

**VALENS AGRITECH LTD.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

(UNAUDITED - PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

**FOR THE THREE AND NINE MONTH PERIOD ENDED AUGUST 31, 2016**

**VALENS AGRITECH LTD.**Condensed Interim Statements of Financial Position  
(Unaudited-Expressed in Canadian Dollars)

		August 31, 2016	November 30, 2015
	Note	\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash		3,734	9,515
Receivables		22,964	137,358
Prepaid expenses		1,476	-
		28,174	146,873
Equipment	3	45,983	45,618
Leasehold construction in progress	4	1,494,345	1,356,373
<b>TOTAL ASSETS</b>		<b>1,568,502</b>	<b>1,548,864</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		118,586	51,099
Due to related parties	5	1,848,889	1,758,889
Due to 1022006 BC Ltd.	6	238,434	87,900
Due to 0768390 BC Ltd.	7	703,057	516,756
Due to shareholder	8	26,720	26,720
		2,935,686	2,441,364
<b>Shareholders' deficiency</b>			
Share capital	9	270	270
Deficit		(1,367,454)	(892,770)
		(1,367,184)	(892,500)
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		<b>1,568,502</b>	<b>1,548,864</b>

Nature and continuance of operations (Note 1)

Commitment and contingency (Note 13)

Approved on behalf of the Board on December 4, 2016:

Signed

Signed

"Tim Tombe"

Director

"Dave Gervais"

Director

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

**VALENS AGRITECH LTD.**Condensed Interim Statements of Loss and Comprehensive Loss  
(Unaudited-Expressed in Canadian Dollars)

	Note	For the three months ended August 31,		For the nine months ended August 31,	
		2016	2015	2016	2015
		\$	\$	\$	\$
<b>Revenue</b>					
Consulting		-	-	105,000	1,000
<b>Operating expenses</b>					
Consulting fees		7,970	247,585	93,437	247,585
Depreciation	3	3,095	-	9,286	-
Interest and bank charges		379	262	1,253	317
Management fees	10	76,250	-	155,750	-
Office		6,934	5,733	15,549	8,160
Professional fees		33,212	33,943	89,137	36,443
Rent		60,905	109,363	189,861	109,363
Telephone and utilities		7,793	91	24,477	91
Travel		-	-	934	-
		196,538	396,977	579,684	401,959
<b>Loss and comprehensive loss for the period</b>		(196,538)	(396,977)	(474,684)	(400,959)
<b>Basic and diluted loss per share</b>		(0.03)	(0.06)	(0.07)	(0.06)
<b>Weighted average number of shares outstanding</b>		7,000,000	7,000,000	7,000,000	7,000,000

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

**VALENS AGRITECH LTD.**Condensed Interim Statements of Changes in Shareholders' Deficiency  
(Unaudited-Expressed in Canadian Dollars)

	Share Capital		Amount \$	Deficit \$	Total \$
	Number Shares Class A	Number Shares Class B			
<b>Balance, November 30, 2014</b>	<b>200</b>	<b>6,999,800</b>	<b>270</b>	<b>(300,974)</b>	<b>(300,704)</b>
Net loss for the period	-	-	-	(400,959)	(400,959)
<b>Balance, August 31, 2015</b>	<b>200</b>	<b>6,999,800</b>	<b>270</b>	<b>(701,933)</b>	<b>(701,663)</b>
Net loss for the period	-	-	-	(190,837)	(190,837)
<b>Balance, November 30, 2015</b>	<b>200</b>	<b>6,999,800</b>	<b>270</b>	<b>(892,770)</b>	<b>(892,500)</b>
Net loss for the period	-	-	-	(474,684)	(474,684)
<b>Balance, August 31, 2016</b>	<b>200</b>	<b>6,999,800</b>	<b>270</b>	<b>(1,367,454)</b>	<b>(1,367,184)</b>

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

**VALENS AGRITECH LTD.**

## Condensed Interim Statements of Cash Flows

(Unaudited-Expressed in Canadian Dollars)

	Nine months ended August 31, 2016 \$	Nine months ended August 31, 2015 \$
<b>OPERATING ACTIVITIES</b>		
Loss for the period	(474,684)	(400,959)
Adjustment for non-cash items:		
Depreciation	9,286	-
Working capital adjustments		
Receivables	114,394	(42,810)
Accounts payable and accrued liabilities	67,487	8,653
Due to related parties	90,000	514,481
Due to 1022006 BC Ltd.	150,534	-
Due to 0768390 BC Ltd	186,301	495,594
	<u>141,842</u>	<u>574,959</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of equipment	(9,650)	-
Leasehold construction in progress	(137,973)	(580,461)
	<u>(147,623)</u>	<u>(580,461)</u>
<b>NET INCREASE IN CASH</b>	(5,781)	(5,502)
<b>Cash, beginning of the period</b>	<u>9,515</u>	<u>5,771</u>
<b>Cash, end of the period</b>	<u>3,734</u>	<u>269</u>
<b>Supplemental disclosure with respect to cash flows:</b>		
Equipment and leasehold improvements accrued through due to related parties	-	522,469
Share issuance costs accrued through accounts payable and accrued liabilities	-	270
Equipment and leasehold improvements accrued through due to 0768390 BC Ltd.	38,444	41,092
Equipment and leasehold improvements included in accounts payable and accrued liabilities	99,025	-

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

## **VALENS AGRITECH LTD.**

### Notes to the Condensed Interim Financial Statements

For the Nine Months Ended August 31, 2016

(Unaudited-Expressed in Canadian Dollars)

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#### **1. NATURE AND CONTINUANCE OF OPERATIONS**

Valens Agritech Ltd. (the "Company") was incorporated under the Business Corporations Act of the Province of British Columbia on April 14, 2014. The Company is a privately held biotechnology company that is focused on the emerging CBD (Cannabinoid) market. The primary focus is providing medical researchers within Canada the purest forms of our proprietary strain of high level CBD extracts which are high in CBD but low in THC. The Company is currently aligned with several top research facilities to conduct a series of small human clinical trials using proprietary plant material and state of the art extraction methodology. The address of the Company's registered and records office and head office address is 3532 Barney Road, Westbank, BC V4T 1J2.

On November 2, 2016 the Company was acquired by Valens Growork Corp. ("VGW") by way of a share exchange agreement dated October 31, 2016, (the "SEA"). Pursuant to the terms of the SEA, the Company's shareholders received an aggregate 36 million common shares of VGW ("Transaction Shares") at closing of the transaction, subject to a combination of milestone vesting criteria, regulatory escrow provisions and a voluntary pooling agreement, over a period of 36 months.

The 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 had an accumulated deficit of \$1,367,454 as at August 31, 2016. 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 for 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.

#### **2. BASIS OF PREPARATION**

##### **Statement of compliance**

These unaudited condensed interim financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB have been condensed or omitted and these unaudited condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended November 30, 2015.

##### **Basis of presentation**

The unaudited condensed interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. In addition, these unaudited condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The critical judgments and estimates applied in the preparation of the Company's unaudited condensed interim financial statements are consistent with those applied and disclosed in the Company's financial statements for the year ended November 30, 2015. In addition, the accounting policies applied in these unaudited condensed interim financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year ended November 30, 2015.

The Company's interim results are not necessarily indicative of its results for a full year.

## **VALENS AGRITECH LTD.**

### Notes to the Condensed Interim Financial Statements

For the Nine Months Ended August 31, 2016

(Unaudited-Expressed in Canadian Dollars)

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These unaudited condensed consolidated financial statements were approved for issue by the Board of Directors on December 4, 2016.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Critical accounting estimates**

The preparation of these 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. Impairment of equipment and leasehold improvements - the Company regularly reviews its property and equipment for indications of impairment and will adjust the carrying value to reflect any necessary write-downs.
- ii. Recognition and recoverability of deferred tax assets - the Company has assessed that it is improbable that such assets will be realized and has accordingly not recognized a value for deferred tax assets.

### **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*

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.

**VALENS AGRITECH LTD.**

## Notes to the Condensed Interim Financial Statements

For the Nine Months Ended August 31, 2016

(Unaudited-Expressed in Canadian Dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Accounting standards not yet effective (continued)**

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.

**3. EQUIPMENT**

	<b>Computer equipment and software</b>	<b>Office furniture and equipment</b>	<b>Lab equipment</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>				
Balance, November 30, 2014	-	-	49,056	49,056
Additions	12,840	1,099	-	13,939
Balance, August 31 and November 30, 2015	12,840	1,099	49,056	62,995
Additions	-	915	8,736	9,651
Balance, August 31, 2016	12,840	2,014	57,792	72,646
<b>Accumulated depreciation</b>				
Balance, November 30, 2014	-	-	4,906	4,906
Additions	3,531	110	8,830	12,471
Balance, August 31 and November 30, 2015	3,531	110	13,736	17,377
Additions	3,840	148	5,298	9,286
Balance, August 31, 2016	7,371	258	19,034	26,663
<b>Carrying value</b>				
November 30, 2015	9,309	989	35,320	45,618
August 31, 2016	5,469	1,756	38,758	45,983

**4. LEASEHOLD CONSTRUCTION IN PROGRESS**

As at August 31, 2016, the Company had incurred \$1,494,345 (November 30, 2015 - \$1,356,373) in leasehold construction in progress costs which include all amounts spent on improvements to date at the Company's Winfield, B.C. location to expand the facility for operations pending receipt of a controlled drug and substance dealer's license. The leasehold additions relate to production lighting, growing benches, irrigation and nutrient systems, security installations and construction of growing rooms.

**5. DUE TO RELATED PARTIES**

Amounts due to related parties include amounts due to an officer and director of the Company and are unsecured, non-interest bearing and have no fixed terms of repayment. The amounts relate to advances made at incorporation to assist in working capital requirements. In addition, the director of the Company owns an interest in a warehouse space in Kelowna, BC which the Company occupies. The director charges rent and management fees to the Company at fair market price. As at August 31, 2016 there is a balance outstanding of \$1,848,889 (November 30, 2015 - \$1,758,889).

## VALENS AGRITECH LTD.

### Notes to the Condensed Interim Financial Statements

For the Nine Months Ended August 31, 2016

(Unaudited-Expressed in Canadian Dollars)

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#### 6. DUE TO 1022006 BC LTD.

1022006 BC Ltd. is a related party by virtue of being controlled by an officer and director of the Company, 1022006 BC Ltd. owns the land and building at the Company's Kelowna, BC location, and charges rent to the Company at fair market price. Amounts due are unsecured, non-interest bearing and have no fixed terms of repayment. As at August 31, 2016 there is a balance outstanding of \$238,434 (November 30, 2015 - \$87,900).

#### 7. DUE TO 0768390 BC LTD.

0768390 BC Ltd. is a related party by virtue of being controlled by an officer of the Company. The amount outstanding relates to an advance made at incorporation to assist in working capital requirements, management fees charged to the Company at a fair market price and expense reimbursements for expenses incurred on behalf of the Company. Amounts due are unsecured, non-interest bearing and have no fixed terms of repayment. As at August 31, 2016 there is a balance outstanding of \$703,057 (November 30, 2015 - \$516,756).

#### 8. DUE TO SHAREHOLDER

Amounts due to a shareholder of the Company are unsecured, non-interest bearing and have no fixed terms of repayment. As at August 31, 2016 there is a balance outstanding of \$26,720 (November 30, 2015 - \$26,720).

#### 9. SHARE CAPITAL

##### Authorized share capital

The Company is authorized to issue an unlimited number of Class A voting participating common shares, Class B non-voting participating common shares, and preferred shares with no par value.

##### Issued shares

During the year ended November 30, 2015 and period ended August 31, 2016, the Company did not issue any common shares.

During the year ended November 30, 2014, on incorporation, the Company issued 200 Class A common shares at a share price of \$1.00 per share for total proceeds of \$200 and 6,999,800 Class B common shares at a share price of \$0.00001 for total proceeds of \$70.

#### 10. RELATED PARTY TRANSACTIONS

##### Compensation of key management personnel

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole.

	For the nine months ended August 31,	
	2016	2015
Management fees	\$155,750	\$nil

##### Other transaction with related parties

During the period ended August 31, 2016, the Company entered into the following transaction with a related party, not disclosed elsewhere in these financial statements:

- i. During the period ended August 31, 2016, \$189,861 (August 31, 2015-\$nil) in rent was paid or accrued to 1022006 BC Ltd., a company controlled by a director and officer of the Company.

## **VALENS AGRITECH LTD.**

### Notes to the Condensed Interim Financial Statements

For the Nine Months Ended August 31, 2016

(Unaudited-Expressed in Canadian Dollars)

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#### **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 support the build out of its research facility and the acquisition of the necessary licenses to enter the emerging CBD (Cannabinoid) market. 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 relies on its shareholders and 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. The Company will continue to progress its business plan on the basis of its economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable.

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

#### **12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

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

The carrying value of cash, receivables, accounts payable and accrued liabilities, accounts payable to related parties, due to 1022006 BC Ltd., due to 0768390 BC Ltd. and due to shareholder approximates fair value due to the short term nature of the financial instruments. Cash is classified as fair value through profit or loss and measured at fair value using level 1 inputs.

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 a 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 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 nominally exposed to foreign currency risk on fluctuations related to cash and accounts payable and accrued liabilities that are denominated United States dollars.

## VALENS AGRITECH LTD.

### Notes to the Condensed Interim Financial Statements

For the Nine Months Ended August 31, 2016

(Unaudited-Expressed in Canadian Dollars)

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#### 13. COMMITMENT AND CONTINGENCY

##### Lease Commitment

During the year ended November 30, 2015, the Company entered into a lease agreement with 1022006 BC Ltd. whereby 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 to not continue with the lease the Company will forfeit all leasehold improvements made up to the termination date. The lease payments under the agreement are as follows, plus applicable triple net costs and taxes:

##### Lease Commitment (continued)

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

##### 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 November 2, 2016 the Company was acquired by Valens Growwork Corp. (“VGW”) by way of a share exchange agreement dated October 31, 2016, (the “SEA”). Pursuant to the terms of the SEA, the Company’s shareholders received an aggregate 36 million common shares of VGW (“Transaction Shares”) at closing of the transaction, subject to a combination of milestone vesting criteria, regulatory escrow provisions and a voluntary pooling agreement, over a period of 36 months.

The Transaction is a fundamental change for VGW under the policies of the Canadian Securities Exchange (the “CSE”). VGW’s Form 2A Listing Statement dated October 31, 2016 is available under the Company’s SEDAR and CSE profiles, providing further details concerning the Transaction and the business of the combined company. As a result of the transaction, to be accounted for as a reverse takeover, VGW assumes the November 30 year end of the Company. The financial results of the two companies will be consolidated effective the preparation of the audited Consolidated Financial Statements of Valens Growworks Corp. for the year ended November 30, 2016.