receivable, GST ITC's, and interest on short-term investments. The promissory note receivable from Tarukino is secured by a share pledge agreement, under which 2,150,000 shares of the Company issuable to Tarukino under the manufacturing and sales license agreement will be held in escrow. The carrying amount of cash, short-term investments, receivables and promissory note receivable represent the maximum exposure to credit risk, and as at February 28, 2019, this amounted to \$23,588,616.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. As at February 28, 2019, the Company has \$20,552,286 of cash and short-term investments. The Company is obligated to pay accounts payable and accrued liabilities with a carrying amount of \$1,276,703.

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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For the Three Months Ended February 28, 2019 and 2018

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT-continued**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 US dollars. As at February 28, 2019, a 10% appreciation of the Canadian dollar relative to the US dollar would have decreased net financial assets by approximately \$5,813 (November 30, 2018 - \$3,914). A 10% depreciation of the Canadian dollar relative to the US dollar would have had the equal but opposite effect.

Price risk

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

15. SEGMENTED INFORMATION

The Company has three reportable segments, extraction and post processing, analytical testing and corporate, which is the way the Company reports information to its Board of Directors.

The extraction and post processing segment includes the legal processing and business to business sales transactions under the standard processing and standard cultivation license issued by Health Canada. Segment assets include cash, inventories, equipment and leaseholds relating to the Company's extraction and post processing facility in Kelowna, BC.

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

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

The operating segments for the three-month periods ended February 28, 2019:

	Extraction	Analytical Testing	Corporate	Total
	\$	\$	\$	\$
Revenue	2,154,370	134,875	(69,045)	2,220,200
Cost of goods sold	1,379,582	40,902	(50,809)	1,369,675
	774,788	93,973	(18,236)	850,525
Other operating expenses	1,046,158	141,802	5,804,974	6,992,934
	(271,370)	(47,829)	(5,823,210)	(6,142,409)
Non-operating expenses (income)	(489)	(75)	224,405	223,841
Net loss	(270,881)	(47,754)	(6,047,615)	(6,366,250)
Total assets	12,081,857	3,346,971	35,672,229	51,101,057
Total liabilities	531,857	27,538	717,308	1,276,703

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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For the Three Months Ended February 28, 2019 and 2018

15. SEGMENTED INFORMATION -continued

The operating segments for the three-month periods ended February 28, 2018:

	Extraction	Analytical Testing	Corporate	Total
	\$	\$	\$	\$
Revenue	-	-	-	-
Cost of goods sold	-	-	-	-
Other operating expenses	2,490,486	1,295,130	64,318	3,849,934
	(2,490,486)	(1,295,130)	(64,318)	(3,849,934)
Non-operating expenses (income)	(72,488)	-	-	(72,488)
Net loss	(2,417,998)	(1,295,130)	(64,318)	(3,777,446)
Total assets	35,365,156	11,586,806	6,314,913	53,266,875
Total liabilities	655,471	958,632	401,042	2,015,145

16. COMMITMENTS AND CONTINGENCIES**Lease Commitment**

On September 1, 2018, the Company entered into a lease agreement with a company owned by a director of the Company. The term of the lease is three 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. Subsequent to the end of the quarter, the Company acquired the property on March 20, 2019 and has no further lease obligations.

Lease Year	Per Month	Per Annum
1	\$20,981	\$ 251,772
2-3	\$21,611	\$ 259,326

Based on the lease payments the remaining commitments are:

Short term (March 1, 2019 – February 28, 2020)	\$ 255,549
Long term (March 1, 2020 - August 31, 2021)	388,989
	\$ 644,538

Claims and Litigation

Subsequent to the end of the quarter, a claim was commenced against the Company regarding a finder's fee the plaintiff claims is payable associated with the Rotogro share purchase agreement. The total amount of the claim is \$500,000 to be satisfied through the issuance of common shares of the Company. The plaintiff is currently claiming 87,966 shares of the Company, representing a quarter of the total amount the plaintiff claims will be owed. The Company believes the actions to be without merit and intends to defend this claim vigorously. Due to the uncertainty of the timing and amount of estimated future outflows relating to this claim, no provision has been recognized.

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17. SUBSEQUENT EVENTS

On March 7, 2019, the Company issued 345,000 common shares to settle obligations to issue shares to certain directors and officers.

On March 7, 2019, the Company issued 86,085 common shares and 43,042 warrants exercisable at a price of \$2.54 per common share in connection with the exercise of broker warrants for gross proceeds of \$167,866.

On March 8, 2019, the Company issued 100,000 common shares in connection with the exercise of options for gross proceeds of \$100,000.

On March 20, 2019, the Company closed the acquisition of the existing 25,000 square foot extraction and post processing facility from NorthOk Properties Inc., a company controlled by Ashley McGrath, a director of the Company for an agreed upon purchase price of \$4,400,000. The Company engaged an independent appraiser to complete a market value assessment which supports the purchase price.

On March 21, 2019, the Company issued 200 common shares in connection with the exercise of warrants for gross proceeds of \$508.

On April 1, 2019, the Company closed the acquisition of a 1.68 acre property with an existing 18,000 square foot building adjacent to the existing Kelowna facility for an agreed upon purchase price of \$4,000,000. The Company is finalizing development plans and will pull required permits to commence improvements to the space specific for extraction, post processing and white label product development and manufacturing including beverages, edibles, tinctures, capsules and vaporizers as well as commence the required Health Canada licensing process required for the property.

On April 9, 2019, the Company announced the closing of the \$37,499,999 bought deal financing, pursuant to which the Company issued 12,711,864 units at a price of \$2.95 per unit which is comprised of one common share of the Company and one half share purchase warrant exercisable at a price of \$4.00 per share for a period of twenty four months from the date of closing. In addition, the Company received gross proceeds of \$5,624,913 from the issuance of an additional 1,906,780 units as full exercise of the underwriter's over-allotment option. In connection with the financing, the Company paid a cash commission equal to 6% of the gross proceeds raised and issued 877,119 broker warrants. Each full broker warrant entitles the holder to purchase one unit at a price of \$2.95 per unit for a period of twenty-four months from the date of closing, subject to acceleration conditions.

On April 9, 2019, the Company issued 50,000 common shares to settle obligations to issue shares to an employee of the Company.

On April 11, 2019, the Company issued 25,000 common shares in connection with the exercise of options for gross proceeds of \$31,250.

On April 16, 2019, the Company issued 344,341 common shares and 172,170 warrants exercisable at a price of \$2.54 per common share in connection with the exercise of broker warrants. The 172,170 warrants were subsequently exercised on April 16, 2019. Gross proceeds on the exercise of 344,341 broker warrants was \$671,465 and gross proceeds on subsequent exercise of 172,170 warrants was \$437,312.

Subsequent to February 28, 2019, the Company entered into an agreement to acquire all of the shares of Straight Fire Consulting LLC ("Agreement"), an entity through which a consultant had been providing services to the Company. As consideration, the Company issued 3,800,000 common shares (of which 2,250,000 common shares have been recognized as obligation to issue shares as at February 28, 2019 for services rendered) and will transfer 4,000,000 ordinary shares in Rotogro upon receipt of Rotogro ordinary shares by the Company pursuant to the SPA (Note 8). In addition, the consultant has agreed to terminate the consulting agreement and all further obligations by the Company under the agreement, other than the change of control provisions which provide for an additional 3,000,000 common shares of the Company should a change of control occur within two years of the Agreement.

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Notes to the Condensed Interim Consolidated Financial Statements

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For the Three Months Ended February 28, 2019 and 2018

17. SUBSEQUENT EVENTS -continued

On April 18, 2019, the Company issued 2,083 common shares in connection with the exercise of options for gross proceeds of \$4,062.