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**AFFINOR GROWERS INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2015**

**INTRODUCTION**

This is Management's Discussion and Analysis ("MD&A") for Affinor Growers Inc. ("Affinor" or the "Company") and has been prepared based on information known to management as of October 30, 2015. This MD&A is intended to help the reader understand the condensed consolidated interim financial statements of Affinor.

The following information should be read in conjunction with the unaudited condensed consolidated interim financial statements and the related notes for the three months ended August 31, 2015 and the Company's audited consolidated financial statements for the year ended May 31, 2015 and the related notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A provides a review of the performance of the company for the three months ended August 31, 2015. Additional information relating to the Company can be found on SEDAR [www.sedar.com](http://www.sedar.com).

Management is responsible for the preparation and integrity of the condensed consolidated interim financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management also ensures that information used internally or disclosed externally, including the condensed consolidated interim financial statements and MD&A, is complete and reliable.

The Company's board of directors follows recommended corporate-governance guidelines for public companies to ensure transparency and accountability to shareholders. The board's audit committee meets with management regularly to review the consolidated financial statements, including the MD&A, and to discuss other financial, operating and internal-control matters.

All currency amounts are expressed in Canadian dollars unless otherwise noted.

**FORWARD LOOKING STATEMENTS**

Certain sections of this MD&A provide, or may appear to provide, a forward-looking orientation with respect to the Company's activities and its future financial results. Consequently, certain statements contained in this MD&A constitute express or implied forward-looking statements. Terms including, but not limited to, "anticipate", "estimate", "believe" and "expect" may identify forward-looking statements. Forward-looking statements, while they are based on the current knowledge and assumptions of the Company's management, are subject to risks and uncertainties that could cause or contribute to the actual results being materially different than those expressed or implied. Readers are cautioned not to place undue reliance on any forward-looking statement that may be in this MD&A.



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The following forward looking statements have been made in this MD&A:

- Impairment of intangible assets;
- The progress, potential and uncertainties of the Company's plant in Quebec, Canada;
- The potential and uncertainties of the Company's sales; and
- Expectations regarding the ability to raise capital and to continue its development of the vertical farming technology.

## **ADDITIONAL INFORMATION**

Financial statements, MD&A's and additional information relevant to the Company and the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com), and/or on the Company's website at [www.affinorgrowers.com](http://www.affinorgrowers.com).

## **SUMMARY AND OUTLOOK**

Affinor is focused on the design, development and commercialization of vertical farming technology for both indoor and outdoor (greenhouse) applications. The team is currently working on demand crops such as romaine lettuce and strawberries by developing processes, methods and models to cultivate true perpetual crops at competitive pricing.

It is the mission of Affinor to be the world-wide technology and market leader in creating and commercializing the most economical vertical farming technologies that use the least possible resources (eg. land, water, and energy resources) to produce the highest quality pesticide-free produce year-round, regardless of environmental conditions.

Affinor's patent technology and licensed patent pending technology positions the Company well in the vertical farming industry. It is the only vertically integrated technology that can offer patented inline automated pollination for fruiting crops. Affinor can offer software driven growing solutions automating high quality, scientifically engineered products and process.

During fiscal 2016, the Company is planning to

- Complete the construction of a strawberry or other crops facility on farmland acquired in Saint-Chrysostome, Quebec. The Company anticipates completing the construction in 2016 and beginning production in the fall of 2016 in partnership with a capital investor.
- Continue to develop and improve the indoor and outdoor technologies, growing processes, energy strategies and operational assumptions with strategic commercial partners and academic bodies for independent validation.
- Continue negotiations to sell technology and equipment to strategic partners and key companies in the food industry.
- Complete financing to achieve the main projects and milestones.



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## **1. Background**

The Company was incorporated under the Canadian Business Corporations Act on August 27, 1996. The Company is a diversified publicly traded company on the Canadian Securities Exchange under the symbol "AFI" and is also listed on the Frankfurt Stock Exchange under the symbol "1AF" as well as on the US OTCQB under the symbol "RSSFF".

The Company began as Affinor Resources Inc., a company with mining projects in Québec, Canada. The Company recognized a great opportunity when it discovered a team that was developing a system to mass produce pesticide-free, non-Genetically Modified Organism ("GMO") plants.

## **2. Overview**

The Company is focusing on developing vertically integrated farming technology and in demand crop model to mass produce, high quality, produce for global distribution. The team is currently working towards becoming a supplier of vertical farming technologies and proprietary processes for strawberries and other crops such as romaine lettuce and herbs in North America.

The Company plans to offer solutions for fresh, non-GMO, delicious food grown in environments without pesticides or chemicals. The Company began the construction of a facility in the province of Quebec to grow dark, leafy green vegetables such as Spinach, Lettuce and Strawberries with a near zero-water waste. The Company plans to be an industry leader growing water-fed, nutrient rich strawberries, free of sprayed chemicals, food dyes, mold, field rot and pesticides.

The Company's proprietary technologies control precise combinations of light, temperature, water, and nutrients to create specific growing conditions that result in optimum crop production, product quality and shelf life. To the knowledge of the Company, no current growing methods compare to the Company's software-driven, automation technology that results in Grade A1 mechanically pollinated strawberries.

The high demand for strawberries, lettuce, and other crops is due to a lack of domestic consistent suppliers. Canada may be home to some of the best organic berry-growing conditions in the world, but its short growing season has created a strong demand for what the Company's technology can produce in a reliable efficient manner.



### **3. Highlights Summary**

The following is a brief description of the activities incurred by the Company during this current fiscal period. Additional information can be obtained from the Company's website ([www.affinorgrowers.com](http://www.affinorgrowers.com)).

On July 2, 2015, a legal mortgage of \$48,519 was registered on the construction in progress in favor of 9170-3694 Québec Inc.

On August 18, 2015, the Company appointed Gary Lloyd, a Canadian food business expert, as a member of Affinor's board of directors and the chairman of the strategic committee. Under the terms of the agreement, Mr. Lloyd received 1,000,000 incentive stock options to purchase common shares at \$0.10 per share and 1,000,000 incentive stock options to purchase common shares at \$0.20 per share. The options are exercisable on or before August 17, 2020.

For activities after the current fiscal period, please see section 7 "Subsequent Events".

### **4. Risks and Uncertainties**

The Company is subject to a number of risks and uncertainty associated with the successful development of its major crop products, such as romaine lettuce and strawberries, and with the financing requirements of its operations. The attainment of profitable operations is dependent upon future events, including the successful completion of technology crop feasibility studies, energy saving strategies and crop modeling for the Greenhouse project in Quebec, Canada. Commercialization of its products and technology is dependent on obtaining adequate financing to complete its commercialization plans.

The Company's success depends on a number of factors, many of which are beyond its control. The primary risk factors affecting the Company include inherent risks in the agricultural industry, produce price fluctuations and currencies.

#### *Inherent risks within the agricultural industry*

The commercial viability of agricultural facility depends on many factors, not all of which are within the control of management. Some of the factors that will affect the financial viability of a given produce include global demand and global supply. Other factors such as government subsidies, regulation and taxes could also have an impact on the economic viability of an agricultural facility.

There is no assurance at this time that the Company's agricultural facility or development will be economically viable.

#### *Prices for produce*

Produce prices are subject to price fluctuations and have a direct impact on the commercial viability of the Company's agricultural facility and development. Price volatility results from a variety of factors, including global consumption and demand, international economic and

political trends, fluctuations in the US dollar and other currencies, interest rates, and inflation. The Company has not hedged any of its potential future produce sales.

#### *Foreign currency risks*

The Company uses the Canadian dollar as its measurement and reporting currency, and therefore fluctuations in exchange rates between the Canadian dollar and other currencies may affect the results of operations and financial position of the Company. The Company does not currently have any foreign currency or commercial risk hedges in place.

The Company raises the majority of its equity financings in Canadian dollars while some of its operations are conducted in US dollars. Fluctuations in the exchange rates between the Canadian dollar and US dollar may impact the Company's financial condition.

### **5. Impairment of Intangible Assets**

The Company completed an impairment analysis as at August 31, 2015 and concluded that no impairment charge was required because:

- the patents have 18 years of life;
- there have been no significant changes in the legal factors or climate that affects the lives of the patents;
- the Company's continued development of its vertical farming technology using the patents; and
- the potential sales or joint researches that the Company has had thus far.

### **6. Material Financial and Operations Information**

#### **6(a) Selected Annual Financial Information**

##### **Selected Annual Information**

|   | <b>Year Ended<br/>May 31, 2015</b> | <b>Year Ended<br/>May 31, 2014</b> | <b>Year Ended<br/>May 31, 2013</b> |
|---|------------------------------------|------------------------------------|------------------------------------|
| Total revenues                                      | \$ 285,714                         | \$ -                               | \$ -                               |
| Loss before investments, financing and income taxes | (4,022,595)                        | (8,153,562)                        | (233,877)                          |
| Loss on investments                                 | (314,303)                          | -                                  | -                                  |
| Impairment of investment, option and loans          | (1,026,700)                        | -                                  | -                                  |
| Loss for the year                                   | (5,356,262)                        | (8,121,543)                        | (233,877)                          |
| Loss per share                                      | (0.08)                             | (0.22)                             | (0.02)                             |
| Total assets  | 2,985,490                          | 2,164,849                          | 142,829                            |
| Total long-term financial liabilities               | -                                  | -                                  | -                                  |
| Cash dividends declared – per share                 | N/A                                | N/A                                | N/A                                |



## 6(b) Summary of Quarterly Results

The following is a summary of the Company's financial results for the last eight quarters:

|                |    | Three months ended |                 |                      |                      |
|----------------|----|--------------------|-----------------|----------------------|----------------------|
|                |    | August 31,<br>2015 | May 31,<br>2015 | February 28,<br>2015 | November 30,<br>2014 |
| Total revenues | \$ | 522                | \$ -            | \$ 190,262           | \$ 48,689            |
| Net loss       | \$ | (458,847)          | \$ (1,799,761)  | \$ (809,711)         | \$ (1,354,848)       |
| Loss per share | \$ | (0.01)             | \$ (0.03)       | \$ (0.01)            | \$ (0.02)            |

|                |    | Three months ended |                 |                      |                      |
|----------------|----|--------------------|-----------------|----------------------|----------------------|
|                |    | August 31,<br>2014 | May 31,<br>2014 | February 28,<br>2014 | November 30,<br>2013 |
| Total revenues | \$ | 46,763             | \$ -            | \$ -                 | \$ -                 |
| Net loss       | \$ | (1,391,942)        | \$ (7,904,653)  | \$ (120,771)         | \$ (62,055)          |
| Loss per share | \$ | (0.02)             | \$ (0.22)       | \$ -                 | \$ -                 |

## 6(c) Review of Operations and Financial Results

For three months ended August 31, 2015 and three months ended August 31, 2014

During the three months ended August 31, 2015, the Company reported a loss of \$458,847 (\$0.01 loss per share) (2014 – \$1,391,942 (\$0.02 loss per share)).

Excluding the non-cash amortization of \$23,015 (2014 – \$5,370) and share-based payment of \$164,974 (2014 - \$594,214), the Company's general and administrative expenses amounted to \$260,796 during the three months ended August 31, 2015 (2014 – \$861,692), a decrease of \$600,896. The reason for the change was a result of conserving cash by decreasing the professional fees and consulting fees (2015 - \$68,567; 2014 - \$493,377) and other operating expenses (2015 - \$32,205; 2014 - \$204,102).

## 6(d) Liquidity and Capital Resources

The Company continued to utilize its cash resources to fund its administrative requirements and product development. As the Company does not currently generate revenue, cash balances, unless replenished by capital fundraising, will continue to decline as funds are utilized to conduct its operations.

In order to fund the Company's ongoing operational needs, the Company will need funding through equity or debt financing, joint venture arrangements or a combination thereof. The Company's operations to date have been financed by the issuance of its common shares, share options and warrants, debt instruments and government assistance. The Company continues to seek capital through various means including the issuance of equity and debt. While the Company has been successful in raising funds in the past, there is no assurance that it will continue to do so in the future or that it will be available on a timely basis or on terms acceptable to the Company.

On August 31, 2015 the Company had a negative working capital of \$653,227 (negative working capital of \$625,319 as at May 31, 2015) including cash of \$64,292 (\$2,662 as at May 31, 2015) and had an accumulated deficit of \$20,387,599 (\$19,928,752 as at May 31, 2015) and had incurred a loss of \$458,847 for the three months ended August 31, 2015 (\$1,391,942 for the three months ended August 31, 2014).

The Company's business plan is dependent on raising additional funds to finance its operations and the development of its Greenhouse project in Quebec, Canada within and beyond the next 12 months. While the Company has managed to fund its operations in the past through equity financing, raising additional funds is dependent on a number of factors outside the Company's control, and as such there is no guarantee that it will be able to obtain additional financing in the future. If the Company is unable to obtain sufficient additional financing, it may have to delay, scale back or eliminate construction plans for its present or future facilities and curtail operations, which could harm the business, financial condition and results of operations. This could occur in the near term. Until such financing is secured and profitable operations are reached, there is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern assumption was not appropriate for these condensed consolidated interim financial statements, then adjustments, which could be material, would be necessary to the carrying value of assets and liabilities, revenues and expenses and classification in statement of financial position.

As of the date of this MD&A, the Company has commitments and contingencies as outlined in section 6(f).

#### **6(e) Disclosure of Outstanding Share Data**

The authorized share capital of the Company consists of an unlimited number of common shares without par value. As at August 31, 2015, the Company's share capital was \$16,791,212 (May 31, 2015 - \$16,451,212) representing 72,575,878 common shares (May 31, 2015 – 72,575,878 common shares).

As at August 31, 2015, there were 5,833,334 common shares of the Company held in escrow. 1,458,335 escrow shares will be released on November 30, 2015.





Stock option transactions and the number of stock options are summarized as follows:

| Expiry date                     | Exercise price | May 31, 2015 | Granted   | Exercised | Expired/cancelled | August 31, 2015 |      |    |      |
|---------------------------------|----------------|--------------|-----------|-----------|-------------------|-----------------|------|----|------|
| May 1, 2016                     | \$ 0.15        | 50,000       | -         | -         | (50,000)          | -               |      |    |      |
| November 20, 2017               | \$ 0.30        | 200,000      | -         | -         | (200,000)         | -               |      |    |      |
| December 2, 2017                | ** \$ 0.22     | 300,000      | -         | -         | -                 | 300,000         |      |    |      |
| December 16, 2017               | \$ 0.25        | 100,000      | -         | -         | -                 | 100,000         |      |    |      |
| December 18, 2017               | *** \$ 0.25    | 300,000      | -         | -         | -                 | 300,000         |      |    |      |
| July 31, 2018                   | * \$ 0.10      | 1,500,000    | -         | -         | (500,000)         | 1,000,000       |      |    |      |
| October 5, 2018                 | \$ 0.15        | 200,000      | -         | -         | -                 | 200,000         |      |    |      |
| April 1, 2019                   | \$ 0.33        | 100,000      | -         | -         | (100,000)         | -               |      |    |      |
| April 8, 2019                   | \$ 0.35        | 300,000      | -         | -         | (300,000)         | -               |      |    |      |
| April 14, 2019                  | \$ 0.42        | 1,000,000    | -         | -         | (1,000,000)       | -               |      |    |      |
| April 23, 2019                  | \$ 0.33        | 200,000      | -         | -         | -                 | 200,000         |      |    |      |
| April 24, 2019                  | \$ 0.33        | 100,000      | -         | -         | -                 | 100,000         |      |    |      |
| May 9, 2019                     | \$ 0.49        | 250,000      | -         | -         | -                 | 250,000         |      |    |      |
| May 27, 2019                    | \$ 0.49        | 100,000      | -         | -         | -                 | 100,000         |      |    |      |
| May 30, 2019                    | \$ 0.80        | 100,000      | -         | -         | -                 | 100,000         |      |    |      |
| June 2, 2019                    | \$ 0.85        | 100,000      | -         | -         | -                 | 100,000         |      |    |      |
| June 5, 2019                    | \$ 1.03        | 100,000      | -         | -         | -                 | 100,000         |      |    |      |
| June 19, 2019                   | \$ 0.71        | 100,000      | -         | -         | (100,000)         | -               |      |    |      |
| June 27, 2019                   | \$ 0.67        | 200,000      | -         | -         | -                 | 200,000         |      |    |      |
| July 4, 2019                    | \$ 0.85        | 100,000      | -         | -         | (100,000)         | -               |      |    |      |
| August 11, 2019                 | \$ 0.47        | 300,000      | -         | -         | -                 | 300,000         |      |    |      |
| September 22, 2019              | \$ 0.40        | 300,000      | -         | -         | (300,000)         | -               |      |    |      |
| October 28, 2019                | \$ 0.25        | 200,000      | -         | -         | -                 | 200,000         |      |    |      |
| April 2, 2020                   | \$ 0.15        | 300,000      | -         | -         | (300,000)         | -               |      |    |      |
| August 17, 2020                 | \$ 0.10        | -            | 1,000,000 | -         | -                 | 1,000,000       |      |    |      |
| August 17, 2020                 | \$ 0.20        | -            | 1,000,000 | -         | -                 | 1,000,000       |      |    |      |
| Options outstanding             |                | 6,500,000    | 2,000,000 | -         | (2,950,000)       | 5,550,000       |      |    |      |
| Options exercisable             |                | 6,500,000    | 2,000,000 | -         | (2,950,000)       | 5,550,000       |      |    |      |
| Weighted average exercise price | \$             | 0.34         | \$        | 0.15      | \$Nil             | \$              | 0.32 | \$ | 0.26 |

\* Subsequent to August 31, 2015, the expiry date was changed to September 30, 2017.

\*\* Subsequent to August 31, 2015, the expiry date was changed to September 30, 2017 and the exercise price to \$0.10.

\*\*\* Subsequent to August 31, 2015, the expiry date was changed to December 30, 2015



The continuity of warrants for the three months ended August 31, 2015 is as follows:

| Expiry date                     | Exercise price | May 31, 2015 | Issued | Exercised | Expired | August 31, 2015 |
|---------------------------------|----------------|--------------|--------|-----------|---------|-----------------|
| April 4, 2016                   | \$0.40         | 635,000      | -      | -         | -       | 635,000         |
| April 7, 2016                   | \$0.40         | 3,045,636    | -      | -         | -       | 3,045,636       |
| April 11, 2016                  | \$0.40         | 1,080,000    | -      | -         | -       | 1,080,000       |
| April 14, 2016                  | \$0.40         | 564,000      | -      | -         | -       | 564,000         |
| April 16, 2016                  | \$0.40         | 178,000      | -      | -         | -       | 178,000         |
| April 22, 2016                  | \$0.40         | 360,000      | -      | -         | -       | 360,000         |
| April 23, 2016                  | \$0.40         | 1,620,000    | -      | -         | -       | 1,620,000       |
| February 12, 2017               | \$0.30         | 700,000      | -      | -         | -       | 700,000         |
| October 16, 2017                | * \$0.32       | 2,000,000    | -      | -         | -       | 2,000,000       |
| Outstanding                     |                | 10,182,636   | -      | -         | -       | 10,182,636      |
| Weighted average exercise price |                | \$ 0.38      | \$Nil  | \$Nil     | \$Nil   | \$ 0.38         |

\* Subsequent to August 31, 2015, 1,000,000 of these warrants were repriced at \$0.10 (see section 7 "Subsequent Events").

The continuity of broker's warrants for the three months ended August 31, 2015 is as follows

| Expiry date                     | Exercise price | May 31, 2015 | Issued | Exercised | Expired | August 31, 2015 |
|---------------------------------|----------------|--------------|--------|-----------|---------|-----------------|
| April 4, 2016                   | \$0.40         | 85,165       | -      | -         | -       | 85,165          |
| April 14, 2016                  | \$0.40         | 108,000      | -      | -         | -       | 108,000         |
| April 16, 2016                  | \$0.40         | 13,800       | -      | -         | -       | 13,800          |
| April 23, 2016                  | \$0.40         | 8,500        | -      | -         | -       | 8,500           |
| Outstanding                     |                | 215,465      | -      | -         | -       | 215,465         |
| Weighted average exercise price |                | \$ 0.40      | \$Nil  | \$Nil     | \$Nil   | \$ 0.40         |

See section 7 "Subsequent Events" for private placement in September 2015, shares-for-debt settlement as well as option grants incurred after the current fiscal period.

If the remaining options, warrants, finder's options, including the warrants associated with the finder's options, were exercised, the Company's available cash would increase by \$7,527,740.

As of the date of this MD&A, there were 91,515,028 common shares issued and outstanding and 123,863,129 common shares outstanding on a diluted basis.

## 6(f) Commitment and Contingency

On July 2, 2015, a lien of \$48,519 was registered on the construction in progress in favor of 9170-3694 Québec Inc.

## 6(g) Off-Balance Sheet Arrangements

None.

## 6(h) Transactions with Related Parties

Related party transactions were recorded at the exchange value, which is the consideration determined and agreed to by the related parties.

The Company's related parties include directors, key management and companies controlled by directors and key management, as described below:

Key management of the Company are members of the Board of Directors. Key management compensation allocated includes the following expenses:

|   | Three months ended August 31 |                   |
|---|------------------------------|-------------------|
|   | 2015                         | 2014              |
| <b>Short-term key management benefits</b>   |                              |                   |
| Social security cost                        | \$ 4,601                     | \$ 4,629          |
| Salaries                                    | 73,000                       | 62,219            |
| Professional fees                           | -                            | 21,000            |
| Others                                      | -                            | 1,268             |
| <b>Total short-term management benefits</b> | <b>77,601</b>                | <b>89,116</b>     |
| Management fees                             | 75,000                       | 75,000            |
| Consulting fees                             | -                            | 47,499            |
| Share-based payments                        | 129,900                      | 190,746           |
| <b>Total remuneration</b>                   | <b>\$ 152,601</b>            | <b>\$ 211,615</b> |

The management fees consist of \$37,500 (August 31, 2014 - \$37,500) for the services rendered by a director during the three months ended August 31, 2015 on a month-to-month basis, and \$37,500 (August 31, 2014 - \$37,500) for the services rendered by the former President and CEO of the Company as per his agreement dated December 1, 2013. Subsequent to August 31, 2015, the former President and CEO resigned as of September 30, 2015.

The consulting fees includes \$Nil (August 31, 2014 - \$47,499) for the services rendered by two directors of the Company during the three months ended August 31, 2015.

The Company has a payable of \$126,906 (as of May 31, 2015 - \$100,176) for consulting, management fees and other operating expenses to companies controlled by directors of the Company and directors as at August 31, 2015.

## 6(i) Financial Instruments

The fair values of the Company's cash, other receivables, investments available for sale, accounts payables and accrued liabilities, and due to related parties approximate their carrying values because of the short-term nature of these instruments.

The Company's financial instruments are exposed to certain financial risks, including market risk, liquidity risk, credit risk and currency risk.

### (i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, such as foreign exchange rates and interest rates. The objectives of the Company are to ensure cash inflows in the short and medium term, while reducing exposure to capital markets. The Company is exposed to market risk from its investments available for sale. The Company does not trade in financial assets for speculative purposes.

### (ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets.

The Company manages its liquidity risk by using budgets that enable it to determine the amounts required to fund its obligations. The Company also issued shares and share instruments as consideration for investments, compensation and services.

As at August 31, 2015 and May 31, 2015, all of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

As at August 31, 2015, the Company presents a negative working capital of \$653,227. The ability of the Company to continue its activities relies upon the supports of its suppliers and obtaining additional financing.

### (iii) Credit risk

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Cash is held with a Canadian chartered bank which reduces the risks. The Company's credit risk relates to cash balances and other receivables.

### (iv) Currency risk

The Company is exposed to currency risk arising from exchange rate fluctuations against its reporting Canadian currency. Currency transaction risk is the impact of exchange rate fluctuations on the Company's Statement of Operations, which is the effect of currency rates on expected future cash flows and investments. The principal foreign exchange transaction

exposure comprises both the geographical location of the Company's sales of licence in the USA and the sourcing of raw material, labour and overhead office being in Canadian dollar.

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as at August 31, 2015 and May 31, 2015.

| <b>As at August 31, 2015</b>   | Level 1    | Level 2 | Level 3 | Total      |
|--------------------------------|------------|---------|---------|------------|
| Assets:                        |            |         |         |            |
| Cash                           | \$ 64,292  | \$ -    | \$ -    | \$ 64,292  |
| Investments available for sale | 41,700     | -       | -       | 41,700     |
|                                | \$ 105,992 | \$ -    | \$ -    | \$ 105,992 |

## **6(j) Management of Capital Risk**

The Company manages its cash and cash equivalents, common shares, warrants, broker's warrants and share purchase options as capital. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash and cash equivalents held.

In order to maximize ongoing operating efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company expects its current capital resources will be sufficient to carry out its exploration and operations in the near term.

## **7. Subsequent Events**

Activities incurred after the current fiscal period include:

On September 9, 2015, the Company retained the services of Palisade Capital Corp. (“Palisade”) to provide investor relations and marketing services, subject to regulatory approval. The services agreement for investor relations and market making is for a term of 12 months effective September 15, 2015, with a fee of \$8,400 per month. Palisade was granted 300,000 options exercisable at \$0.10 for a period of three years on September 14, 2015.

On September 11, 2015, the Company closed a non-brokered private placement for gross proceeds of \$755,000. The securities issued are composed of 15,100,000 units. Each unit is comprised of one common share and one share purchase warrant of the Company. The common share purchase warrant has a term of 12 month exercisable at \$0.15. In connection with the financing, a finder's fee of \$8,750 was paid to a third party as well as \$10,500 to Haywood Securities Inc. The management and board of directors of Affinor participated for \$215,000 in the financing.

On September 11, 2015, the Company settled a total of \$126,785 of debt relating to Dr. Bruce Bedrick by issuing an aggregate of 2,535,700 common shares of Affinor at a deemed price of \$0.05 per share. Dr. Bedrick's warrants were repriced at \$0.10 each, with the same maturity date of October 16, 2017.

On September 14, 2015, the Company granted 500,000 options to a director at a price of \$0.10 for a period of 3 years.

On September 15, 2015, the Company granted 100,000 options at a price of \$0.10 for a period of 2 years to a consultant.

On September 30, 2015, the Company settled a total of \$78,207 of debt relating to consulting fees and service fees to certain arm's length and non-arm's length parties by issuing an aggregate of 1,303,450 common shares of Affinor at a deemed price of \$0.06 per share.

On October 1, 2015, the Company appointed Jarret Malnarick as interim Chief Executive Officer and Mark T. Brown as Chief Financial Officer, while Sebastien Plouffe, Hugh Bowman and Pierre Miron resigned from directors and Mr. Plouffe and Mr. Miron resigned from being officers.

On October 1, 2015, the Company granted 400,000 options at a price of \$0.10 for a period of 5 years to its new officers.

On October 8, 2015, the Company announced that it signed the first purchase order from a major grower and distributor to install a vertical tower into Michigan, USA. This equipment purchase is a test to make sure the mechanically pollinated strawberry yields and production are in line with the needs of the market, profitability and quality.

On October 27, 2015, the Company announced a private placement of up to \$500,000 at a price of \$0.06 per unit with each unit consists of a common share and a full warrant exercisable at \$0.15 for 2 years. Finders' fee equal to 10% of the gross proceed might be payable. The Company expects to close the private placement on or about November 2, 2015.

## **8. Policies and Controls**

### **8(a) Significant Accounting Policies and Estimates**

The preparation of these condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and further periods if the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the condensed consolidated interim statement of financial position date, 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:

#### **Critical judgments**

- Going Concern - Evaluation of the ability of the Company to realize its strategy for funding its future needs for working capital involves making judgments.
- Share-based payments and warrants - The estimation of share-based payments and warrants cost requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates of the volatility of its own shares based on volatility of comparable companies due to the recent significant changes in its business, and the expected life of options granted and the time of exercise of those options. The model used by the Company is the Black-Scholes valuation model.
- Fair value and useful life of intangible - The value of the intangible was determined based on the fair value of the considerations exchanged, which was based on the market price of the shares issued at the dates of issuance. Management judgementally used the maximum legal life of the patent as the useful life of the intangible for purposes of amortization.

### **8(b) Future Accounting Pronouncements**

Certain new accounting standards and interpretations have been published that are not mandatory for the August 31, 2015 reporting period. The Company has not early adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

- IFRS 9 (Amended 2010) Financial Instruments (effective January 1, 2018)



- IFRS 15 Revenue from Contracts with Customer (effective January 1, 2018)

The Company anticipates that the application of the above new and revised standards, amendments and interpretations will have no material impact on its results and financial position.

### **8(c) Changes in Internal Controls over Financial Reporting (“ICFR”)**

No changes occurred in the current period of the Company’s ICFR that have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

## **9. Information on the Board of Directors and Management**

### **Directors:**

*Nick Brusatore*

*Brian Whitlock*

*Alan Boyco*

### **Audit Committee members:**

*Alan Boyco*

*Brian Whitlock*

### **Management:**

*Jarrett Malnarick – Interim Chief Executive Officer*

*Mark T. Brown, CPA, CA – Chief Financial Officer*