



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED - PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE THREE AND NINE MONTH PERIODS ENDED AUGUST 31, 2018

VALENS GROWORKS CORP.

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED
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 interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated 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 interim consolidated 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 GROWWORKS CORP.Condensed Interim Consolidated Statements of Financial Position
(Unaudited-Expressed in Canadian Dollars)

		August 31, 2018	November 30, 2017
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	5	2,815,538	291,623
Receivables	8	594,934	126,454
Prepaid expenses		151,976	444,204
		3,562,448	862,281
Equipment and leaseholds	6,8	7,017,645	455,426
Leasehold construction in progress		-	1,789,292
Intangible asset	3,7	3,667,857	3,900,000
Promissory note receivable MKV Ventures 1, LLC	4	2,184,002	1,890,498
		16,431,952	8,897,497
TOTAL ASSETS			
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	8	821,619	828,318
Promissory notes payable	8	-	860,507
		821,619	1,688,825
Shareholders' equity			
Share capital	9	31,758,300	17,934,729
Reserves	9	5,985,119	2,865,412
Obligation to issue shares		-	38,000
Subscriptions receivable		-	(20,608)
Deficit		(22,133,086)	(13,608,861)
		15,610,333	7,208,672
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			

Nature and continuance of operations (Note 1)

Commitments and contingency (Note 12)

Subsequent events (Note 13)

Approved on behalf of the Board on October 30, 2018

Signed

"Tyler Robson"

Director

Signed

"Nitin Kaushal"

Director

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

VALENS GROWWORKS CORP.Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited-Expressed in Canadian Dollars)

	Note	For the three months ended		For the nine months ended	
		2018	August 31, 2017	2018	August 31, 2017
		\$	\$	\$	\$
Revenue					
Consulting		14,575	15,615	37,316	23,404
Cost of sales					
Supplies, materials and personnel		8,700	-	22,118	-
		5,875	15,615	15,198	23,404
Operating expenses					
Administration fees		-	-	-	7,000
Advertising and promotion		217,331	1,291	494,824	45,431
Management and consulting fees	8	441,823	295,830	2,100,171	528,116
Depreciation	6,7	436,086	21,501	661,839	64,275
Interest		1,404	31,045	25,198	184,583
Office and miscellaneous		226,009	31,398	582,963	82,387
Professional fees		210,277	6,619	336,260	42,720
Rent	8	62,945	69,985	197,336	208,595
Repair and maintenance		90,474	5,348	106,548	24,201
Share based payments	8,9	241,514	575,475	3,119,707	2,281,445
Telephone and utilities		8,892	13,489	47,589	33,304
Transfer agent and filing fees		7,354	6,134	58,201	21,520
Travel and business development		94,791	9,290	331,874	42,096
Wages and salaries	8	404,525	61,477	818,467	300,912
		2,443,425	1,128,882	8,880,977	3,866,585
		(2,437,550)	(1,113,267)	(8,865,779)	(3,843,181)
Accretion	4	(5,265)	-	(14,718)	(18,933)
Foreign exchange gain (loss)	4	14,162	(18,322)	67,745	(15,664)
Interest income	4	123,103	99,319	288,527	291,158
Other income		-	-	-	3,262
		132,000	80,997	341,554	259,823
Loss and comprehensive loss for the period		(2,305,550)	(1,032,270)	(8,524,225)	(3,583,358)
Basic and diluted loss per share		(0.03)	(0.02)	(0.12)	(0.07)
Weighted average number of shares outstanding - basic and diluted		72,297,422	56,901,289	69,798,796	54,814,874

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

VALENS GROWORKS CORP.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Unaudited-Expressed in Canadian Dollars)

	<u>Share Capital</u>		Reserves	Obligation to issue shares	Subscriptions Receivable	Deficit	Total
	Number	Amount \$					
Balance, November 30, 2016	51,022,667	7,511,605	573,879	-	-	(9,225,408)	(1,139,924)
Shares issued pursuant to Supra acquisition	3,000,000	3,900,000	-	-	-	-	3,900,000
Shares issued for cash	1,300,882	933,076	-	-	-	-	933,076
Shares issued to settle accounts payable	892,919	706,311	-	-	-	-	706,311
Stock options exercised	191,666	247,776	(155,276)	-	-	-	92,500
Shares issued for exercise of warrants	1,500	1,725	-	-	-	-	1,725
Shares issued to settle convertible loans	1,036,539	1,036,539	-	-	-	-	1,036,539
Shares issued to settle promissory notes	2,197,327	2,008,865	-	-	-	-	2,008,865
Shares issued for consulting services	40,000	50,000	-	-	-	-	50,000
Shares cancelled	(33,333)	-	-	-	-	-	-
Share based payments	-	-	2,281,444	-	-	-	2,281,444
Loss for the period	-	-	-	-	-	(3,583,358)	(3,583,358)
Balance, August 31, 2017	59,650,167	16,395,897	2,700,047	-	-	(12,808,766)	6,287,178
Shares issued for cash	522,700	522,700	-	-	(8,000)	-	514,700
Shares issued to settle accounts payable	300,000	300,000	-	-	-	-	300,000
Stock options exercised	-	(47,200)	47,200	-	-	-	-
Shares issued for consulting services	50,000	55,000	-	38,000	-	-	93,000
Shares issued for exercise of warrants	579,998	435,001	-	-	-	-	435,001
Warrants issued to settle accounts payable	364,444	273,331	-	-	(12,608)	-	260,723
Share based payments	-	-	118,165	-	-	-	118,165
Loss for the period	-	-	-	-	-	(800,095)	(800,095)
Balance, November 30, 2017	61,467,309	17,934,729	2,865,412	38,000	(20,608)	(13,608,861)	7,208,672
Shares issued for cash	10,134,350	13,673,170	-	-	20,608	-	13,693,778
Share issue costs	70,565	(909,865)	-	-	-	-	(909,865)
Shares issued on exercise of warrants	541,905	630,626	-	-	-	-	630,626
Shares issued for consulting services	343,000	429,640	-	(38,000)	-	-	391,640
Share-based payments	-	-	3,119,707	-	-	-	3,119,707
Loss for the period	-	-	-	-	-	(8,524,225)	(8,524,225)
Balance, August 31, 2018	72,557,129	31,758,300	5,985,119	-	-	(22,133,086)	15,610,333

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-Expressed in Canadian Dollars)

For the nine months ended August 31

	2018	2017
	\$	\$
OPERATING ACTIVITIES		
Loss for the period	(8,524,225)	(3,583,358)
Adjustment for non-cash items:		
Depreciation	661,839	64,275
Share based payments	3,119,707	2,281,445
Interest on promissory notes	(228,783)	(307,460)
Foreign exchange	(79,439)	15,161
Accretion expenses	14,718	18,933
Interest expense	-	(17,608)
Consulting fees	429,640	50,000
Loss on disposal of assets	2,808	-
	(4,603,735)	(1,478,612)
Working capital adjustments		
Receivables	(468,480)	(34,712)
Prepaid expenses	292,228	(90,200)
Accounts payable and accrued liabilities	(399,693)	366,409
	(5,179,680)	(1,237,115)
INVESTING ACTIVITIES		
Acquisition of equipment	(2,421,018)	(423,488)
Leasehold improvement expenditures	(2,391,419)	(145,204)
	(4,812,437)	(568,692)
FINANCING ACTIVITIES		
Proceeds from private placement, net of share issue costs	12,763,305	933,076
Settlement of share subscriptions receivable	20,608	-
Settlement of obligation to issue shares	(38,000)	-
Proceeds from issuance of convertible debt	-	1,000,000
Proceeds from exercise of stock options	-	92,500
Proceeds from exercise of warrants	630,626	1,725
Repayment of promissory notes payable	(860,507)	-
	12,516,032	2,027,301
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,523,915	221,494
Cash and cash equivalents, beginning of period	291,623	14,843
Cash and cash equivalents, end of period	2,815,538	236,337
Supplemental disclosure with respect to cash flows:		
Equipment accrued through accounts payable	59,840	-
Leasehold improvements accrued through accounts payable	333,154	-
Settlement of consulting fees through issuance of shares	429,640	50,000
Shares issued to acquire Supra	-	3,900,000
Shares issued to settle accounts payable	-	706,311
Shares issued to settle convertible loans	-	1,036,539
Shares issued to settle promissory notes	-	2,008,865

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

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Statements

(Unaudited-Expressed in Canadian Dollars)

For the Nine Months Ended August 31, 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'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. Upon completion of the Acquisition, the Company changed its name from Genovation Capital Corp. to Valens GroWorks Corp.

During the year ended November 30, 2017 VAL was issued a Health Canada Dealer's License which allows VAL to possess, produce, process, package, import, export and sell cannabis as well as related active ingredients at its facility in Kelowna, B.C. Subsequent to the quarter ended August 31, 2018, VAL was granted their LP license to cultivate and produce oil under the Access to Cannabis for Medical Purposes Regulations.

On April 5, 2017 the Company acquired Supra THC Services Inc. ("Supra") (Note 3). Supra was incorporated under the Business Corporation Act of the Province of British Columbia on December 10, 2015. Supra holds a Health Canada Dealer's License which allows Supra to process and produce extract from cannabis and related active ingredients for scientific purposes.

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.

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

These unaudited 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 nine months ended August 31, 2018 the Company incurred a loss of \$8,524,225 (August 31, 2017 - \$3,583,358). As of August 31, 2018 the Company has an accumulated deficit of \$22,133,086 (November 30, 2017-\$13,608,861). 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 is not certain 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 may need to obtain further financing in the form of debt, equity or a combination thereof within 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.

2. BASIS OF PREPARATION

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), and its interpretations. Accordingly, these condensed interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for yearend reporting purposes.

The unaudited condensed interim consolidated financial statements of the Company for the nine months ended August 31, 2018 were authorized for issue by the Board of Directors on October 30, 2018.

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Statements

(Unaudited-Expressed in Canadian Dollars)

For the Nine Months Ended August 31, 2018

2. BASIS OF PREPARATION-continued

Basis of preparation

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries, VAL, Supra and Farms. 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 unaudited condensed interim consolidated 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.

The notes herein include only significant transactions and events occurring since the Company's last fiscal year end and are not fully inclusive of all matters required to be disclosed in the annual audited consolidated financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should be read in conjunction with our most recent annual audited financial statements for the year ended November 30, 2017.

These unaudited 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 unaudited condensed interim consolidated financial statements are presented in Canadian Dollars, which is also the Company's functional currency, unless otherwise indicated.

Critical accounting estimates

The preparation of these unaudited 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 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 and estimated completion date of the Farmtek greenhouse currently under construction (Note 4) to calculate the present value of the promissory note.

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Statements

(Unaudited-Expressed in Canadian Dollars)

For the Nine Months Ended August 31, 2018

2. BASIS OF PREPARATION-continued

Accounting standards not yet effective

IFRS 9 – Financial Instruments (“IFRS 9”) In July 2014, the IASB issued the final version of IFRS 9 which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity’s business model and the contractual cash flow of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. IFRS 9 amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and derecognition of financial instruments. The amended standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) In May 2014, IASB issued IFRS 15 to replace IAS 18 – Revenue, which establishes a new single five-step control based revenue recognition model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company has initially assessed that there will be no material reporting changes as a result of adopting IFRS 9 and 15; however, enhanced disclosure requirements are expected.

IFRS 16 – Leases IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee. The IASB issued IFRS 16, Leases, in January 2016, which replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a “right-of-use asset” for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets. 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 of IFRS 16 will have on its consolidated financial statements, or whether to early adopt this new requirement.

3. ACQUISITION OF SUPRA

On February 27, 2017 the Company entered into a share exchange agreement with Supra whereby the Company acquired all of the issued and outstanding shares of Supra for the issuance of 3,000,000 common shares of the Company (the “Transaction”). Supra holds a Health Canada Dealer’s License with the ability to possess and produce extracts from cannabis and related active ingredients for scientific purposes (the “License”).

The Transaction closed on April 5, 2017, the date the Company issued the common shares. The fair value of the common shares issued was \$3,900,000 and were valued using the trading price of the shares on the closing date. 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 of the Transaction, the only asset held by Supra was the License, therefore the full purchase price has been allocated to the License.

The Company has classified the License as an intangible asset with a finite life. The License will be used at the Company’s Kelowna, B.C. location. Amortization on the license commenced in the third quarter of 2018 as the facility is now operational and will be amortized on a straight line basis over the current term of the lease plus one renewal period.

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Statements

(Unaudited-Expressed in Canadian Dollars)

For the Nine Months Ended August 31, 2018

4. PROMISSORY NOTE RECEIVABLE

As at August 31, 2018 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 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.

The Company and MKHS decided not to complete the share exchange transaction and on January 16, 2017 the Company entered into a 5-year, renewable, Professional Services Agreement (the “PSA”) with MKHS Ventures. As a result of the Arrangement, MKHS Ventures will complete the buildout of a 28,000-sf Farmtek greenhouse expansion as proposed and funded by the Company under the original agreements (the “Buildout”). In accordance with the PSA, upon completion of the Buildout and commencement of operations, the Company will receive monthly management fees and provide consulting services which will be invoiced on a monthly basis. The Buildout is currently under construction and was expected to be completed in 2017, however, due to additional safety requirement features being added to the Buildout the completion has been delayed. The impact of the change in estimate is reflected in the accretion recorded for the current year.

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

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.

As at August 31, 2018 the face value of the loan was \$2,233,362 (US\$1,710,733) (November 30, 2017 - \$1,923,606 (US\$1,532,678)). The loan has been present valued using a market interest rate of 15%. The present value of the loan, including interest to date, as at August 31, 2018 was \$2,184,002 (November 30, 2017 - \$1,890,498). For the three and nine month periods ended August 31, 2018, the Company recognized accretion of \$5,265 and \$14,718 respectively (2017 - \$nil and \$18,933), interest of \$81,052 and \$228,783 (2017 - \$84,257 and \$307,460) and a foreign exchange gain of \$17,091 and \$79,439 (2017 - (\$19,853) and (\$15,161)).

5. CASH AND CASH EQUIVALENTS

The balance at August 31, 2018 consists of cash on deposit with major Canadian banks in general interest bearing accounts totaling \$298,376 (November 30, 2017 - \$291,623), cashable guaranteed investment certificates with major Canadian banks of \$2,514,369 (November 30, 2017 - \$nil), and funds held in trust with the Company’s lawyer in the amount of \$2,793 (November 30, 2017 - \$nil), for total cash and cash equivalents of \$2,815,538 (November 30, 2017 - \$291,623).

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Statements

(Unaudited-Expressed in Canadian Dollars)

For the Nine Months Ended August 31, 2018

6. EQUIPMENT AND LEASEHOLDS

	Computer equipment and software	Office furniture and equipment	Lab equipment	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
Balance, November 30, 2016	12,840	5,199	57,792	-	75,831
Additions	388,151	56,084	71,690	-	515,925
Balance, November 30, 2017	400,991	61,283	129,482	-	591,756
Transfer leasehold construction in progress	-	-	-	1,789,292	1,789,292
Additions	43,854	274,851	2,162,153	2,724,573	5,205,431
Disposals	(2,464)	(1,134)	-	-	(3,598)
Balance, August 31, 2018	442,381	335,000	2,291,635	4,513,865	7,582,881
Accumulated depreciation					
Balance, November 30, 2016	8,651	718	21,673	-	31,042
Additions	76,148	14,747	14,393	-	105,288
Balance, November 30, 2017	84,799	15,465	36,066	-	136,330
Additions	85,148	45,872	173,064	125,612	429,696
Disposals	(677)	(113)	-	-	(790)
Balance, August 31, 2018	169,270	61,224	209,130	125,612	565,236
Carrying value					
November 30, 2017	316,192	45,818	93,416	-	455,426
August 31, 2018	273,111	273,776	2,082,505	4,388,253	7,017,645

The leasehold improvements relate to a building expansion of the current facility under lease including infrastructure for additional growing rooms, research and testing labs and office space. At November 30, 2017, the Company had incurred \$1,789,292 in leasehold construction in progress costs. The leasehold construction was completed in the third quarter of 2018 and was ready to be used by both Supra and VAL for their respective operations.

7. INTANGIBLE ASSETS

Cost	Total \$
Balance, November 30, 2016	-
Additions (Note 3)	3,900,000
Balance, November 30, 2017	3,900,000
Additions	-
Balance, August 31, 2018	3,900,000
Accumulated depreciation	
Balance, November 30, 2016	-
Additions	-
Balance, November 30, 2017	-
Additions	232,143
Balance, August 31, 2018	232,143
Carrying Value	
November 30, 2017	3,900,000
August 31, 2018	3,667,857

Amortization on the license commenced in the third quarter of 2018 as the facility is now operational and will be amortized on a straight line basis over the current term of the lease plus one renewal period.

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Statements

(Unaudited-Expressed in Canadian Dollars)

For the Nine Months Ended August 31, 2018

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. The remuneration of the Company's directors and other key management personnel during the three and nine month periods ended August 31, 2018 and 2017 are as follows:

	For the three months ended		For the nine months ended	
	2018	August 31, 2017	2018	August 31, 2017
	\$	\$	\$	\$
Management fees	181,400	199,940	1,022,721	344,400
Rent	62,945	69,985	197,336	208,595
Wages and salaries	52,500	18,589	65,000	192,149
Share-based payments	194,744	282,161	194,744	2,039,810
Purchase of equipment	-	-	293,331	-
	491,589	570,675	1,773,132	2,784,954

As at August 31, 2018, accounts payable and accrued liabilities included \$10,009 (November 30, 2017 - \$311,410) payable to officers, directors and former directors of the Company. Amounts payable to related parties have no specific terms of repayment, are unsecured and do not bear interest.

As at August 31, 2018, receivables included \$160,695 (November 30, 2017 - \$22,500) due to the Company from former directors and companies controlled by former directors of the Company.

Convertible Notes

On February 9, 2017 and April 18, 2017, the Company entered into convertible loan agreements (the "Loans") with a Company owned by a director and a director of the Company ("the "Lender"). Each Loan was for \$500,000 with a term of one year and interest rate of 10% to be paid on settlement. The Lender had the option but no obligation to exchange all or part of the Loan and accrued interest into common shares through the planned August 2017 private placement. If converted, the terms and conditions of the common shares would be equivalent to those issued in the private placement. As the conversion feature of the Loan did not meet the fixed-for-fixed criteria the Loan was considered to have an embedded derivative feature. The derivative was assessed to be immeasurable at the grant date and the full value of the loan was recognized as a liability.

On August 14, 2017, on the completion of the private placement, the Lender exercised his option to convert the Loan into common shares and was issued 1,036,539 common shares at a price of \$1.00 (Note 9) for full settlement. During the three and nine month periods ended August 31, 2018, the Company recorded total interest on the Loans of \$nil (2017 - \$nil) and \$nil (2017 - \$21,095) respectively.

Promissory Notes

During the year ended November 30, 2017, the Company entered into promissory note agreements with two directors of the Company, two companies related through the directors and a shareholder of the Company with an effective date of October 30, 2016 ("the Notes"). Under the agreements, a total of \$2,675,373 in outstanding payables was converted into Notes. Interest accrues on the outstanding balance of the Notes at a rate of 9% and compounds semi-annually. The Notes are due on demand after October 31, 2017.

The Company settled \$2,008,865 of the Notes through the issuance of 2,197,327 common shares through the private placements completed on January 11, 2017 and August 14, 2017 (Note 9). During the nine month period ended August 31, 2018 the remaining outstanding balance of the Notes was settled and \$nil (November 30, 2017 - \$860,507) remains outstanding. During the three and nine month periods ended August 31, 2018, the Company recorded total interest on the Notes of \$nil (2017 - \$33,144) and \$17,035 (2017 - \$163,675) respectively.

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Statements

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For the Nine Months Ended August 31, 2018

9. 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:

Nine-month period ended August 31, 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. The Company received cash 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 for 12 months from the closing, subject to acceleration conditions.

(b) During the nine months ended August 31, 2018, the Company issued 541,905 common shares in connection with the exercise of warrants for gross proceeds of \$630,626.

(c) 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. The Company received cash proceeds of \$12,385,870. In connection with the financing the Company paid a finders' 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.

(d) On March 29, 2018, the Company issued 73,000 common shares to a consultant of the Company valued at \$129,940.

(e) On April 18, 2018, the Company entered into a consulting agreement with a former Director of the Company. On August 1, 2018 under the terms of the agreement, the Company issued 20,000 common shares of the Company and recognized a corresponding expense of \$22,200.

(f) On January 1, 2018 the Company entered into a one-year consulting agreement for the provision of investor relations and market awareness services. On August 1, 2018 under the terms of the agreement, the Company issued 250,000 common shares of the Company and recognized a corresponding expense of \$277,500.

Year ended November 30, 2017:

a) On December 20, 2016, the Company closed the first tranche of a non-brokered private placement and issued 994,576 units at a price of \$0.65 per unit. The Company received cash proceeds of \$288,976 and settled accounts payable of \$357,500. On January 11, 2017, the Company closed the second and final tranche of a non-brokered private placement and issued 1,158,614 units at a price of \$0.65 per unit. The Company received cash proceeds of \$394,100 and settled promissory notes payable of \$350,000 (Note 8) and accounts payable of \$9,000. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to purchase one common share at a price of \$1.15 up to 12 months from closing, subject to acceleration conditions.

b) On April 5, 2017, the Company issued 3,000,000 common shares with a value of \$3,900,000 to acquire 100% of Supra (Note 3);

c) On May 3, 2017, the Company cancelled 33,333 common shares that were issued to a vendor for services that were not completed. As the shares were issued prior to RTO transaction with VAL., \$nil was reversed on the cancellation;

d) 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 common share settling \$34,600 in accounts payable;

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Statements

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For the Nine Months Ended August 31, 2018

9. SHARE CAPITAL AND RESERVES -continued

e) On August 14, 2017, the Company closed the first tranche of a non-brokered private placement and issued 3,250,615 units at a price of \$1.00 per unit. The Company received cash proceeds of \$250,000 and settled convertible notes of \$1,036,539 (Note 8), promissory notes payable of \$1,658,865 (Note 8) and settled accounts payable of \$305,211 on the transaction. On October 3, 2017, the Company closed the second and final tranche of the non-brokered private placement and issued 85,000 units at a price of \$1.00 per unit. The Company received cash proceeds of \$85,000 on the transaction. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to purchase one common share at a price of \$1.50 for 12 months from closing, subject to acceleration conditions;

f) On November 30, 2017, the Company closed the first tranche of a non-brokered private placement and issued 737,700 units at a price of \$1.00 per unit. The Company received cash proceeds of \$429,700, settled accounts payable of \$300,000 and recognized subscriptions receivable of \$8,000 on the transaction. Each unit consisted of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to purchase one common share at a price of \$1.50 for 12 months from closing, subject to acceleration conditions.

g) During the year ended November 30, 2017, the Company also issued:

i. 945,942 common shares due to the exercise of warrants with prices between \$0.75 and \$1.15 per warrant. The common shares had a total value of \$710,059 of which the Company received cash proceeds of \$436,726, settled accounts payable of \$260,725 and recognized subscriptions receivable of \$12,608;

ii. 191,666 common shares due to the exercise of options with prices between \$0.30 and \$0.65 per stock option. The Company received gross proceeds of \$92,500 on the exercise and recognized a reversal of the fair value of the stock options of \$108,076 on the transaction; and

iii. 90,000 common shares for services rendered during the year valued at \$143,000 of which \$38,000 has been recognized as an obligation to issue shares.

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 August 31, 2018, 17,853,750 shares were held in escrow (November 30, 2017 – 23,805,000).

Warrants

The Company's warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price \$
Balance, outstanding and exercisable, November 30, 2016	944,442	0.75
Issued	3,113,253	1.38
Exercised	(945,942)	0.75
Balance, outstanding and exercisable, November 30, 2017	3,111,753	1.38
Issued	643,650	1.50
Exercised	(541,905)	1.16
Expired	(2,179,748)	1.41
Balance, outstanding and exercisable August 31, 2018	1,033,750	1.50

VALENS GROWWORKS CORP.

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For the Nine Months Ended August 31, 2018

9. SHARE CAPITAL AND RESERVES-continued

The following table summarizes the warrants outstanding as at August 31, 2018:

Warrants outstanding	Exercise price \$	Expiry date⁽¹⁾
42,500	1.50	October 2, 2018
95,000	1.50	November 5, 2018
260,100	1.50	November 30, 2018
636,150	1.50	December 27, 2018
<u>1,033,750</u>		

The following table summarizes the warrants outstanding as at November 30, 2017:

Warrants outstanding	Exercise price \$	Expiry date⁽¹⁾
497,288	1.15	December 21, 2017
577,807	1.15	January 11, 2018
1,625,308	1.50	August 13, 2018
42,500	1.50	October 2, 2018
103,750	1.50	November 5, 2018
265,100	1.50	November 30, 2018
<u>3,111,753</u>		

⁽¹⁾ The Company is entitled to accelerate the expiry date of all the outstanding \$1.15 and \$1.50 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 \$1.65 and \$2.00 for any 10 consecutive trading days after the statutory hold period prior to the expiry date.

Stock options

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

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

	Number of Options	Weighted Average Exercise Price \$
Balance outstanding, November 30, 2016	2,905,000	0.69
Issued	2,400,000	1.00
Exercised	(191,666)	0.48
Cancelled	(625,000)	1.00
Expired	(36,667)	3.00
Balance outstanding, November 30, 2017	4,451,667	0.80
Issued	1,625,000	1.95
Cancelled	(25,000)	0.30
Balance outstanding, August 31, 2018	<u>6,051,667</u>	<u>1.11</u>
Options exercisable, August 31, 2018	5,351,667	1.12
Options exercisable, November 30, 2017	<u>3,520,417</u>	<u>0.75</u>

VALENS GROWWORKS CORP.

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For the Nine Months Ended August 31, 2018

9. SHARE CAPITAL AND RESERVES-continued

Nine-month period ended August 31, 2018:

On July 9, 2018, the Company granted 625,000 stock options to an officer and employees of the Company exercisable into common shares at a price of \$1.07 per common share and expiring on July 9, 2023. On February 27, 2018, the Company granted 1,000,000 stock options to a consultant of the Company exercisable into common shares at a price of \$2.50 per common share and expiring on February 23, 2023. The total share-based payments expense for options granted and vested during the period was \$2,275,899.

The Company also recorded share-based payment expense in relation to vesting of options issued in prior periods in the amount of \$843,808 for total share-based payment expense of \$3,119,707 for the nine month period ended August 31, 2018.

Year ended November 30, 2017:

During the year ended November 30, 2017, the Company granted a total of 2,400,000 stock options. The total share-based payments expense for options granted and vested during the year was \$2,399,609.

The fair value of options granted is estimated using the following weighted average assumptions at the time of grant using the Black-Scholes option pricing model:

	August 31, 2018	November 30, 2017
Average dividend per share	-	-
Average forecasted volatility	136%	173%
Average risk-free interest rate	2.06%	1.32%
Average expected life	5 years	5 years
Fair value – weighted average of options issued	\$ 1.65	\$0.94

The following table summarizes the options outstanding as at August 31, 2018:

Options outstanding	Options exercisable	Exercise price \$	Expiry date
40,000	40,000	3.00	October 10, 2018
20,000	20,000	3.00	November 27/28, 2018
141,667	141,667	0.30	August 31, 2020
50,000	50,000	0.30	September 22, 2020
2,400,000	2,400,000	0.65	November 30, 2021
1,625,000	1,625,000	1.00	September 30, 2018
150,000	50,000	1.00	November 7, 2020
1,000,000	1,000,000	2.50	February 23, 2023
625,000	25,000	1.07	July 9, 2023
6,051,667	5,351,667		

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Statements

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For the Nine Months Ended August 31, 2018

9. SHARE CAPITAL AND RESERVES-continued

The following table summarizes the options outstanding as at November 30, 2017:

Options outstanding	Options exercisable	Exercise price	Expiry date
		\$	
40,000	40,000	3.00	October 10, 2018
20,000	20,000	3.00	November 27/28, 2018
166,667	166,667	0.30	August 31, 2020
50,000	50,000	0.30	September 22, 2020
2,400,000	2,400,000	0.65	November 30, 2021
1,625,000	843,750	1.00	July 19, 2022
150,000	-	1.00	November 7, 2020
4,451,667	3,520,417		

10. 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' equity (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.

11. 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			August 31, 2018
	Level 1	Level 2	Level 3	
Fair value through profit and loss financial asset				
Cash and cash equivalents	\$301,169	\$2,514,369	-	\$2,815,538
Total financial assets at fair value	\$301,169	\$2,514,369	-	\$2,815,538

	Financial assets at fair value			November 30, 2017
	Level 1	Level 2	Level 3	
Fair value through profit and loss financial asset				
Cash and cash equivalents	\$ 291,623	-	-	\$ 291,623
Total financial assets at fair value	\$ 291,623	-	-	\$ 291,623

VALENS GROWWORKS CORP.

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For the Nine Months Ended August 31, 2018

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT -continued

Cash and cash equivalents is classified as fair value through profit or loss and is measured using level 1 inputs of the fair value hierarchy, except for guaranteed investment certificates which are classified as level 2. The fair value of the Company's receivables, accounts payable and accrued liabilities and promissory notes payable 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 an unexpected loss of 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 and cash equivalents and promissory note receivable. The Company's cash and cash equivalents is held through large Canadian financial institutions and the Company's promissory note receivable is guaranteed by MKHS.

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 and cash equivalents. The Company's cash is invested in bank accounts which are available on demand. The Company is exposed to liquidity risk.

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 cash equivalents, the MKHS promissory note receivable and accounts payable and accrued liabilities that are denominated in US dollars. As at August 31, 2018, a 10% appreciation of the Canadian dollar relative to the US dollar would have decreased net financial assets by approximately \$218,400 (November 30, 2017 - \$189,050). A 10% depreciation of the US dollar relative to the Canadian 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.

12. COMMITMENTS AND CONTINGENCY

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.

VALENS GROWWORKS CORP.

Notes to the Condensed Interim Consolidated Statements

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For the Nine Months Ended August 31, 2018

12. COMMITMENTS AND CONTINGENCY -continued

Under the lease agreement the Company is required to make monthly lease payments as follows:

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 (September 1, 2018 – August 31, 2019)	\$ 251,772
Long term (September 1, 2019 – August 31, 2021)	<u>518,652</u>
	\$ 770,424

Consulting Agreement

On January 1, 2018 the Company entered into a one-year consulting agreement for the provision of investor relations and market awareness services. Under the terms of the agreement, in addition to the base consulting fee, the Company has committed to issue 500,000 common shares of the Company in equal quarterly tranches. At August 31, 2018, the Company has issued 250,000 common shares and recognized a corresponding expense of \$277,500.

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. During the year ended November 30, 2017, the parties reached a settlement agreement whereby the Company would pay the vendor \$9,000. The funds are currently being held in trust by the Company's legal counsel and are awaiting request to be transferred to the vendor at which time the settlement documents will be signed and filed with the court.

13. SUBSEQUENT EVENTS

On September 5, 2018, the Company issued 400,000 common shares in connection with the exercise of stock options for gross proceeds of \$400,000. On October 10, 2018, the Company issued an additional 1,686,538 common shares in connection with the exercise of stock options for gross proceeds of \$1,525,000.

On September 12, 2018 the Company issued 156,000 common shares in connection with the exercise of warrants for gross proceeds of \$234,000, on September 19, 2018, an additional 30,000 common shares for gross proceeds of \$45,000 and on October 4, 2018, an additional 5,000 common shares for gross proceeds of \$7,500.

On September 21, 2018 the Company signed a manufacturing and sales license agreement with Tarukino Holdings Inc. ("Tarukino"). Under the agreement, Tarukino granted Valens 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 Valens 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 agreed to grant Tarukino 4,300,000 shares of the Company on signing the agreement, 1,000,000 warrants 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.

On October 10, 2018 the Company announced the closing of the \$27,303,801 bought deal financing, pursuant to which the Company issued 12,820,513 units at a price of \$1.95 per unit which is comprised of one common share of the Company and one half share purchase warrant exercisable at a price of \$2.54 per share for a period of twenty four months from the date of closing. In addition the Company issued 1,130,977 common shares of the Company and 961,539 share purchase warrants as partial exercise of the underwriters over-allotment option.

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For the Nine Months Ended August 31, 2018

13. SUBSEQUENT EVENTS -*continued*

On October 14, 2018 the Company granted 2,652,000 options to purchase common shares of the Company exercisable at a price of \$1.95 per share and expiring on October 13, 2023, to employees, officers and consultants of the Company. The options vest quarterly over a three-year period and are granted pursuant to the terms of the Company's stock option plan.

On October 15, 2018 the Company announced that Health Canada has granted VAL their LP license to cultivate and produce oil under the Access to Cannabis for Medical Purposes Regulations.

On October 29, 2018 the Company announced it signed a share purchase agreement (the "Agreement") with Australian-based RotoGro International Limited ("RotoGro") to sell one of the Company's wholly owned subsidiaries, Supra THC Services Inc. ("Supra"), which currently holds the Company's second Dealers License, for total consideration of \$11,000,000. The purchase price will be paid at four milestones and will be comprised of \$2,000,000 in cash, and 18,900,000 shares of RotoGro with a current estimated value of \$9,000,000. Prior to closing the transaction, the Company will transfer all assets currently held in Supra, excluding the Dealer's License, to the newly created subsidiary Valens Labs Ltd.