



(FORMERLY GENOVATION CAPITAL CORP.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED - PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE THREE AND SIX MONTH PERIOD ENDED MAY 31, 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 consolidated interim 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 Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

VALENS GROWORKS CORP.

(Formerly Genovation Capital Corp.)

Condensed Consolidated Interim Statement of Financial Position

(Unaudited-Expressed in Canadian Dollars)

	Notes	May 31, 2017 \$	November 30, 2016 \$
ASSETS			
Current			
Cash and cash equivalents		334,869	14,843
Receivable		110,300	68,583
Prepaid expenses		91,561	886
		<u>536,730</u>	<u>84,312</u>
Equipment	6	424,368	44,789
Leasehold construction in progress	7	1,527,101	1,497,898
Promissory note receivable MKV Ventures 1, LLC	5	1,317,445	1,120,235
		<u>3,805,644</u>	<u>2,747,234</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current			
Accounts payable and accrued liabilities	8	3,285,109	3,887,158
Convertible debenture	10	949,116	-
		<u>4,234,225</u>	<u>3,887,158</u>
Shareholders' deficiency			
Share capital	9	9,013,900	7,511,605
Convertible debentures-equity component	10	90,910	-
Reserves	9	2,244,227	573,879
Deficit		(11,777,618)	(9,225,408)
		<u>(428,581)</u>	<u>(1,139,924)</u>
		<u>3,805,644</u>	<u>2,747,234</u>

Nature and continuance of operations (Note 1)**Contingent liability (Note 13)****Subsequent events (Note 14)****Approved on behalf of the Board on July 31, 2017**

Signed

"Robert van Santen"

Director

Signed

"John Binder"

Director

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

VALENS GROWORKS CORP.

(Formerly Genovation Capital Corp.)

Condensed Consolidated Interim Statement of Comprehensive Loss

(Unaudited-Expressed in Canadian Dollars)

For the six months ended May 31

	Note	For the three months ended		For the six months ended	
		2017	May 31, 2016	2017	May 31, 2016
		\$	\$	\$	\$
Revenue					
Consulting		7,789	42,500	7,789	105,000
General and Administrative expenses					
Advertising and promotion		35,520	-	44,140	-
Administration fees		-	-	7,000	-
Consulting fees		24,000	35,217	62,785	85,467
Depreciation	6	21,754	3,096	42,775	6,191
Finder's fee		1,950	-	-	-
Interest and bank charges		149,892	47	153,820	407
Management fees and salaries	8	220,262	39,750	358,039	79,500
Office and miscellaneous		16,896	1,700	45,200	4,421
Professional fees		11,741	35,409	36,101	55,926
Rent		69,305	69,305	138,610	128,956
Repair and maintenance		-	-	24,992	-
Share based payments	8	1,171,199	-	1,705,969	-
Telephone and utilities		8,303	5,799	19,533	21,345
Travel and business development		18,978	-	31,958	934
Transfer agent and filing fees		10,236	-	15,136	-
Wages and salaries		24,372	-	52,766	-
		1,784,408	190,323	2,738,824	383,147
Net loss before other items		(1,776,619)	(147,823)	(2,731,035)	(278,147)
Other items					
Interest income		98,823	-	195,101	-
Accretion expense		(18,933)	-	(18,933)	-
Foreign exchange gain		22,528	-	2,657	-
		102,418	-	178,825	-
Loss and comprehensive loss for the period		(1,674,201)	(147,823)	(2,552,210)	(278,147)
Basic and diluted loss per share		(0.03)	(0.02)	(0.05)	(0.04)
Weighted average number of shares outstanding		55,053,586	7,000,000	53,760,203	7,000,000

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

VALENS GROWWORKS CORP.

(Formerly Genovation Capital Corp.)

Condensed Consolidated Interim Statement of Changes in Shareholders' Deficiency

(Unaudited-Expressed in Canadian Dollars)

	<u>Share Capital</u>						
	Number Class A	Number Class B	Amount \$	Reserves \$	Convert- ible debt equity portion \$	Deficit \$	Total \$
Balance, November 30, 2015	200	6,999,800	270	-	-	(892,770)	(892,500)
Net loss for the period	-		-	-	-	(278,147)	(278,147)
Balance, May 31, 2016	200	6,999,800	270	-	-	(1,170,917)	(1,170,647)
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	-	-	-	-	-	-
Finder's fees	675,000	-	337,500	-	-	-	337,500
Share based compensation	-	-	-	399,295	-	-	399,295
Net loss for the period	-	-	-	-	-	(8,054,491)	(8,054,491)
Balance, November 30, 2016	51,022,667	-	7,511,605	573,879	-	(9,225,408)	(1,139,924)
Shares issued - acquisition of Supra THC Inc.	3,000,000	-	-	-	-	-	-
Share issued for cash	1,050,883	-	683,074	-	-	-	683,074
Share issued to settle debt	1,126,169	-	751,100	-	-	-	751,100
Stock options exercised	45,000	-	68,121	(35,621)	-	-	32,500
Convertible debentures- equity component	-	-	-	-	90,910	-	90,910
Shares cancelled	(33,333)	-	-	-	-	-	-
Share based payments	-	-	-	1,705,969	-	-	1,705,969
Net loss for the period	-	-	-	-	-	(2,552,210)	(2,552,210)
Balance, May 31, 2017	56,211,386	-	9,013,900	2,244,227	90,910	(11,777,618)	(428,581)

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

VALENS GROWORKS CORP.
(Formerly Genovation Capital Corp.)
Condensed Consolidated Interim Statement of Cash Flows
(Unaudited-Expressed in Canadian Dollars)
For the six months ended May 31

	Six Months Ended May 31, 2017	Six Months Ended May 31, 2016
	\$	\$
OPERATING ACTIVITIES		
Loss for the period	(2,552,210)	(278,147)
Adjustment for non-cash items:		
Depreciation	42,775	6,191
Share based payments	1,705,969	-
Interest on promissory notes	(195,101)	-
Foreign exchange	(2,109)	-
Accretion expenses	18,933	-
Interest expenses	21,093	-
	<u>(960,650)</u>	<u>(271,956)</u>
Working capital adjustments		
Receivables	(9,217)	65,561
Prepaid expenses	(90,675)	-
Accounts payable and accrued liabilities	145,804	235,135
	<u>(914,738)</u>	<u>28,740</u>
INVESTING ACTIVITIES		
Acquisition of equipment	(422,354)	(405)
Leasehold improvement expenditures	(25,956)	(32,679)
	<u>(448,310)</u>	<u>(33,084)</u>
FINANCING ACTIVITIES		
Proceeds from share issuance	683,074	-
Proceeds from promissory notes payable	1,000,000	10,161
	<u>1,683,074</u>	<u>10,161</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		
	320,026	5,817
Cash and cash equivalents, beginning of period	<u>14,843</u>	<u>9,515</u>
Cash and cash equivalents, end of period	<u>334,869</u>	<u>15,332</u>
Supplemental disclosure with respect to cash flows:		
Equipment and leasehold improvements accrued through accounts payable	-	1,488,524

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

VALENS GROWORKS CORP.

(Formerly Genovation Capital Corp.)

Notes to the Condensed Consolidated Interim Statements

(Unaudited-Expressed in Canadian Dollars)

For the Six Months Ended May 31, 2017

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.

Supra THC Services Inc. (“Supra”) was incorporated under the Business Corporations Act of the Province of British Columbia on December 10, 2015. On April 5, 2017 the Company closed the acquisition of Supra, acquiring all of the issued and outstanding shares of Supra for \$3.75 million, satisfied through the issuance of three million shares of Valens, subject to escrow conditions. 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.

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 six months ended May 31, 2017 the Company incurred a loss of \$2,552,210 (May 31, 2016-\$278,147). As of May 31, 2017 the Company has an accumulated deficit of \$11,777,618 (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 condensed consolidated interim financial statements of the Company for the period ended May 31, 2017 were authorized for issue by the Board of Directors on July 31, 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”).

VALENS GROWWORKS CORP.
(Formerly Genovation Capital Corp.)
Notes to the Condensed Consolidated Interim Statements
(Unaudited-Expressed in Canadian Dollars)
For the Six Months Ended May 31, 2017

2. BASIS OF PREPARATION-continued

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. All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"), in compliance with IAS 34 Interim Financial Reporting.

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, the RTO transaction and the Supra acquisition. 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 subsidiaries, VAL and Supra. 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 subsidiaries 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 subsidiaries) 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

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For the Six Months Ended May 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES-continued

Functional and presentation currency-continued

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.

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.

VALENS GROWWORKS CORP.

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Notes to the Condensed Consolidated Interim Statements

(Unaudited-Expressed in Canadian Dollars)

For the Six Months Ended May 31, 2017

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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Notes to the Condensed Consolidated Interim Statements
(Unaudited-Expressed in Canadian Dollars)
For the Six Months Ended May 31, 2017

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 payment

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 payment 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 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.

VALENS GROWWORKS CORP.

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Notes to the Condensed Consolidated Interim Statements

(Unaudited-Expressed in Canadian Dollars)

For the Six Months Ended May 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES-continued

Income taxes-continued

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 May 31, 2017 and November 30, 2016 the Company operated in two business segments, being the scientific research of phytopharmaceutical material, specifically producing cannabis and cannabis related products, and providing analytical services, consulting services, and contract Research and Development. The company will also produce oils and ointments using a proprietary solvent-free extraction approach that produces an organic 100% cannabis oil product.

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.

IFRS 15, Revenue from Contracts with Customers

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Notes to the Condensed Consolidated Interim Statements

(Unaudited-Expressed in Canadian Dollars)

For the Six Months Ended May 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES-continued

Accounting standards not yet effective-continued

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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Notes to the Condensed Consolidated Interim Statements

(Unaudited-Expressed in Canadian Dollars)

For the Six Months Ended May 31, 2017

4. REVERSE TAKE OVER-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	<u>\$ 442,654</u>

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	<u>174,584</u>
Net monetary assets acquired	<u>\$ 7,685,919</u>

Listing expense	<u>\$ 7,243,265</u>
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5. PROMISSORY NOTE RECEIVABLE

As at May 31, 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 MKV Ventures, having jointly agreed not to complete the share exchange transaction. As a result, MKV Ventures will complete the buildout of a 28,000-sf Farmtek greenhouse expansion 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, deferred and paid commencing the end of the third month to allow for an initial harvest.

On January 16, 2017 the Company also entered into a promissory note and loan agreement with MKV Ventures which is 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 MKV Ventures in arrears commencing at the end of the third month following Buildout, and on the 15th day of each month thereafter over a 5-year term.

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

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5. PROMISSORY NOTE RECEIVABLE-continued

As at May 31, 2017 the balance outstanding relates to principal on the loan of \$1,060,478 and accrued interest of \$256,967. The loan has been present valued using a market interest rate of 15%. The Company recognized accretion of \$74,073 and interest of \$123,137 for the six months ending May 31, 2017, which is included in interest income.

6. EQUIPMENT

	Computer equipment and software	Office furniture and equipment	Lab equipment	Total
	\$	\$	\$	\$
Balance, November 30, 2015	12,840	1,099	49,056	62,995
Additions	-	404	-	404
Balance, May 31, 2016	12,840	1,503	49,056	63,399
Additions	-	3,696	8,736	12,432
Balance, November 30, 2016	12,840	5,199	57,792	75,831
Additions	50,404	300,260	71,690	422,354
Balance, May 31, 2017	63,244	305,459	129,482	498,185
Accumulated depreciation				
Balance, November 30, 2015	3,531	110	13,736	17,377
Additions	2,560	119	3,531	6,210
Balance, May 31, 2016	6,091	229	17,267	23,587
Additions	2,560	489	4,406	7,455
Balance, November 30, 2016	8,651	718	21,673	31,042
Additions	13,312	22,266	7,197	40,312
Balance, May 31, 2017	21,963	22,984	28,870	71,354
Carrying value				
November 30, 2016	4,189	4,481	36,119	44,789
May 31, 2017	41,281	282,475	100,612	424,368

7. LEASEHOLD CONSTRUCTION IN PROGRESS

As at May 31, 2017, the Company had incurred \$1,527,101 (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 Kelowna, B.C. location to prepare the facility for operations under its existing controlled drug and substance dealer's license ("DL"), recently awarded by Health Canada. The leasehold additions relate to production lighting, growing benches, irrigation and nutrient systems, security installations and construction of growing rooms. The Company is expediting the acquisition additional Licences to Produce ("LP") and Licences to Sell ("LS") under the revised Access to Cannabis for Medical Purposes Regulations ("ACMPR") process, as a follow up to its DL. Facility modifications are underway to ensure separation of operations under the DL from future operations under an LP, as well as the planned 38,000 sq.ft. expansion of the existing facilities. Leaseholds under construction will be transferred to leasehold improvements when the assets are available for use; depreciation of the assets commence at that point.

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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 May 31, 2017 the Company:

- (a) paid or accrued management fees of \$7,000 (2016 – \$79,500) to Tim Tombe, a director and former employee at Valens Agritech Ltd.
- (b) paid or accrued management fees of \$30,000 (2016 – \$nil) to a company controlled by a Tyler Robson, a director and CEO of the Company.
- (c) paid or accrued management fees of \$97,500 (2016 – \$nil) to a company controlled by Rob van Santen, a director and CFO of the Company.
- (d) paid or accrued \$138,610 (2016 - \$128,956) in rent expense, \$121,810 to a company controlled by Dave Gervais and Tim Tombe, directors of the Company for the Kelowna facility, and \$16,800 to a company controlled by the spouse of the Rob van Santen, a director of the company, for the Vancouver turn-key office.
- (e) paid or accrued \$183,762 (2016-\$nil) in salary expense, to directors of the Company as employees at Valens Agritech Ltd.

Share-based payments includes stock options granted to directors and officers recorded at a fair value of \$879,320 (2016 - \$nil).

As at May 31, 2017, accounts payable and accrued liabilities included \$3,067,153 (November 30, 2016 - \$3,659,368) payable to directors, officers and companies controlled or related to directors and/or officers. Original principal and accrued interest amounts payable to related parties is payable on demand after October 31, 2017, have provisions for a six month extension, are secured by a GSA, and bear interest at 9% per annum.

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.

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9. SHARE CAPITAL AND CONTRIBUTED SURPLUS-continued**Issued shares-continued**

On April 5, 2017 the Company issued 3,000,000 shares to acquire 100% of Supra THC Services Inc. at a price of \$1.25 per unit.

On May 8, 2017 the Company entered into a shares-for-debt agreement with an arm's length creditor. The Company issued 23,862 shares at a price of \$1.45 per share settling \$34,600 of the Company payables.

Escrow shares

In connection with the RTO and acquisition of Supra, 39,675,000 common shares were placed into escrow with 10% released upon closing of the respective acquisition and 15% released every six months thereafter. At May 31, 2017, 30,206,250 shares were held in escrow (November 30, 2016 – 33,007,500).

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 May 31, 2017	2,021,038	0.96

The following table summarizes the warrants outstanding as at May 31, 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
579,306	1.15	January 11, 2018
<u>2,021,038</u>		

⁽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.

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9. SHARE CAPITAL AND CONTRIBUTED SURPLUS-continued**Stock options**

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

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

	Number of Options	Weighted Average Exercise Price \$
Balance, 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	1,320,000	1.25
Exercised	(45,000)	0.90
Balance outstanding, May 31, 2017	4,180,000	0.90
Options exercisable, May 31, 2017	1,940,000	0.90

The following table summarizes the options outstanding as at May 31, 2017:

Options outstanding	Options exercisable	Exercise price \$	Expiry date
36,666	36,666	3.00	September 25, 2017
40,000	40,000	3.00	October 10, 2018
19,999	19,999	3.00	November 27/28, 2018
233,332	233,332	0.30	August 31, 2020
50,000	50,000	0.30	September 22, 2020
2,500,000	1,250,000	0.65	November 30, 2021
300,000	*60,000	1.25	February 29, 2020
1,000,000	250,000	1.40	March 15, 2019
4,179,997	1,939,997		

* On June 1, 2017 a second tranche 20,000 of the \$1.25 options were exercised in accordance with the terms of Dr. O'Brien's Executive Services Agreement.

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9. SHARE CAPITAL AND CONTRIBUTED SURPLUS-continued**Stock options-continued**

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

	May 31, 2017	November 30, 2016
Average dividend per share	-	-
Average forecasted volatility	212%	213%
Average risk-free interest rate	1%	0.59%
Average expected life	5 years	5 years
Fair value – weighted average of options issued	\$ 0.90	\$0.64

10. CONVERTIBLE DEBENTURES

	Liability Component \$	Equity Component \$
Balance, November 30, 2015 and 2016	-	-
February 2, 2017 convertible debenture issuance	454,545	45,455
April 18, 2017 convertible debenture issuance	454,545	45,455
Accretion	18,930	-
Accrued interest	21,096	-
Balance, May 31, 2017	949,116	90,910

The debentures were subscribed for by John Binder and High Noon Holdings Inc., a company controlled by John Binder, a director of 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.

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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:

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

	Financial assets at fair value			May 31, 2017
	Level 1	Level 2	Level 3	
Fair value through profit and loss financial asset				
Cash and cash equivalents	\$ 334,869	-	-	\$ 334,869
Total financial assets at fair value	\$ 334,869	-	-	\$ 334,869

	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).

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12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT-*continued*

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.

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 (June 1, 2017-November 30, 2017)	\$ 99,000
Long term (December 1, 2017-December 31, 2022)	<u>851,110</u>
	\$ 950,110

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

- On June 30, 2017 the Company announced the resignation of Mr. Mark Doucet. Mr. Doucet was appointed President of the Company as announced on March 14, 2017. The 1,000,000 Stock Options granted to Mr. Doucet exercisable at \$1.40 in accordance with the Company's stock option plan have been cancelled.
- On July 20, 2017 the Company announced that Mr. Saul Katz has joined the Company as its President. The Company granted stock options to acquire an aggregate of 2.49 million common shares in the capital of the Company at an exercise price of \$1.00 per common share, expiring on the fifth anniversary of the grant (collectively, the "Stock Option"). The Stock Option vests in stages over the course of two (2) years with 25% to vest immediately and a further 12.5% to vest in each three-month period thereafter.
- On July 26, 2017 the Company announced a non-brokered private placement of up to 4,000,000 units (the "Units") at a price of \$1.00 per Unit for gross proceeds of up to \$4,000,000 (the "Offering"). The net proceeds of the Offering will be used for plant expansion, including additional growing and oil extraction capacity at existing facilities, marketing & branding initiatives and other growth opportunities and general corporate purposes. The Company anticipates significant insider participation in the Offering.