AFFINOR GROWERS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

AUGUST 31, 2020

(UNAUDITED)

Contents

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

AFFINOR GROWERS INC.
CONDENSEDD CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Presented in Canadian Dollars)

	Note		August 31, 2020		May 31, 2020
Assets					
Current assets					
Cash		$	241,968	$	14,794
Receivables			17,170		19,864
Prepaid expenses and deposits	13		120,874		26,119
Due from related parties	8		2		2
			380,014		60,779
Non-current assets					
Property and equipment	4		58,831		64,311
Intangible assets	5		905,485		921,501
			964,316		985,812
Total assets		$	1,344,330	$	1,046,591
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	8	$	208,077	$	205,452
Interest payable	10		62,500		43,750
Convertible debenture payable	10		477,717		447,112
Derivative liability - Convertible debenture	10		66,000		83,000
			814,294		779,314
Equity					
Share capital	6		25,698,203		25,315,866
Reserves	6		7,022,025		7,022,025
Deficit			(32,190,192)		(32,070,614)
			530,036		267,277
Total equity and liabilities		$	1,344,330	$	1,046,591

Commitments and contingencies (Note 14)

These consolidated financial statements are authorized for issue by the Board of Directors on October 30, 2020. They are signed on the Company's behalf by:

/s/ Brian Whitlock
Director

/s/ Alan Boyco
Director

AFFINOR GROWERS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
(Presented in Canadian Dollars)

	Note	Three months ended August 31, 2020	August 31, 2019
Revenue			
Tower sales		$ -	$ 51,150
Licensing fees		-	2,400
		-	53,550
Production costs			
Cost of goods sold		-	(41,088)
Gross revenue		-	12,462
Expenses			
Amortization - intangible assets	5	16,016	15,404
Business development		-	20,000
Consulting fees	8	-	30,000
Depreciation - property and equipment	4	5,480	1,338
Management fees	8	15,000	15,000
Other operating expenses		1,853	8,124
Professional fees	8	4,784	8,243
Registration and information to shareholders		6,592	6,928
Rent		705	5,918
Travel		271	6,136
Wages, employee benefits and training	8	38,491	38,998
		(89,192)	(156,314)
Operating loss		(89,192)	(143,852)
Other items			
Change in fair value of derivative liability	10	17,000	-
Interest expense	10	(18,750)	-
Accretion expense	10	(30,605)	-
Other	8	1,969	2,222
		(30,386)	2,222
		-	
Net and comprehensive loss for the year		$ (119,578)	$ (141,630)
Basic and diluted loss per share		$ (0.00)	$ (0.00)
Weighted average number of shares		154,431,900	152,908,108

See notes to the condensed consolidated interim financial statements

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

		Share capital		Reserves				
	Note	Number of shares	Amount	Warrants	Broker's warrants	Equity-settled employee benefits	Deficit	Total equity
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 period		-	-	-	-	-	(141,630)	(141,630)
Balance, August 31, 2019		152,908,108	25,315,866	1,364,161	122,212	5,535,652	(31,518,542)	819,349
Net loss for the period		-	-	-	-	-	(552,072)	(552,072)
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
Share issuance - private placement	6	12,744,561	382,337	-	-	-	-	382,337
Net loss for the period		-	-	-	-	-	(119,578)	(119,578)
Balance as at August 31, 2020		**165,652,669**	**$ 25,698,203**	**$ 1,364,161**	**$ 122,212**	**$ 5,535,652**	**$ (32,190,192)**	**$ 530,036**

AFFINOR GROWERS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Presented in Canadian Dollars)

	Three Months Ended	
	August 31, 2020	August 31, 2019
Cash flows (used in) operating activities		
Net loss for the year	$ (119,578)	$ (141,630)
Items not involving cash:		
Accretion expense	30,605	-
Amortization - intangible assets	16,016	15,404
Change in fair value of derivative liability	(17,000)	-
Depreciation - property and equipment	5,480	1,563
Foreign exchange on due from related parties	-	1,019
Interest accrued on due from related parties	-	(2,222)
Interest expense	18,750	-
Changes in non-cash working capital items:		
Receivables	2,694	9,452
Prepaid expenses and deposits	(94,755)	7,658
Accounts payable and accrued liabilities	2,625	100,006
Customer deposit	-	(53,550)
Net cash (used in) operating activities	(155,163)	(62,300)
Cash flows from financing activities		
Proceeds from convertible debenture	382,337	-
Net cash provided by financing activities	382,337	-
Change in cash for the period	227,174	(62,300)
Cash, beginning of the period	14,794	63,785
Cash, end of the period	$ 241,968	$ 1,485

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 August 31, 2020 has an accumulated deficit of $32,190,192. 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 condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting" ("IAS34") using accounting policies consistent with the IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

b) Basis of preparation

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

The preparation of these condensed consolidated interim financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

(Presented in Canadian Dollars)

2. BASIS OF PREPARATION *(Continued)*

b) Basis of preparation - continued

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

3. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS as issued by the IASB on a basis consistent with those followed in the Company's most recent annual financial statement for the year ended May 31, 2020.

These unaudited condensed consolidated interim financial statements do not include all note disclosures required by IFRS for annual financial statements, and therefore should be read in conjunction with the annual financial statements for the year ended May 31, 2020. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the three-month period ended August 31, 2020 are not necessarily indicative of the results that may be expected for the year ending May 31, 2021.

4. PROPERTY AND EQUIPMENT

	Growing equipment	Computer equipment	Lighting Equipment	Office equipment	Total
Cost					
As at May 31, 2019	$ 10,700	$ 5,438	$ -	$ 5,863	$ 22,001
Additions during the period	10,636	-	57,373	-	68,009
As at May 31, 2020	21,336	5,438	57,373	5,863	90,010
Additions during the period	-	-	-	-	-
As at August 31, 2020	$ 21,336	$ 5,438	$ 57,373	$ 5,863	$ 90,010
Accumulated depreciation					
As at May 31, 2019	$ -	$ 3,610	$ -	$ 4,683	$ 8,293
Depreciation for the period	10,766	549	5,737	354	17,406
As at May 31, 2020	10,766	4,159	5,737	5,037	25,699
Depreciation for the period	2,740	96	2,582	62	5,480
As at August 31, 2020	$ 13,506	$ 4,255	$ 8,319	$ 5,099	$ 31,179
Net book value					
As at May 31, 2020	$ 10,570	$ 1,279	$ 51,636	$ 826	$ 64,311
As at August 31, 2020	$ 7,830	$ 1,183	$ 49,054	$ 764	$ 58,831

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.

(Presented in Canadian Dollars)

5. INTANGIBLE ASSETS

	Patents	Patents Pending	Patent Development	Total
Cost				
As at May 31, 2019	$ 1,000,001	$ 44,000	$ 109,004	$ 1,153,005
Additions during the period	-	-	-	-
As at May 31, 2020	$ 1,000,001	$ 44,000	$ 109,004	$ 1,153,005
Additions during the period	-	-	-	-
As at August 31, 2020	$ 1,000,001	$ 44,000	$ 109,004	$ 1,153,005
Accumulated amortization				
As at May 31, 2019	$ 164,352	$ -	$ 4,307	$ 168,659
Amortization for the period	55,556	1,228	6,061	62,845
As at May 31, 2020	219,908	1,228	10,368	231,504
Amortization for the period	13,889	612	1,515	16,016
As at August 31, 2020	$ 233,797	$ 1,840	$ 11,883	$ 247,520
Net book value				
As at May 31, 2020	780,093	42,772	98,636	921,501
As at August 31, 2020	$ 766,204	$ 42,160	$ 97,121	$ 905,485

6. SHARE CAPITAL AND RESERVES

(i) Authorized:

At August 31, 2020 and May 31, 2020, 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) On August 20, 2020, the Company closed $0.03 per unit financing for gross proceeds of $382,337. The Company issued 12,744,561 units with each consisting 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.

b) There were no common shares issued during the year-ended May 31, 2020.

(Presented in Canadian Dollars)

6. SHARE CAPITAL AND RESERVES *(Continued)*

(iii) Warrants:

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

Expiry date	Exercise price	May 31, 2020	Issued	Exercised	Expired	August 31 2020
August 17, 2020	$0.10	2,000,000	-	-	(2,000,000)	-
August 21, 2022	$0.06	-	12,744,561	-	-	12,744,561
Outstanding		2,000,000	12,744,561	-	(2,000,000)	12,744,561
Weighted average exercise price		$ 0.10	$ -	$ -	$ 0.10	$0.06

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 August 31, 2020, the weighted average contractual life is 1.97 years (May 31, 2020 – 0.21 years).

(iv) Broker's Warrants:

As at August 31, 2020, there were no Broker's Warrants issued or outstanding.

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.

(Presented in Canadian Dollars)

6. SHARE CAPITAL AND RESERVES *(Continued)*

(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 165,652,669 shares on August 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.

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

Expiry date	Exercise price	May 31, 2020	Granted	Exercised	Expired/ cancelled	August 31 2020
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		5,600,000	-	-	-	5,600,000
Options exercisable		5,600,000	-	-	-	5,600,000
Weighted average exercise price		$ 0.13	$ -	$ -	$ -	$ 0.13

(Presented in Canadian Dollars)

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 0.68 years (May 31, 2020 – 0.93 years).

7. 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:

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:

	Three Months Ended	
	August 31, 2020	August 31, 2019
Consulting fees	$ -	$ 30,000
Management fees	15,000	15,000
Wages and employee benefits	38,386	37,500
Total	$ 53,386	$ 82,500

(Presented in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS *(Continued)*

(i) Transactions with key management personnel *(Continued)*

		Transactions for the three months ended		Balance due	
	Services	August 31, 2020	August 31, 2019	August 31, 2020	As at August 31, 2019
Aboriginal Import Export [(a)]	Consulting and management fees	$ -	$ 30,000	$ 40,000	$ 40,000
Randy Minhas, Chief Financial Officer [(b)]	Salaries and share-based payment	$ 37,500	$ 37,500	$ 10,082	$ -
Softail Enterprises Inc. [(c)]	Management fees	$ 15,000	$ 15,000	$ 52,500	$ 79,304
Brian Whitlock Director [(d)]	Share-based payment	$ -	$ -	$ 9,065	$ -

(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 August 31, 2020 and 2019 are for management fees and expense reimbursements.
(d) Brian Whitlock is a director of the Company. Amounts owing are for reimbursable expenses.

8. 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.

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

(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 August 31, 2020 and May 31, 2020, 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 10.

As at August 31, 2020, the Company has financial assets of $241,968 to cover financial liabilities of $814,294. 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 7.

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).

As at May 31, 2020, the Company's derivative liability of $66,000 was included in Level 3 of the fair value hierarchy.

9. 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.

10. 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.

(Presented in Canadian Dollars)

10. 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:

	August 31, 2020	May 31, 2020
Risk-free interest rate	0.25%	0.26% - 1.61%
Expected life (years)	0.17	0.42 - 1.00
Expected volatility	189.80%	162.59% - 263.18%
Expected dividend yield	Nil	Nil

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

	August 31, 2020	May 31, 2020
Balance, beginning of period	$ 83,000	$ -
Fair value at inception	-	112,851
Change in fair value of derivative liability	(17,000)	(29,851)
Balance, end of period	$ 66,000	$ 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:

	August 31, 2020	May 31, 2020
Balance, beginning of period	$ 447,112	$ -
Discounted convertible debentures	-	387,149
Accretion expense	49,355	59,963
Balance, end of period	$ 496,467	$ 447,112

11. 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.

11. 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.

12. SEGMENTED FINANCIAL INFORMATION

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

13. PREPAID EXPENSES

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. Of the total cost, the Company has prepaid $88,750. In the event of termination by SPL for the reasons specified, the Company must pay any outstanding instalments within 10 days.

14. 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.

14. 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 – Cobotix Manufacturing Inc.

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 August 31, 2020, the companies continue to discuss potential options in completing the deal.

14. COMMITMENTS AND CONTINGENCIES (*Continued*)

Letter of Intent – Four Our Future Indigenous Economics Ltd. ("FOFIE")

(i) On August 10, 2020, the Company entered into a letter of intent ("LOI") with 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.