



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

MAY 31, 2020 AND 2019

AFFINOR GROWERS INC.

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Independent Auditor's Report

To the Shareholders of Affinor Growers Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Affinor Growers Inc. (the "Company"), which comprise the consolidated statements of financial position as at May 31, 2020 and 2019, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at May 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has generated limited revenue and significant losses, has not generated positive cash flows from operations and has relied upon financing primarily from private placements and exercise of options and warrants to fund its operations. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in "Management's Discussion and Analysis", but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Keith Macdonald.



CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, BC, Canada
October 6, 2020

AFFINOR GROWERS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT MAY 31,
(Presented in Canadian Dollars)

	Note	2020	2019
Assets			
Current assets			
Cash		\$ 14,794	\$ 63,785
Receivables	8	19,866	20,773
Prepaid expenses and deposits		26,119	28,627
Deposits on asset purchases	4	-	43,879
Due from related parties	8	-	30,145
		<u>60,779</u>	<u>187,209</u>
Non-current assets			
Property and equipment	4	64,311	13,708
Intangible assets	5	921,501	984,346
		<u>985,812</u>	<u>998,054</u>
Total assets		\$ 1,046,591	\$ 1,185,263
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	\$ 205,452	\$ 170,734
Interest payable	13	43,750	-
Convertible debenture	13	447,112	-
Derivative liability - convertible debenture	13	83,000	-
Customer deposit		-	53,550
		<u>779,314</u>	<u>224,284</u>
Equity			
Share capital	6	25,315,866	25,315,866
Reserves	6	7,022,025	7,022,025
Deficit		(32,070,614)	(31,376,912)
		<u>267,277</u>	<u>960,979</u>
Total equity and liabilities		\$ 1,046,591	\$ 1,185,263

Commitments and contingencies (Note 17)
Events after the reporting period (Note 19)

These consolidated financial statements are authorized for issue by the Board of Directors on October 6, 2020. They are signed on the Company's behalf by:

/s/ Brian Whitlock
Director

/s/ Alan Boyco
Director

AFFINOR GROWERS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED MAY 31,
(Presented in Canadian Dollars)

	Note	2020	2019
Revenue			
Tower sales		\$ 51,150	\$ -
Licensing fees		2,400	3,000
		<u>53,550</u>	<u>3,000</u>
Production costs			
Cost of goods sold		(41,088)	-
Gross revenue		<u>12,462</u>	<u>3,000</u>
Expenses			
Amortization - intangible assets	5	62,845	122,131
Business development		22,844	1,067
Consulting fees	8	46,030	120,000
Depreciation - property and equipment	4	17,406	18,816
Management fees	8	60,000	85,000
Other operating expenses		18,722	18,886
Professional fees	8	107,942	118,964
Registration and information to shareholders		35,577	36,731
Rent		8,334	17,683
Research and development		34,853	15,097
Share-based payments	6, 8	-	131,860
Travel		32,169	77,618
Wages, employee benefits and training	8	155,757	152,584
		<u>(602,479)</u>	<u>(916,437)</u>
Operating loss		<u>(590,017)</u>	<u>(913,437)</u>
Other items			
Change in fair value of derivative liability	13	29,851	-
Interest expense	13	(43,750)	-
Accretion expense	13	(59,963)	-
Write-down of receivables	8	(36,686)	-
Write-down of due to related parties	8	-	(226,463)
Other	8	6,863	11,864
Impairment of intangible assets	5	-	(1,132,694)
Impairment of property and equipment	4	-	(71,055)
Write-off of deposits on asset purchases	4	-	(50,000)
Write-off of receivables	8	-	(26,578)
Gain on sale of property and equipment	4	-	4,519
		<u>(103,685)</u>	<u>(1,490,407)</u>
Net and comprehensive loss for the year		<u>\$ (693,702)</u>	<u>\$ (2,403,844)</u>
Basic and diluted loss per share	7	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>
Weighted average number of shares		152,908,108	152,908,108

See notes to the consolidated financial statements

AFFINOR GROWERS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Presented in Canadian Dollars)

	Note	Share capital		Reserves				Total equity
		Number of shares	Amount	Warrants	Broker's warrants	Equity-settled employee benefits	Deficit	
Balance as at May 31, 2018		152,908,108	\$ 25,315,866	\$ 1,364,161	\$ 122,212	\$ 5,403,792	\$ (28,964,068)	\$ 3,241,963
Impact of adopting IFRS 9	18	-	-	-	-	-	(9,000)	(9,000)
Restated opening balance under IFRS 9		152,908,108	25,315,866	1,364,161	122,212	5,403,792	(28,973,068)	3,232,963
Share-based payment		-	-	-	-	131,860	-	131,860
Net loss for the year		-	-	-	-	-	(2,403,844)	(2,403,844)
Balance as at May 31, 2019		152,908,108	25,315,866	1,364,161	122,212	5,535,652	(31,376,912)	960,979
Net loss for the year		-	-	-	-	-	(693,702)	(693,702)
Balance as at May 31, 2020		152,908,108	\$ 25,315,866	\$ 1,364,161	\$ 122,212	\$ 5,535,652	\$ (32,070,614)	\$ 267,277

AFFINOR GROWERS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31,
(Presented in Canadian Dollars)

	2020	2019
Cash flows (used in) operating activities		
Net loss for the year	\$ (693,702)	\$ (2,403,844)
Items not involving cash:		
Accretion expense	59,963	-
Amortization - intangible assets	62,845	122,131
Change in fair value of derivative liability	(29,851)	-
Depreciation - property and equipment	17,406	18,816
Foreign exchange on receivables	320	-
Foreign exchange on due from related parties	-	(1,963)
Interest accrued on receivables	(6,863)	-
Interest accrued on due from related parties	-	(8,948)
Interest expense	43,750	-
Write-down of due from related parties	-	226,463
Gain on sale of equipment	-	(4,519)
Impairment of property and equipment	-	71,055
Impairment of intangible assets	-	1,132,694
Write-off of deposits on asset purchases	-	50,000
Write-off of receivables	-	26,578
Share-based payments	-	131,860
Changes in non-cash working capital items:		
Receivables	907	144,513
Prepaid expenses and deposits	2,508	(8,621)
Accounts payable and accrued liabilities	34,718	37,605
Customer deposit	(53,550)	53,550
Net cash (used in) operating activities	<u>(561,549)</u>	<u>(412,630)</u>
Cash flows (used in) investing activities		
Purchase of property and equipment	(24,130)	(36,063)
Deposits on property and equipment	-	(80,504)
Purchase of intangible assets	-	(52,269)
Proceeds from sale of property and equipment	-	52,000
Advances to related parties	-	(99,233)
Payments received from related parties	-	64,536
Net cash (used in) investing activities	<u>(24,130)</u>	<u>(151,533)</u>
Cash flows from financing activities		
Proceeds from convertible debenture	<u>500,000</u>	-
Net cash provided by financing activities	<u>500,000</u>	-
Change in cash for the year	(85,679)	(564,163)
Cash, beginning of the year	63,785	627,948
Cash, end of the year	<u>\$ (21,894)</u>	<u>\$ 63,785</u>

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

Affinor Growers Inc. (the "Company") is incorporated under the Canada Business Corporations Act and its registered office is Suite 200 – 8661 201 Street, Langley, BC, Canada, V2Y 0G9. The Company is listed on the Canadian Securities Exchange ("CSE"), the Frankfurt Stock Exchange and the OTC QB Exchange.

Affinor Growers Inc. is a vertical farming technology company focused on developing and commercializing the most economical vertical farming technologies that use the least possible resources (e.g. land, water, and energy resources) to produce the highest quality pesticide-free produce year-round, regardless of environmental conditions. The Company's revenue model includes entering into licensing agreements that provide licensing revenue as well as earnings on sales of its equipment.

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. There are material uncertainties that cast significant doubt about the appropriateness of the going concern assumption.

To date, the Company has generated limited revenue and significant losses, has not generated positive cash flows from operations and as at May 31, 2020 has an accumulated deficit of \$32,070,614. It has relied upon financing primarily from private equity placements and exercise of options and warrants to fund its operations. The Company expects to obtain funding through additional equity offerings and licensing of its technology until it achieves positive cash flows from operations.

The Company's business plan is dependent on raising additional funds to finance its operations 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 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.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement on financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance and in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

b) Basis of preparation

Depending on the applicable IFRS requirements, the measurement basis used in the preparation of these consolidated financial statements is cost, net realizable value, fair value or recoverable amount. These financial statements, except for the statement of cash flows, are based on the accrual basis.

These consolidated financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation.

2. BASIS OF PREPARATION *(Continued)*

- c) New, amended and future accounting standards and interpretations

The new IFRS pronouncements listed below became effective on January 1, 2019 and were adopted by the Company during the current year.

- (i) Leases

The IASB issued IFRS 16, Leases (“IFRS 16”), which eliminates the classification of leases as either operating or finance leases for a lessee. Under IFRS 16, all leases will be recorded on the statement of financial position. The only exemptions to this will be for leases that are 12 months or less in duration or for leases of low-value assets. The requirement to record all leases on the statement of financial position under IFRS 16 will increase “right-of-use” assets and lease liabilities on an entity’s financial statements. IFRS 16 will also change the nature of expenses relating to leases, as the straight-line lease expense previously recognized for operating leases will be replaced with depreciation expense for right-of-use assets and finance expense for lease liabilities. IFRS 16 includes an overall disclosure objective and requires a company to disclose (a) information about right-of-use assets and expenses and cash flows related to leases, (b) a maturity analysis of lease liabilities and (c) any additional company-specific information that is relevant to satisfying the disclosure objective.

The Company had one lease related to rental of its office unit which was for less than 12 months and therefore exempt from being recorded on the statement of financial position.

- (ii) Business combinations

Narrow-scope amendments to IFRS 3 were issued in October 2018 and apply to annual reporting periods beginning on or after January 1, 2020. The amendments clarify the definition of a business, provide guidance in determining whether an acquisition is a business combination or a combination of a group of assets, emphasize that the output of a business is to provide goods and services to customers and provide a supplementary guidance.

- (iii) Presentation of financial statements

An amendment to IAS 1 was issued in January 2020 and applies to annual reporting periods beginning on or after January 1, 2023. The amendment clarifies the criterion for classifying a liability as non-current relating to the right to defer settlement of a liability for at least 12 months after the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES

- a) Basis of consolidation

The Company’s consolidated financial statements consolidate those of the Company and its inactive, wholly-owned subsidiary Affinor Analytics LLC. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

All transactions and balances between companies are eliminated upon consolidation, including unrealized gains and losses on transactions between group companies.

Amounts reported in the consolidated financial statements of the subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company.

Profit and loss and other comprehensive income of subsidiaries acquired or disposed of during the reporting period are recognized from the effective date of the acquisition, or up to the effective date of disposal, as applicable.

AFFINOR GROWERS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2020 AND 2019
(Presented in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Foreign currencies

The Company assesses functional currency on an entity by entity basis based on the related fact pattern; however, the presentation currency used in these consolidated financial statements is determined at management's discretion.

The currency of the parent company, and the presentation currency applicable to these consolidated financial statements, is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each statement of financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency translation differences are recognized in profit or loss.

c) Cash and cash equivalents

Cash equivalents include money market instruments which are readily convertible into cash or have maturities at the date of purchase of less than ninety days. As at May 31, 2020 and 2019, the Company did not have any cash equivalents.

d) Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Depreciation is provided at rates calculated to write off the cost of property and equipment, less their estimated residual value, over the estimated useful life of the asset. The estimated useful lives are:

	<u>Useful life</u>
Growing equipment	30% declining balance
Computer equipment	30% declining balance
Lighting equipment	10% declining balance
Office equipment	20% declining balance

Property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive loss.

Assets are depreciated when they are available for use.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired is their fair value as at the date of acquisition.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date that the Company can demonstrate all of the following: i) the technical feasibility of completing the intangible assets so that it will be available for use or sale; ii) its intention to complete the intangible asset and use or sell it; iii) its ability to use or sell the intangible asset; iv) how the intangible asset will generate probable future economic benefits; v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development. Until these criteria are met, expenditures are expensed as incurred.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive loss in the expense category consistent with the function of the intangible assets. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Intangible assets are amortized annually on a straight-line basis. The Company holds two patents with effective lives of 18 years each and remaining lives of 15 years. The patents are amortized over the effective lives of the patents. See Note 3(m).

Costs incurred for patents which are pending and which are in the process of being developed will be amortized over the life of the patent when the patent is issued.

f) Revenue recognition

Revenue is recognized at the point in time when the customer obtains control of the product and/or service. Control is achieved when a product is delivered to or the service is performed for the customer, the Company has a present right to payment for the product and/or service, significant risks and rewards of ownership have transferred to the customer according to contract terms and there is no unfulfilled obligation that could affect the customer's acceptance of the product and/or service.

The Company's revenue consists of sales revenues from vertical farming equipment, revenues from licensing agreements, royalties from the use of the towers and up-front licensing fees.

Revenue for each separately identifiable component is recorded as follows:

- (i) payments from the sale of vertical farming technology are recognized into income when the vertical farming units are completed and ownership of the units has transferred to the customer, the Company has no future involvement or obligations to perform related to the specified element of the arrangement and it is probable that the economic benefits associated with the transaction will flow to the Company;

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

f) Revenue recognition (*Continued*)

- (ii) fixed payments received as revenue from intellectual property under licensing agreements are recognized into income when conditions and events under the license agreement have been met or occurred, the Company has no future involvement or obligations to perform related to the specified element of the arrangement and it is probable that the economic benefits associated with the transaction will flow to the Company;
- (iii) royalty payments, for which the Company has no future involvement or obligations to perform related to that specified element of the arrangement, are recognized into income upon the achievement of the specified sales level and when it is probable that the economic benefits associated with the transaction will flow to the Company; and
- (iv) non-refundable upfront payments received on the signing of agreements and regulatory milestone payments, which require the Company's ongoing involvement, are deferred and amortized into income on a straight-line basis over the expected period of performance of the related activities, provided that revenue subject to the achievement of milestones is recognized only when the specified events have occurred and it is probable that the economic benefits associated with the transaction will flow to the Company.

g) Share-based payment transactions

The Company's share option plan allows the Company's directors, officers, employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted are measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each consolidated statement of financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

h) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

i) Loss per share

The Company presents the basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. In the Company's case, diluted loss per share is the same as basic loss per share as the effects of including all outstanding options and warrants would be anti-dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Significant accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout these consolidated 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 consolidated 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:

- (i) The assessment of the ultimate collectability of due from related parties.

Critical judgments

- (i) Going concern - Evaluation of the ability of the Company to realize its strategy for funding its future needs for working capital involves making judgments.
- (ii) Provision for credit losses - Judgment is required as to the timing of establishing a provision for credit losses and the amount of the required provision, taking into consideration factors such as counterparty creditworthiness, the fair value of the underlying collateral, current economic trends and past experience. See Note 3(l).
- (iii) Fair value and useful life of intangible assets - The value of the intangible assets was determined based on the fair value of the consideration 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 assets for purposes of amortization.
- (iv) Impairment of intangible assets – The determination that there are no indicators of impairment indicating that the carrying amount exceeds the recoverable amount.

Judgment is required in assessing whether certain factors would be considered an indicator of impairment or impairment reversal. Management considers both internal and external information to determine whether there is an indicator of impairment or impairment reversal present and, accordingly, whether impairment testing is required.

Significant estimates and assumptions

- (i) Convertible debenture/derivative liability – Management has made significant assumptions in the application of the Binomial option pricing valuation model when calculating the fair value of the derivative liability and the residual fair value of the convertible note.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Derivative liability

The Company evaluates its convertible debt, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for. This accounting treatment requires that the carrying amounts of embedded derivatives be marked-to-market at each statement of financial position date and carried at fair value. In the event that the fair value is recorded as a liability, the change in fair value during the period is recorded in the statement of comprehensive loss as either income or expense. Upon conversion, exercise or modification to the terms of a derivative instrument, the instrument is marked to fair value at the conversion date and then the related fair value is reclassified to equity.

In circumstances where the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

The classification of financial instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified to liability at the fair value of the instrument on the reclassification date. Derivative instrument liabilities will be classified in the statement of financial position as current or non-current based on whether or not net-cash settlement of the derivative instrument is expected within 12 months of the balance sheet date.

Management must determine whether an instrument (or an embedded feature) is indexed to the Company's own shares. An entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own shares, including evaluating the instrument's contingent exercise and settlement provisions. This exercise affects the accounting for (i) certain freestanding warrants that contain exercise price adjustment features, (ii) convertible notes containing full-ratchet and anti-dilution protections and (iii) certain free-standing warrants that contain contingently puttable cash settlement.

l) Provisions

Provisions are recognized in the consolidated statement of financial position when the Company has a legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

m) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument.

At initial recognition, financial assets are measured at fair value and classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"). At initial recognition, financial liabilities are measured at fair value and classified as, subject to certain exceptions, subsequently measured at amortized cost. For financial assets and financial liabilities not at FVTPL, fair value is adjusted for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in the statement of comprehensive loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is to hold assets to collect contractual cash flows, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

AFFINOR GROWERS INC.NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2020 AND 2019
(Presented in Canadian Dollars)**3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*m) Financial instruments *(Continued)*

A financial asset is measured at FVTOCI if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVTPL unless it is measured at amortized cost or FVTOCI. However, an irrevocable election can be made at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in fair value through other comprehensive income.

The Company's financial instruments are classified and subsequently measured as follows:

Account	Classification
Cash	Amortized cost
Receivables (excluding GST/sales tax receivable)	Amortized cost
Deposits	Amortized cost
Due from related parties	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Interest payable	Amortized cost
Convertible debenture	Amortized cost
Derivative liability – convertible debenture	FVTPL

Impairment

The Company recognizes an allowance using the expected credit loss ("ECL") model on financial assets classified as subsequently measured at amortized cost. The Company has elected to use the simplified approach for measuring ECL by using a lifetime expected loss allowance for all amounts recoverable. Under this model, impairment provisions are based on credit risk characteristics and days past due. When there is no reasonable expectation of collection, financial assets classified as subsequently measured at amortized cost are written off. Indications of credit risk arise based on failure to pay and other factors. Should objective events occur after an impairment loss is recognized, a reversal of impairment is recognized in the statement of comprehensive loss.

n) Impairment of property and equipment and intangible assets (excluding goodwill)

Property and equipment and finite life intangible assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Any intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) Impairment of property and equipment and intangible assets (excluding goodwill) *(Continued)*

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount and the impairment loss is recognized immediately in profit or loss for the period. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment loss had previously been recognized. A reversal is recognized immediately in profit or loss for the period.

o) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the consolidated statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted that are expected to apply when temporary differences are expected to settle.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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4. PROPERTY AND EQUIPMENT

	Growing Equipment	Computer Equipment	Lighting Equipment	Office Equipment	Total
Cost					
As at May 31, 2018	\$ -	\$ 5,438	\$ -	\$ 5,863	\$ 11,301
Additions during the year	146,763	-	-	-	146,763
Disposals during the year	(53,500)	-	-	-	(53,500)
Impairment	(82,563)	-	-	-	(82,563)
As at May 31, 2019	10,700	5,438	-	5,863	22,001
Additions during the year	10,636	-	57,373	-	68,009
As at May 31, 2020	\$ 21,336	\$ 5,438	\$ 57,373	\$ 5,863	\$ 90,010
Accumulated depreciation					
As at May 31, 2018	\$ -	\$ 2,826	\$ -	\$ 4,178	\$ 7,004
Depreciation for the year	17,527	784	-	505	18,816
Depreciation for the year related to disposals	(6,019)	-	-	-	(6,019)
Depreciation related to impaired assets	(11,508)	-	-	-	(11,508)
As at May 31, 2019	-	3,610	-	4,683	8,293
Depreciation for the year	10,766	549	5,737	354	17,406
As at May 31, 2020	\$ 10,766	\$ 4,159	\$ 5,737	\$ 5,037	\$ 25,699
Net book value					
As at May 31, 2019	\$ 10,700	\$ 1,828	\$ -	\$ 1,180	\$ 13,708
As at May 31, 2020	\$ 10,570	\$ 1,279	\$ 51,636	\$ 826	\$ 64,311

During the year ended May 31, 2019, the Company sold four proto-type towers for gross proceeds of \$52,000. In addition, during the year, the Company redesigned all of its rotating growing towers. As a result, the Company decided to write-off the remaining growing towers of the old design for a total impairment charge of \$71,055. As a result of the decision to write-off these growing towers, the \$50,000 deposit paid for the manufacturing of growing towers based on the old design specifications was also written off.

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5. INTANGIBLE ASSETS

	Patents	Patents Pending	Patent Development	Total
Cost				
As at May 31, 2018	\$ 2,494,443	\$ -	\$ -	\$ 2,494,443
Additions during the year	-	44,000	109,004	153,004
Impairment	(1,494,442)	-	-	(1,494,442)
As at May 31, 2019	1,000,001	44,000	109,004	1,153,005
Additions during the year	-	-	-	-
As at May 31, 2020	\$ 1,000,001	\$ 44,000	\$ 109,004	\$ 1,153,005
Accumulated amortization				
As at May 31, 2018	\$ 408,276	\$ -	\$ -	\$ 408,276
Amortization for the year	117,824	-	4,307	122,131
Amortization related to impaired assets	(361,748)	-	-	(361,748)
As at May 31, 2019	164,352	-	4,307	168,659
Amortization for the year	55,556	1,228	6,061	62,845
As at May 31, 2020	\$ 219,908	\$ 1,228	\$ 10,368	\$ 231,504
Net book value				
As at May 31, 2019	835,649	44,000	104,697	984,346
As at May 31, 2020	\$ 780,093	\$ 42,772	\$ 98,636	\$ 921,501

During the year ended May 31, 2015, the Company acquired the ownership and commercialization rights of the farming technology “Method and Apparatus for Automated Horticulture and Agriculture” to grow market-ready strawberries using automated, software-driven, vertical farming technology from Vertical Designs Ltd. (“VDL”) and Aboriginal Import Export, companies controlled by the former CEO of the Company, by issuing 6,388,888 common shares of the Company valued at \$1,494,443.

During the year ended May 31, 2016, the Company acquired the remaining patents regarding the proprietary vertical farming systems and license agreements with certain partners covering various provinces of Canada from VDL by issuing 10 million common shares of the Company valued at \$1 million.

During the year ended May 31, 2019, the Company acquired the technology “Vertical Growing Tower for Automated Horticulture and Agriculture.” In August 2019, a patent application was filed with the Canadian Intellectual Property Office having a priority date claimed of August 21, 2018.

During the year-ended May 31, 2019, the Company evaluated its portfolio of patents and decided to keep focus on the Company’s redesigned vertical rotating tower and the development of a new vertical tower. As a result, the Company wrote-down the value of its patent “Method and Apparatus for Automated Horticulture and Agriculture” to \$1. The Company will continue to maintain the patent in the coming years.

Subsequent to the year-ended May 31, 2020, the Company was granted a patent for its newly designed vertical growing tower included patents pending above.

See Note 8.

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6. SHARE CAPITAL AND RESERVES

(i) Authorized:

At May 31, 2020 and 2019, the authorized share capital was comprised of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

(ii) Share issuances:

a) The Company did not issue any common shares during the years ended May 31, 2020 and 2019.

(iii) Warrants:

The continuity of warrants for the year ended May 31, 2020 is as follows:

Expiry date	Exercise price	May 31, 2019	Issued	Exercised	Expired	May 31, 2020
August 17, 2020	* \$0.10	2,000,000	-	-	-	2,000,000
March 8, 2020	\$0.25	24,997,916	-	-	(24,997,916)	-
April 17, 2020	** \$0.20	3,203,631	-	-	(3,203,631)	-
Outstanding		30,201,547	-	-	(28,201,547)	2,000,000
Weighted average exercise price		\$ 0.23	\$ -	\$ -	\$ 0.24	\$ 0.10

* - Warrants expired subsequent to year-end.

** - These warrants have a forced exercise price. If the closing price of the Company's shares are \$0.40 or greater for a period of 20 consecutive trading days, the warrant holder will have 30 days to exercise their warrants; otherwise the warrants expire on the 31st day.

As of May 31, 2020, the weighted average contractual life is 0.21 years (May 31, 2019 – 0.81 years).

The continuity of warrants for the year ended May 31, 2019 is as follows:

Expiry date	Exercise price	May 31, 2018	Issued	Exercised	Expired	May 31, 2019
September 11, 2018	\$0.15	14,300,000	-	-	(14,300,000)	-
April 4, 2019	\$0.40	635,000	-	-	(635,000)	-
April 7, 2019	\$0.40	3,045,636	-	-	(3,045,636)	-
April 11, 2019	\$0.40	1,080,000	-	-	(1,080,000)	-
April 14, 2019	\$0.40	564,000	-	-	(564,000)	-
April 16, 2019	\$0.40	178,000	-	-	(178,000)	-
April 22, 2019	\$0.40	360,000	-	-	(360,000)	-
April 23, 2019	\$0.40	1,620,000	-	-	(1,620,000)	-
August 17, 2020	\$0.10	2,000,000	-	-	-	2,000,000
March 8, 2020	\$0.25	24,997,916	-	-	-	24,997,916
April 17, 2020	\$0.20	3,203,631	-	-	-	3,203,631
Outstanding		51,984,183	-	-	(21,782,636)	30,201,547
Weighted average exercise price		\$ 0.24	\$ -	\$ -	\$ 0.24	\$ 0.23

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6. SHARE CAPITAL AND RESERVES (Continued)

(iv) Broker's Warrants:

The continuity of broker's warrants for the year ended May 31, 2020 is as follows:

Expiry date	Exercise price	May 31, 2019	Issued	Exercised	Expired	May 31 2020
April 17, 2020	*	\$0.20	70,747	-	-	(70,747)
Outstanding		70,747	-	-	(70,747)	-
Weighted average exercise price		\$ 0.20	\$ -	\$ -	\$ 0.20	\$ -

* - These warrants have a forced exercise price. If the closing price of the Company's shares are \$0.40 or greater for a period of 20 consecutive trading days, the warrant holder will have 30 days to exercise their warrants; otherwise the warrants expire on the 31st day.

The continuity of broker's warrants for the year ended May 31, 2019 is as follows:

Expiry date	Exercise price	May 31, 2018	Issued	Exercised	Expired	May 31, 2019
April 17, 2020	\$0.20	70,747	-	-	-	70,747
Outstanding		70,747	-	-	-	70,747
Weighted average exercise price		\$0.20	\$ -	\$ -	\$ -	\$0.20

As of May 31, 2020, the weighted average contractual remaining life is Nil years (May 31, 2019 – 0.88 years).

(v) Share Purchase Options Compensation Plan:

The Company maintains a share-based payment plan (the "Plan") whereby the Board of Directors may from time to time grant to directors, officers, employees and consultants, options to acquire common shares in such numbers, for such terms and at such exercise prices as may be determined by the Board, but the exercise price cannot be lower than the market price. The Plan provides that the maximum number of common shares in the capital of the Company which may be reserved for issuance under the Plan may not exceed 10% of the publicly traded shares issued and outstanding on the grant date of the options (on a non-diluted basis), this number being equal to 152,908,108 shares on May 31, 2020.

Options granted are exercisable at the day of grant except for persons performing investor relations activities. Options granted to suppliers of investor relations services must at a minimum vest in stages over a period not less than 12 months with no more than one fourth of the options vesting in any three-month period.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

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6. SHARE CAPITAL AND RESERVES *(Continued)*

(v) Share Purchase Options Compensation Plan: *(Continued)*

A summary of changes in the Company's common share purchase options for the year ended May 31, 2020 is as follows:

Expiry date	Exercise price	May 31, 2019	Granted	Exercised	Expired/cancelled	May 31 2020		
June 2, 2019	\$ 0.85	100,000	-	-	(100,000)	-		
June 5, 2019	\$ 1.03	100,000	-	-	(100,000)	-		
June 8, 2019	\$ 0.10	200,000	-	-	(200,000)	-		
June 27, 2019	\$ 0.67	200,000	-	-	(200,000)	-		
August 11, 2019	\$ 0.47	300,000	-	-	(300,000)	-		
October 18, 2019	\$ 0.165	800,000	-	-	(800,000)	-		
October 25, 2019	\$ 0.17	700,000	-	-	(700,000)	-		
October 28, 2019	\$ 0.25	200,000	-	-	(200,000)	-		
November 3, 2019	\$ 0.135	100,000	-	-	(100,000)	-		
November 17, 2019	\$ 0.16	500,000	-	-	(500,000)	-		
November 22, 2019	\$ 0.15	1,250,000	-	-	(1,250,000)	-		
December 20, 2020	\$ 0.155	500,000	-	-	-	500,000		
January 16, 2021	\$ 0.19	900,000	-	-	-	900,000		
April 5, 2021	\$ 0.115	2,000,000	-	-	-	2,000,000		
May 18, 2021	\$ 0.11	500,000	-	-	-	500,000		
July 16, 2021	\$ 0.10	100,000	-	-	-	100,000		
August 24, 2021	\$ 0.115	600,000	-	-	-	600,000		
September 27, 2021	\$ 0.10	1,000,000	-	-	-	1,000,000		
Options outstanding		10,050,000	-	-	(4,450,000)	5,600,000		
Options exercisable		10,050,000	-	-	(4,450,000)	5,600,000		
Weighted average exercise price	\$	0.18	\$	-	\$	0.24	\$	0.13

As of May 31, 2020, the weighted average contractual remaining life is 0.93 years (May 31, 2019 – 1.24 years).

The weighted average assumptions used to estimate the fair value of options for the year ended May 31, 2019 were:

	2019
Risk-free interest rate	1.76%
Expected life	3 years
Expected volatility	142.76%
Expected dividend yield	Nil

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6. SHARE CAPITAL AND RESERVES *(Continued)*

(v) Share Purchase Options Compensation Plan: *(Continued)*

A summary of changes in the Company's common share purchase options for the year ended May 31, 2019 is as follows:

Expiry date	Exercise price	May 31, 2018	Granted	Exercised	Expired/ cancelled	May 31, 2019				
November 16, 2018	\$ 0.10	600,000	-	-	(600,000)	-				
February 23, 2019	\$ 0.10	200,000	-	-	(200,000)	-				
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 8, 2019	\$ 0.10	200,000	-	-	-	200,000				
June 27, 2019	\$ 0.67	200,000	-	-	-	200,000				
August 11, 2019	\$ 0.47	300,000	-	-	-	300,000				
October 18, 2019	\$ 0.165	800,000	-	-	-	800,000				
October 25, 2019	\$ 0.17	700,000	-	-	-	700,000				
October 28, 2019	\$ 0.25	200,000	-	-	-	200,000				
November 3, 2019	\$ 0.135	100,000	-	-	-	100,000				
November 17, 2019	\$ 0.16	500,000	-	-	-	500,000				
November 22, 2019	\$ 0.15	1,250,000	-	-	-	1,250,000				
December 20, 2020	\$ 0.155	500,000	-	-	-	500,000				
January 16, 2021	\$ 0.19	900,000	-	-	-	900,000				
April 5, 2021	\$ 0.115	2,000,000	-	-	-	2,000,000				
May 18, 2021	\$ 0.11	500,000	-	-	-	500,000				
July 16, 2021	\$ 0.10	-	100,000	-	-	100,000				
August 24, 2021	\$ 0.115	-	600,000	-	-	600,000				
September 27, 2021	\$ 0.10	-	1,000,000	-	-	1,000,000				
Options outstanding		9,900,000	1,700,000	-	(1,550,000)	10,050,000				
Options exercisable		9,900,000	1,700,000	-	(1,550,000)	10,050,000				
Weighted average exercise price	\$	0.20	\$	0.11	\$	-	\$	0.28	\$	0.18

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7. LOSS PER SHARE

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the year ended May 31, 2020 was based on the loss attributable to common shareholders of \$693,702 (2019 – \$2,403,844) and a weighted average number of common shares outstanding of 152,908,108 (2019 – 152,908,108).

Diluted loss per share did not include the effect of 5,600,000 share purchase options and 2,000,000 warrants for the year ended May 31, 2020 (2019 – 10,050,000 share purchase options, 70,747 broker's warrants and 30,201,547 warrants) as they are anti-dilutive.

8. RELATED PARTY TRANSACTIONS

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:

(i) Transactions with key management personnel

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

	Years Ended	
	May 31, 2020	May 31, 2019
Consulting fees	\$ 40,000	\$ 120,000
Management fees	60,000	85,000
Wages and employee benefits	153,211	127,392
Share-based payments	-	124,480
Total	\$ 253,211	\$ 456,872

	Services	Transactions for the years ended		Balance due	
		May 31, 2020	May 31, 2019	As at May 31, 2020	As at May 31, 2019
Aboriginal Import Export ^(a)	Consulting fees	\$ 40,000	\$ 120,000	\$ 40,000	\$ 10,000
Randy Minhas, Chief Financial Officer ^(b)	Salaries and share-based payment	\$ 153,211	\$ 162,242	\$ 23,947	\$ -
Softail Enterprises Inc. ^(c)	Management fees	\$ 60,000	\$ 85,000	\$ 36,750	\$ 42,554
Brian Whitlock Director ^(d)	Share-based payment	\$ -	\$ 34,850	\$ 9,065	\$ -
Alan Boyco, David Mack and Rick Easthom ^(e)	Share-based payment	\$ -	\$ 54,780	\$ -	\$ -

- (a) Nicholas Brusatore was appointed as the Chief Executive Officer effective January 29, 2018 and was compensated via payment to Aboriginal Import Export, a company controlled by Mr. Brusatore. Mr. Brusatore resigned as Chief Executive Officer effective September 28, 2018. Mr. Brusatore remained on as a consultant until September 28, 2019.
- (b) Randy Minhas was appointed as the Chief Financial Officer effective May 2, 2018 and named Chief Executive Officer on September 28, 2018. Amounts owing are for reimbursable expenses and unpaid wages.
- (c) Softail Enterprises Inc. is controlled by a director of the Company. The balance owing as of May 31, 2020 and 2019 are for management fees.
- (d) Brian Whitlock is a director of the Company. Amounts owing are for reimbursable expenses.
- (e) Alan Boyco, David Mack and Rick Easthom are directors of the Company. David Mack resigned as a director on September 28, 2018.

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8. RELATED PARTY TRANSACTIONS (Continued)

(ii) Due from related parties

On May 2, 2018, the Company advanced \$220,000 to Vertical Designs Ltd. (“VDL”), a company controlled by the Company’s former CEO. This advance is secured by a promissory note and the assets of VDL, bears interest at 15% per annum commencing on May 2, 2018 and matured on December 31, 2018. As a result of the remeasurement change on transition to IFRS 9, the opening balance of this advance was reduced by \$9,000 to \$211,000. Interest of \$27,304 was earned and not accrued during the year ended May 31, 2019 and a payment of \$14,536 was received. As at May 31, 2019, the Company wrote the balance down to \$1 as collectability was considered doubtful.

	As at	
	May 31, 2020	May 31, 2019
Balance, beginning of year	\$ 1	\$ 220,000
Remeasurement on adoption of IFRS 9 (Note 18)	-	(9,000)
Repayments	-	(14,536)
Provision for credit loss	-	(196,463)
Balance, end of year	\$ 1	\$ 1

On August 9, 2018, the Company advanced US\$75,000 to VDL Colombia S.A.S., a company in which a director of the Company had an ownership interest. This advance is secured by a promissory note, the assets of the company, and the shares of the company pledged by shareholders of the company, bears interest at 15% per annum payable monthly commencing on August 31, 2018 and matured on August 31, 2018. Prior to May 31, 2019, the director divested his interest in VDL Colombia S.A.S. As at May 31, 2020, the Company wrote the balance down to \$1 as collectability was considered doubtful.

	As at	
	May 31, 2020	May 31, 2019
Balance, beginning of year	\$ 30,144	\$ -
August 9, 2018, inception of the loan	-	99,233
Interest accrued	6,863	8,948
Repayments	-	(50,000)
Provision for credit loss	(36,686)	(30,000)
Foreign exchange	(320)	1,963
Balance, end of year	\$ 1	\$ 30,144

(iii) Write-off of receivables

During the year-ended May 31, 2019, the Company wrote off receivables of \$26,578 due from the Company’s former CEO as collectability was considered doubtful.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company entered into the following transactions which had no impact on cash flow:

Supplemental Disclosure:

	Years Ended	
	May 31, 2020	May 31, 2019
Deposits on asset purchases transferred to property and equipment	\$ 43,879	\$ 110,700
Deposits on asset purchases transferred to intangible assets	\$ -	\$ 59,965
Patent costs financed by accounts payable	\$ -	\$ 40,770

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The fair values of the Company's cash, receivables (excluding GST/sales tax), deposits, due from related parties, accounts payable and accrued liabilities, interest payable and convertible debenture payable 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 due to 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 does not trade in financial assets for speculative purposes. The Company's convertible debenture bears interest at 15% per annum. See Note 13.

(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 other financial assets.

As at May 31, 2020 and 2019, all of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms, except for the convertible debenture payable. The convertible debenture payable is due on November 1, 2020; however, the Company has the option to force conversion. See Note 13.

As at May 31, 2020, the Company has financial assets of \$14,794 to cover financial liabilities of \$749,202. The ability of the Company to continue its activities relies upon the support 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. The Company is exposed to credit risk on cash, receivables (excluding GST/sales taxes), deposits and due from related parties. Cash is held with a Canadian chartered bank and management considers this risk to be negligible. The amounts due from related parties are unsecured. See Note 8.

The Company manages and controls credit risk by requiring deposits or prepayments on sales of vertical farming technology. As it relates to transactions with related parties, the Company adopted a new policy in fiscal 2019 that no funds would be advanced to related parties.

(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 consolidated statement of comprehensive loss, which is the effect of currency rates on expected future cash flows and investments.

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).

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10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(Continued)*

As at May 31, 2020, the Company's derivative liability of \$83,000 was included in Level 3 of the fair value hierarchy.

11. CONTRACTUAL OBLIGATIONS

On March 30, 2020, the Company entered into a technology license agreement with a company controlled by a former CEO of the Company (the "licensee") pursuant to which the Company granted the licensee a limited, exclusive (on the property owned by the licensee in Abbotsford, BC and excluding the Company's use (as defined)), non-transferable, sublicensable, license to use, license, sell, offer for sale, advertise, market and distribute the Company's vertical growing tower for horticulture and agriculture (the "growing tower") through embodying products (as defined) and advertise and market these products and services utilizing its own trade-marks for an initial term of two years. As part of the consideration of the license, the licensee and, where applicable, its affiliated licensee(s) will pay the Company a one-time licensing fee equal to an aggregate minimum fee of \$150 per growing tower. The licensing fee is payable at the time an order is placed and the Company reserves the right to waive, increase or decrease the licencing fee at any time during the agreement. The licensee will be able to obtain distribution rights for the growing tower for a specific territory upon entering a distribution agreement with the Company based on terms determined by the Company. Upon expiry of the initial term, the agreement will automatically renew for successive one-year periods unless either party provides the other with notice of intention not to renew at least 60 days prior to the end of the then current term. The licensee has the first right of refusal for any new licenses the Company wishes to issue within the City of Abbotsford, BC, with each new license being pursuant to an agreement based on terms determined by the Company.

12. INCOME TAX

The Company is subject to income taxes in Canada. The provision for income taxes varies from the amount that would be computed from applying the combined federal and provincial income tax rate to loss before taxes as follows:

	2020	2019
	27.00%	27.00%
Loss for the year before income taxes	\$ (693,702)	\$ (2,403,844)
Income tax benefit computed at statutory rates	(187,300)	(649,038)
Deductible and non-deductible amounts	(65,796)	331,445
Tax assets not recognized	253,096	317,593
Income tax expense	\$ -	\$ -

The significant components of the Company's deferred tax assets are as follows:

	2020	2019
Exploration and evaluation assets	\$ 2,290,000	\$ 2,290,000
Non-capital and net capital losses carried forward	20,389,000	19,418,000
Investment tax credits	6,000	6,000
Share issue costs	4,000	20,000
Property and equipment and intangible assets	257,000	582,000
	\$ 22,946,000	\$ 22,316,000

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12. INCOME TAX (Continued)

The Company has non-capital losses of approximately \$20,249,000 (2019 - \$19,296,000) which are available to reduce taxes in future periods, for which no deferred income tax asset has been recognized in the consolidated statement of financial position, that can be carried over the following years:

2026	\$	174,000
2027		404,000
2028		345,000
2029		137,000
2030		37,000
2031		63,000
2032		87,000
2033		205,000
2034		5,016,000
2035		3,764,000
2036		977,000
2037		1,376,000
2038		5,519,000
2039		1,192,000
2040		953,000
		<u>\$ 20,249,000</u>

13. CONVERTIBLE DEBENTURE

On November 1, 2019, the Company entered into an agreement to issue a convertible debenture (the “Debenture”) for aggregate proceeds of \$500,000 (the “Principal Amount”).

The Debenture will mature on November 1, 2020 (the “Maturity Date”), the date that is twelve months from the date of issuance (the “Issue Date”) and bear interest at a rate of 15% per annum, accrued and paid annually, with such interest rate being calculated on the basis of 30 days per month and 360 days per year.

The Principal Amount and any accrued and unpaid interest on the Debenture may be convertible at the election of the holder into common shares in the capital of the Company (the “Shares”), in whole or in part, at any time following the Issue Date but on or before the Maturity Date at a conversion price of the greater of \$0.05 per Share or the 20 day volume weighted average trading price of the Shares, or such other minimum as required by the policies of the Canadian Securities Exchange (the “Conversion Price”).

Further, the Company may elect to force settlement of the Principal Amount together with any interest accrued but unpaid on the Debenture if the Company completes an equity financing of common shares or units consisting of common shares and a convertible security which converts into common shares at the price of the securities issued pursuant to the financing on not less than 5 days’ notice. Subject to the holder’s right to convert the Principal Amount into common shares, the Company may also from time to time prepay all or part of the Principal Amount plus accrued and unpaid interest without penalty or bonus.

The conversion feature of the Debenture meets the definition of a derivative liability instrument because the exercise price of the conversion feature is not fixed and the number of potential common shares are not fixed. Therefore, the conversion feature does not meet the criteria as outlined in IAS 32.

As a result, the conversion feature of the Debenture was required to be recorded as a derivative liability recorded at fair value, with the changes in fair value each period being recorded through profit and loss.

In accordance with IAS 32, for convertible notes with embedded derivative liabilities, the embedded derivative liability is determined first and the residual value is assigned to the debt host liability.

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13. CONVERTIBLE DEBENTURE *(Continued)*

On inception of the debenture, the fair value of the derivative liability related to the conversion feature was \$112,851. The derivative liability was calculated using the Binomial option pricing valuation model with the following assumptions:

	May 31, 2020
Risk-free interest rate	0.26% - 1.61%
Expected life (years)	0.42 - 1.00
Expected volatility	162.59% - 263.18%
Expected dividend yield	Nil

The change in the derivative liability related to the conversion feature is as follows:

	May 31, 2020
Balance, beginning of year	\$ -
Fair value at inception	112,851
Change in fair value of derivative liability	(29,851)
Balance, end of year	\$ 83,000

With the conversion feature initially being valued at \$112,851, the resulting residual value allocated to the host debenture was \$387,149, being the difference between the face value of the convertible debenture and the fair value of the conversion feature derivative liability.

The change in the convertible debenture is as follows:

	May 31, 2020
Balance, beginning of year	\$ -
Principal Amount received	500,000
Fair value of derivative liability	(112,851)
Discounted convertible debenture	387,149
Accretion expense	59,963
Balance, end of year	\$ 447,112

14. MANAGEMENT OF CAPITAL RISK

The Company manages its cash and shareholders' equity 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. This objective will be achieved by identifying the right agriculture projects, adding value to these projects and ultimately taking them through to production or sale and cash flow, either with partners or by the Company's own means.

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.

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.

14. MANAGEMENT OF CAPITAL RISK *(Continued)*

When financing conditions are not optimal, the Company may enter into option agreements or other solutions to continue its activities or may slow its activities until conditions improve. The Company is not subject to external capital requirements. There were no changes in the Company's approach to capital management during the period.

15. SEGMENTED FINANCIAL INFORMATION

The Company operates in one industry segment, the agriculture technology industry. The Company operates in North America.

16. CONTRACTS WITH CUSTOMERS

On March 1, 2019, the Company entered into a technology distribution licensing agreement with a private American corporation (the "manufacturer") pursuant to which the Company was granted an exclusive, worldwide, non-transferrable, sublicensable distribution license to sell, offer for sale, advertise, market and distribute all products manufactured by the manufacturer through a product of, or manufactured or constructed by, the Company that directly or indirectly includes, uses, represents, relies upon or otherwise embodies the manufacturer's products. For orders accepted by the manufacturer resulting predominantly from the Company's efforts, the Company will receive a base commission of 10% of the manufacturer's standard net pricing and 90% (50% for cannabis-specific growing lights) of any excess of the invoice price over the net pricing. The agreement has an initial term of four years. Upon expiry of the initial term, the agreement will automatically renew for successive five-year periods unless either party provides the other with intention of notice not to renew.

17. COMMITMENTS AND CONTINGENCIES

Temporary Order and Notice of Hearing

On March 8, 2018, the Company completed a non-brokered private placement by issuing 24,997,916 units ("Unit") at a price of \$0.16 per Unit for gross proceeds of \$3,999,667, all of which was raised under the Consultant Exemption under National Instrument 45-106. A large portion of the funds was paid out in the form of consulting fees as the Company had entered into 14 three-month contracts for consulting services totalling \$3,500,000 for accounting, corporate and administrative services, internet marketing, investor relations, merger and acquisition consulting and cannabis consulting. As at May 31, 2018, \$175,000 in GST paid on the consulting fees was included in receivables. Of this amount, \$47,500 has been recovered from four consultants.

On November 26, 2018, the British Columbia Securities Commission (the "BCSC") issued a Temporary Order and Notice of Hearing (the "Order") to respondents, including the Company, pursuant to Section 161 of the Securities Act (the "Act") advising that a hearing would be held under section 161 (3) of the Act to determine whether to extend the temporary order under Section 161. The BCSC's concern is that the named issuers paid the majority of the private placement proceeds received, including those noted above, back when little or no consulting services had been or were intended to be performed and that this conduct is abusive to the capital markets. Considering the length of time to hold a hearing under section 161 (a) of the Act, the BCSC issued the following temporary orders under section 161 (1)(c): (i) that the exemption under section 2.24 of National Instrument 45-106 does not apply to the named issuers for a distribution to a consultant; and (ii) it does not apply to any issuer listed on the Canadian Securities Exchange for distribution to named respondents.

At a hearing held on December 7, 2018, the executive director asked the BCSC to extend the temporary orders, which were to expire on December 11, 2018, until a hearing was held and a decision rendered. The temporary orders were extended at the completion of the hearing until a decision was issued on this application.

On January 15, 2019, the BCSC issued its decision with respect to the temporary orders. With respect to the Company, it found that the executive director had not provided *prima facie* evidence of having engaged in conduct contrary to the public interest and, accordingly, the temporary orders were not extended. It was also concluded that it is in the public interest to not proceed with the hearing until the BCSC investigation has concluded.

17. COMMITMENTS AND CONTINGENCIES (*Continued*)

In relation to the above noted issue, the Company was served with a notice of civil claim (the "Claim") filed on July 11, 2019 with the Supreme Court of British Columbia by Michael Tietz and Duane Lowen under the Class Proceedings Act, RSBC 1996, c 50, naming the Company as a defendant along with 86 additional defendants. The Claim relates to allegations of conspiracy, secondary market misrepresentations and fraudulent/negligent misrepresentations arising out of certain agreements entered into with consultants of the Company.

University of the Fraser Valley Sponsorship

On February 15, 2019, the Company, as sponsor, entered into a service agreement with the University of the Fraser Valley for the purpose of forming a two-year research partnership designed to test the output and production of organic and conventional strawberries using the Company's vertical cultivation system. The project budget, funded by the Company, is approximately \$33,000 for the first year and \$32,000 for the second year. Effective May 31, 2020, the Company decided to terminate the agreement and donated the towers used for the project to the University of the Fraser Valley.

Letter of Intent

On April 17, 2019, the Company entered into a binding letter of intent with a private, British Columbia corporation (the "Vendor"), in the business of precision metal fabrication, machining and finishing, for the purpose of purchasing, either directly or indirectly, specified assets of the vendor's business. Pursuant to the letter of intent:

- terms of the agreements between the parties will be contained in a definitive agreement (the "DA"), with the DA being entered into on or before completion of the 45-day due diligence period, closing occurring immediately upon execution of the DA and the purchase offer including a further 30-day due diligence period;
- the Company will acquire the specified machine equipment, all patents, office equipment, computer equipment and software programs currently owned by the vendor, all raw materials and work-in-progress related to acquired vendor contracts and agreements and all accounts payable related to the acquired inventory;
- all manufacturing clients and related vendor contracts and agreements and the premises lease agreement will be assigned to the Company;
- the purchase price will be up to \$2,900,000, with up to \$1,000,000 being payable in full by certified cheque, wire transfer and/or a promissory note at the Company's election within three business days of the closing date and up to \$1,900,000 being payable in full through the issuance of up to 38 million common shares of the Company at a deemed price of \$0.05 per share;
- closing is subject to the usual conditions including all requisite government, regulatory, board of director and shareholder approvals and
- the letter of intent terminates automatically upon execution of the DA and may be terminated by mutual consent, by written notice from the Company if unsatisfied with its due diligence investigation or by the vendor if a DA hasn't been entered into on or before the expiration of the due diligence period.

As at May 31, 2020, the companies continue to discuss potential options in completing the deal.

18. TRANSITION TO IFRS 9

The carrying amount of due from related party under the pre-transition IAS 39 was \$220,000 and classified as loans and receivables under the pre-transition IAS 39 classification and measurement category. As a result of adopting IFRS 9 on June 1, 2018, the carrying amount was reduced by \$9,000 to \$211,000 as at June 1, 2018 and classified as amortized cost under post-transition IFRS 9 classification and measurement category. As a result, total after-tax deficit was increased by \$9,000 and after-tax shareholders' equity was decreased by \$9,000.

The reclassification on transition did not result in any remeasurement changes for any other financial assets and liabilities.

19. EVENTS AFTER THE REPORTING PERIOD

- (i) On August 10, 2020, the Company entered into a letter of intent (“LOI”) with Four Our Future Indigenous Economics Corporation Ltd. (“FOFIE”) to negotiate a distribution agreement whereby FOFIE will distribute Affinor products, technologies and/or services to:
- Indigenous communities, governments, corporations and organizations;
 - Canadian, provincial and municipal governments in partnership or with collaborative, service or protocol agreements with Indigenous communities;
 - Corporations or industry organizations in partnership or with collaborative or protocol agreements with Indigenous communities; and
 - The distribution of Affinor products would be limited to sales in regions currently not covered by Affinor’s current licensing partners.

The LOI is for a period of 12 months and may be cancelled at any time by either party. The parties will work to move to a definitive distribution agreement over the 12-month period.

- (ii) On August 20, 2020, the Company launched a new shareholder communications and marketing initiative designed to improve visibility into the Company’s operations. The Company has retained Vancouver-based Stockhouse Publishing Ltd. (“SPL”) to assist in the execution of this initiative. This new initiative, with SPL, is a comprehensive agreement that will include development of a marketing strategy, social media initiatives text, dissemination of text, image and video content through SPL, with the Company retaining full editorial control. The client services agreement is for a 12-month period with the compensation being \$100,000 cash. \$88,750 is payable upon closing of the Company’s financing and the remainder is payable in equal monthly instalments of \$3,750. In the event of termination by SPL for the reasons specified, the Company must pay any outstanding instalments within 10 days.
- (iii) On August 21, 2020, the Company closed a private placement of 12,744,561 units (“Units”) at a price of \$0.03 per Unit for gross proceeds of \$382,337. Each Unit consists of one common share and one common share purchase warrant giving the warrant holder the right to buy another common share for two years at \$0.06 per common share. In the event that the Company’s common shares trade at a price on the Canadian Securities Exchange (or such other exchange on which the common shares may be traded at such time) of greater than \$0.20 per share for a period of 20 consecutive trading days, the issuer may accelerate the expiry date of the warrants by giving notice to the holders thereof by way of a news release, and in such case, the warrants will expire on the 30th day after the date of such notice.

20. COMPARATIVE AMOUNTS

Certain of the prior year’s comparative amounts have been reclassified to conform with the current year’s presentation.