



**AFFINOR GROWERS INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2020**

**INTRODUCTION**

This is Management's Discussion and Analysis ("MD&A") for Affinor Growers Inc. ("Affinor" or the "Company") and has been prepared based on information known to management as of October 30, 2020. This MD&A is intended to help the reader understand the consolidated financial statements of Affinor.

The following information should be read in conjunction with the condensed consolidated interim financial statements for the three months ended August 31, 2020 and the Company's audited consolidated financial statements for the year ended May 31, 2020 and the related notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A provides a review of the performance of the Company for the three months ended August 31, 2020. Additional information relating to the Company can be found on SEDAR [www.sedar.com](http://www.sedar.com).

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

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

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

**GLOBAL PANDEMIC**

In early March 2020, there was a global outbreak of coronavirus (COVID-19) that has resulted in a economic downturn and any potential resulting direct and indirect negative impact to the Company cannot be determined, but they could have a prospective material impact to the Company's cash flows and liquidity.

**FORWARD LOOKING STATEMENTS**

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



those expressed or implied. Readers are cautioned not to place undue reliance on any forward-looking statement that may be in this MD&A.

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

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

## **ADDITIONAL INFORMATION**

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

## **SUMMARY AND OUTLOOK**

It is the mission of Affinor to be the world-wide technology and market leader in acquiring and commercializing innovative vertical farming technologies that use the least possible resources (eg. land, water, and energy resources) to produce high quality, sustainable products.

Affinor's patented technologies position the Company well in the vertical farming industry. It is one of the only vertically integrated growing system that can offer automated mechanical pollination for fruiting crops and true vertical solutions for the vertical farming industry. Revenue models for the Company include one-time licensing fees, royalties on production, and margin on the sale of the Company's patented technology.

The Company's goal is to become the leading technology developer and distributor of vertical farming equipment in order to help solve food security problems by using our proprietary growing systems.

In addition to the vertical farming technology, the Company continued its work with Fundamental Lighting Solutions Corp. ("Fundamental Lighting") in development of LED cannabis lights. As of the date of this MD&A, the Company had completed three successful grow trials and is also in the process of assisting Fundamental Lighting in getting lighting certifications for the cannabis lights in Canada and in the US. The certifications are important to have in order to move to commercial sales of the cannabis lights.



## **1. Background**

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

The Company began as Affinor Resources Inc., a company with mining projects in Québec, Canada. The Company recognized a great opportunity when it discovered a team that was developing a system and technology to help solve problematic crops sustainably.

## **2. Highlights Summary**

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

During the three months ended August 31, 2020, the Company continued working with Fundamental Lighting on the LED lights and is awaiting certification of the lights before moving to the next stage of marketing and commercialization.

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. The goal of the agreement is to work with FOFIE to bring vertical farming projects to First Nation's communities to help them solve their food security, food quality and food cost issues. From the signing of the agreement, the Company has been working with FOFIE to help develop presentation material that will be used to present the vertical farming solutions to the various First Nation's communities in British Columbia.

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.

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 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. A total of \$88,750 was paid upon closing of the Company's financing and the remainder is payable in equal monthly instalments of \$1,250. In the event of termination by SPL for the reasons specified, the Company must pay any outstanding instalments within 10 days.

### **3. Risks and Uncertainties**

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

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

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

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

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

#### *Prices for produce*

Produce prices are subject to price fluctuations and have a direct impact on the commercial viability of the Company's vertical growing technology. Price volatility results from a variety of factors, including global consumption and demand, international economic and political trends, fluctuations in the US dollar and other currencies, interest rates, and inflation. The Company has not hedged any of its potential future sales.



*Foreign currency risks*

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

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

**4. Impairment of Intangible Assets**

The Company completed an impairment analysis as at August 31, 2020 and concluded that there was no impairment in the Company's intangible assets

**5. Material Financial and Operations Information**

**5(a) Selected Annual Financial Information**

**Selected Annual Information**

	<b>Year Ended May 31, 2020</b>	<b>Year Ended May 31, 2019</b>	<b>Year Ended May 31, 2018</b>
Total revenues	\$ 53,550	\$ 3,000	\$ -
Loss before other items	(590,017)	(913,437)	(4,707,481)
Loss on investments	-	-	-
Impairment of property and equipment, receivables, deposits and loans	-	(1,490,407)	-
Loss for the year	(693,702)	(2,403,844)	(4,699,488)
Loss per share	(0.00)	(0.02)	(0.04)
Total assets	1,046,591	1,185,263	3,334,322
Total long-term financial liabilities	-	-	-
Cash dividends declared – per share	N/A	N/A	N/A



## 5(b) Summary of Quarterly Results

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

		Three months ended			
		August 31, 2020	May 31, 2020	February 29, 2020	November 30, 2019
Total revenues	\$	-	\$ -	\$ -	\$ -
Net loss	\$	119,578	\$ 398,297	\$ (168,181)	\$ (208,064)
Loss per share	\$	(0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

		Three months ended			
		August 31, 2019	May 31, 2019	February 28, 2019	November 30, 2018
Total revenues	\$	53,550	\$ 3,000	\$ -	\$ -
Net loss	\$	(141,630)	\$ (1,729,596)	\$ (148,130)	\$ (219,696)
Loss per share	\$	-	\$ (0.01)	\$ (0.00)	\$ (0.00)

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

For three months ended August 31, 2020 and three months ended August 31, 2019

During the three months ended August 31, 2020, the Company reported a loss of \$119,578 (\$0.00 loss per share) (2019 – \$141,630 (\$0.00 loss per share)).

The Company's general and administrative expenses amounted to \$89,192 during the three months ended August 31, 2020 (2019 – \$143,852), an decrease of \$59,940. In general, the Company was not as active during the period as the Covid-19 pandemic significantly slowed down all economies around the world.

The main items of change for the three months ended August 31, 2020, compared with August 31, 2019 were:

- Tower sales and licensing revenue was \$Nil in 2020 as compared with \$51,150 and \$2,400, respectively, during the same period in 2019.
- Business development expense was reduced to \$Nil as compared with \$20,000 in 2019. The reduction was the result of no business development activities being completed during the three months ended August 31, 2020 due to Covid 19.
- Consulting expense was reduced to \$Nil as compared with \$30,000 in 2019. The reduction was the result of the Company not using consultants during the period.
- Interest and accretion expense of \$18,750 and \$30,605 respectively (2019 - \$Nil and \$Nil) relate to the convertible debenture the Company entered into in November 2019.
- Change in fair value of the derivative liability of \$17,000 (2019 - \$Nil) related to the derivative liability associated with the convertible debenture. The \$17,000 was a positive gain and is a measured using an option pricing model.



## 5(d) Liquidity and Capital Resources

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

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

The Company's business plan is dependent on raising additional funds to finance its commercial trial and development and 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 its development plans for its present or future facilities and curtail operations, which could harm the business, financial condition and results of operations. This could occur in the near term. Until such financing is secured and profitable operations are reached, there is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

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

## 6(e) Disclosure of Outstanding Share Data

As of the date of this MD&A, the Company's share structure is as follows:

	Issued and Outstanding	
	October 28, 2020	August 31, 2020
Common shares outstanding	165,652,669	165,652,669
Share options	5,600,000	5,600,000
Warrants	12,744,561	12,744,561
Fully diluted common shares outstanding	183,997,230	183,997,230



Share option transactions and the number of share options for the three months ended August 31, 2020 are summarized 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

The continuity of warrants for the three months 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

#### 5(f) Off-Balance Sheet Arrangements

None.

#### 5(g) Transactions with Related Parties

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

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





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
<b>Total</b>	<b>\$ 53,386</b>	<b>\$ 82,500</b>

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

## 5(h) Financial Instruments

The fair values of the Company's cash, receivables, due from related party (excluding GST), and accounts payables and accrued liabilities 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.

(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.

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.

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

## **5(i) Management of Capital Risk**

The Company manages its cash and cash equivalents and shareholders' equity as capital (in the comparative year the Company managed 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 and cash equivalents held.

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

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.

## **7. Policies and Controls**

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

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. The consolidated financial statements include estimates which, by their nature, are uncertain. The

impacts of such estimates are pervasive throughout the 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:

- The assessment of the ultimate collectability of due from related party.

#### Critical judgments

- Going Concern - Evaluation of the ability of the Company to realize its strategy for funding its future needs for working capital involves making judgments.
- 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.
- 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.
- 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.

#### **7(b) Changes in Internal Controls over Financial Reporting (“ICFR”)**

##### *Changes in Internal Control Over Financial Reporting (“ICFR”)*

In connection with National Instrument 52-109, Certification of Disclosure in Issuer’s Annual and Interim Filings (“NI 52-109”) adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management’s Discussion and Analysis. The Venture Issue Basic Certification does not include representations relating to the establishment and maintenance of



disclosure controls and procedures and internal control over financial reporting, as defined in NI52-109.

#### Disclosure Controls and Procedures

The Company's CEO and CFO are responsible for establishing and maintaining the Company's disclosure controls and procedures. Management, including the CEO and CFO, have evaluated the procedures of the Company and have concluded that they provide reasonable assurance that material information is gathered and reported to senior management in a manner appropriate to ensure that material information required to be disclosed in reports filed or submitted by the Company is recorded, processed, summarized and reported within the appropriate time periods.

While management believes that the Company's disclosure controls and procedures provide reasonable assurance, they do not expect that the controls and procedures can prevent all errors, mistakes, or fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

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

#### **Directors:**

*Brian Whitlock*  
*Alan Boyco*  
*Randy Minhas*  
*Rick Easthom*

#### **Audit Committee members:**

*Alan Boyco*  
*Brian Whitlock*  
*Rick Easthom*

#### **Management:**

*Randy Minhas – Chief Executive Officer*  
*Randy Minhas, CPA, CA – Chief Financial Officer*