

AFFINOR GROWERS INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED AUGUST 31, 2022 AND 2021

Presented in Canadian Dollars

(Unaudited – Prepared by Management)

Head office and records office
4th Floor, 595 Howe St., Vancouver, BC V6C 2T5

CONDENSED INTERIM CONSOLIDATED 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.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Presented in Canadian Dollars)
(Unaudited – Prepared by Management)

	August 31, 2022	May 31, 2022
ASSETS		
Current assets		
Cash	\$ 2,787	\$ 1,815
Sales tax receivable	99,901	91,285
Accounts receivable	11,344	13,280
Prepaid expenses and deposit	5,000	9,592
Due from related parties	2	2
	<u>119,034</u>	<u>115,974</u>
Non-current assets		
Property and equipment (Notes 4 & 10)	854,242	889,145
Intangible assets (Note 5)	855,826	866,895
Right of use asset (Note 9(ii))	552,066	567,054
	<u>2,262,134</u>	<u>2,323,094</u>
Total assets	<u>\$ 2,381,168</u>	<u>\$ 2,439,068</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Notes 6, 10 & 13)	\$ 1,156,224	\$ 1,038,202
Loan payable (Notes 7 & 9)	10,504	230,075
	<u>1,166,728</u>	<u>1,268,277</u>
Non-current liabilities		
Lease liability (Note 9 (ii))	588,268	588,121
Total Liabilities	<u>1,754,996</u>	<u>1,856,398</u>
Shareholders' equity		
Share capital (Note 8)	27,739,899	27,522,012
Contributed surplus (Note 8)	1,364,161	1,364,161
Share-based payment reserve (Note 8)	6,124,722	6,124,722
Deficit	(34,602,610)	(34,428,225)
Total shareholders' equity	<u>626,172</u>	<u>582,670</u>
Total liabilities and shareholders' equity	<u>\$ 2,381,168</u>	<u>\$ 2,439,068</u>
Nature of Operations and Going Concern (Note 1)		
Commitments and contingencies (Note 13)		
Subsequent events (Note 14)		

These condensed interim consolidated financial statements are authorized for issue by the Board of Directors on June 27, 2023. They are signed on the Company's behalf by:

/s/ Nicholas Brusatore

Director

/s/ Rick Easthom

Director

AFFINOR GROWERS INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Presented in Canadian Dollars)

(Unaudited – Prepared by Management)

	Three months ended August 31,	
	2022	2021
EXPENSES		
Amortization - intangible assets	\$ 11,304	\$ 16,005
Amortization – right of use asset	14,988	-
Consulting and subcontractors	5,305	28,500
Depreciation - property and equipment	34,903	806
Gain on debt settlement	(11,468)	-
Interest expense	2,426	-
Investor relations and promotion	10,471	-
Management fees	40,000	-
Other income	(11,970)	-
Other operating expenses	16,838	1,217
Professional fees	38,889	14,334
Registration and information to shareholders	15,256	76,274
Wages, employee benefits and training	7,443	-
Loss and comprehensive loss for the period	\$ (174,385)	\$ (137,136)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	23,766,808	21,103,362

AFFINOR GROWERS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Presented in Canadian Dollars)
(Unaudited – Prepared by Management)

	Share capital		Contributed surplus	Share-based payment reserve	Deficit	Total equity
	Number of shares	Amount				
Balance as at May 31, 2021	21,103,364	\$ 27,159,797	\$ 1,364,161	\$ 5,657,864	\$ (33,092,472)	\$ 1,089,350
Net loss for the period	-	-	-	-	(137,136)	(137,136)
Balance as at August 31, 2021	21,103,364	27,159,797	1,364,161	5,657,864	(33,229,608)	952,214
Share issuance – private placements	1,043,001	362,215	-	-	-	362,215
Share based compensation	-	-	-	466,858	-	466,858
Net loss for the period	-	-	-	-	(1,198,617)	(1,198,617)
Balance as at May 31, 2022	22,146,365	27,522,012	1,364,161	6,124,722	(34,428,225)	582,670
Shares for debt	2,293,550	217,887	-	-	-	217,887
Net loss for the period	-	-	-	-	(174,385)	(174,385)
Balance as at August 31, 2022	24,439,915	\$ 27,739,899	\$ 1,364,161	\$ 6,124,722	\$ (34,602,610)	\$ 626,172

AFFINOR GROWERS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED AUGUST 31,
(Presented in Canadian Dollars)
(Unaudited – Prepared by Management)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (174,385)	\$ (137,136)
Item not affecting cash:		
Amortization - intangible assets	11,304	16,005
Amortization – right of use asset	14,988	-
Depreciation - property and equipment	34,903	806
Interest expense	2,426	-
Gain on debt settlement	(11,468)	-
Changes in non-cash working capital items:		
Increase in receivables	(6,680)	(16,153)
Decrease in prepaid expenses and deposit	4,592	41,567
Increase in accounts payable and accrued liabilities	117,787	69,961
Net cash used in operating activities	<u>(6,533)</u>	<u>(24,950)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>-</u>	<u>(263,938)</u>
Net cash used in investing activities	<u>-</u>	<u>(263,938)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Return of private placement funds	-	(25,000)
Loans received	<u>7,505</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>7,505</u>	<u>(25,000)</u>
Net increase (decrease) in cash for the period	972	(313,888)
Cash, beginning of period	<u>1,815</u>	<u>433,652</u>
Cash, end of period	\$ 2,787	\$ 119,764
SUPPLEMENT DISCLOSURE WITH RESPECT TO CASH FLOW		
Patent additions included in accounts payable	\$ 235	\$ -
Property and equipment additions included in accounts payable	\$ 301,249	\$ -

AFFINOR GROWERS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2022 AND 2021

(Presented in Canadian Dollars)

(Unaudited – Prepared by Management)

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

Affinor Growers Inc. (please see Basis of Consolidation Note 3a) is incorporated under the Canada Business Corporations Act and its registered office is 4th Floor, 595 Howe St. Vancouver, BC, Canada, V6C 2TC. These condensed interim consolidated financial statements include the accounts of its wholly owned subsidiary, Affinor Analytics LLC. (together, "the Company"). The Company is listed on the Canadian Securities Exchange ("CSE"), the Frankfurt Stock Exchange and the OTC QB Exchange.

The Company is a vertical farming technology company focused on developing and commercializing economical vertical farming technologies that use less resources (e.g. land, water, and energy resources) to produce pesticide-free produce year-round. The Company's revenue model includes entering into licensing agreements that provide licensing revenue as well as earnings on sales of its equipment and sale of produce from its production facilities.

On December 20, 2022, trading in the shares of the Company was suspended as a result of the British Columbia and Ontario Securities Commissions (the "Commissions") issuing a cease trade order against the Company for failing to meet continuous disclosure requirements.

These condensed interim consolidated financial statements retrospectively reflect the 10-1 share consolidation that occurred June 20, 2022.

These condensed consolidated interim 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 for the three months ended August 31, 2022 incurred operating losses of \$174,385 (2021 - \$137,136) and at that date had accumulated deficit of \$34,602,610 (May 31, 2022 - \$34,428,225). It has relied upon financing primarily from private equity placements and exercise of options and warrants to fund its operations. The Company plans to obtain funding through additional equity offerings, sale of its produce 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 condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and condensed interim 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 interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), and on a basis consistent with the accounting policies disclosed in the Company's annual audited financial statements for the year ended May 31, 2022.

b) Basis of preparation

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

These condensed interim consolidated financial statements have been prepared on the basis of IFRS standards that are in effect at the issue time.

3. SIGNIFICANT ACCOUNTING POLICIES

c) Basis of consolidation

The Company's condensed interim 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 condensed interim 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.

d) 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 condensed interim consolidated financial statements is determined at management's discretion.

The functional currency of the parent company, and the presentation currency applicable to these condensed interim 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.

e) 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 August 31, 2022 and May 31, 2022, the Company did not have any cash equivalents.

f) Property and equipment

Property and equipment is 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. Depreciation is provided at the following annual rates:

Greenhouse	10 year straight line
Growing equipment	30% declining balance
Computer equipment	30% declining balance
Lighting equipment	10% declining balance
Office equipment	20% declining balance

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

f) Property and equipment (*Continued*)

Depreciation commences when the assets are available for their intended use.

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.

g) Right-of-use assets and lease liability

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company then recognizes a right-of-use asset and a lease liability at the lease commencement date. The RUA is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the RUA or the lease term using the straight-line method. The lease term includes periods by an option to extend if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, the amount of the remeasurement is recognized as a corresponding adjustment to the carrying amount of the RUA or is recorded in profit or loss if the carrying amount of the AUR has been reduced to zero.

h) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

h) Intangible assets (*Continued*)

Intangible assets with finite lives are amortized annually on a straight-line basis. The Company holds five patents with effective lives of 15 - 20 years each and remaining lives of 12 - 16 years. The patents are amortized over the effective lives of the patents. Costs incurred for patents which are pending or are in the process of being developed are amortized over the remaining life of the patent when the patent is issued.

i) 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.

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.

j) 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 reassessed 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.

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.

k) Share capital

Proceeds from the issuance of common shares are classified as equity on the consolidated statements of financial position. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from share capital.

The proceeds from the issuance of units comprised of shares and warrants are allocated between common shares and reserves based on the residual value method. Under this method, the proceeds are allocated to the shares based on their fair value and the residual value is allocated to the warrants.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Provisions

Provisions are recognized in the consolidated statements 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) Revenue recognition

The Company follows a five-step model for the recognition of revenue when control of goods is transferred to, or a service is performed for, the customer. The five steps are to: identify the contract(s) with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to each performance obligation; and recognize revenue as each performance obligation is satisfied.

Revenue is recognized at the point in time when the customer obtains control of the product or service. Control is achieved when a product or service is delivered to the customer, the Company has a present right to payment for the product 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 or service.

n) 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 measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted, the estimated volatility, estimated risk free rate and estimated forfeitures.

If a grant of the share-based payments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Company accounts for the cancellation or settlement as an acceleration of vesting, and recognizes immediately the amount that otherwise would be recognized for services over the remainder of the vesting period.

The amount recognized for goods or services received during the vesting period are based on the best available estimate of the number of equity instruments anticipated to vest. The Company revises that estimate, if necessary, if subsequent information indicates that the number of share options anticipated to vest differs from the previous estimates. On vesting date, the Company revises the estimate to equal the number of equity instruments that ultimately vested. After vesting date, the Company make no subsequent adjustment to total equity for goods or services received if the share options are later forfeited or they expire at the end of the share option's life.

If a grant of the share based payment is modified during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied) and the fair value of the new instruments is higher than the fair value of the original instrument, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from modification date until the date when the modified equity instruments vests, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period of the original instrument.

Upon expiration of options, the amount applicable to expired options is moved to contributed surplus.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Income taxes *(Continued)*

Deferred tax is recorded using the 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. 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.

p) 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”). The classification depends on the purpose for which the financial assets were acquired, the business model in which they are managed and their cash flow characteristics. 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.

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.

Financial liabilities

The Company classifies its financial liabilities at amortized cost of FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Financial instruments *(Continued)*

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
Accounts payable and accrued liabilities	Amortized cost
Loan payable	Amortized cost
Lease liability	Amortized cost

Reclassifications

The Company would reclassify a financial asset when the Company changes its business model for managing the financial asset. All reclassifications are recorded at fair value at the date of the reclassification, which becomes the new carrying value.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new assets obtained less any new liability assumed) and (ii) cumulative gain or loss that had been recognized in other comprehensive loss is recognized in profit or loss.

The Company derecognizes a financial liability when its obligations are discharged or cancelled or expired.

Modification of financial assets and financial liabilities

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amounts as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

p) Financial instruments (*Continued*)

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

Impairment

At each reporting date, the Company assess whether financial assets carried at amortized costs and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default of past due event;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other impairment.

The Company recognizes a loss allowance for expected credit losses ("ECL") on trade receivable that are measured at amortized costs. The Company applied the simplified approach for trade receivables and recognizes the lifetime ECL for these assets. The ECL on trade receivables is estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the customers, general economic conditions and an assessment of both the current as well as the forecasted direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial assets measured at amortized costs, the Company recognizes lifetime ECL only when there has been a significant increase in credit risk since initial recognition. If the credit risk on such financial instruments has not increased significantly since initial recognition, the Company measures the loss allowance on those financial instruments at an amount equal to 12-months ECL.

Lifetime ECL, represents the ECL that will result from all possible default events over the expected life of a financial asset. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial asset that are possible within 12 months after the reporting date. In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial asset at the reporting date with the risk of default occurring at initial recognition. The Company considers both quantitative and qualitative factors that are supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Irrespective of the above assessment, the Company presumes that the credit risk of a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise. Despite the foregoing, the Company presumes that the credit risk on a financial asset has not increase significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

p) Financial instruments (*Continued*)

Definition of default

For internal credit risk management purposes, the Company considers a financial asset not recoverable if the customer balance owing is 180 days past due and information obtained from the customer and other external factors indicate that the customer is unlikely to pay its creditors in full.

Write-off

Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the counterparty does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures of recovery of amounts due.

q) 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.

r) 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:

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) Useful life of intangible assets – Management has judgementally used the maximum legal life of the patents as the useful life of the intangible assets for purposes of amortization.
- (iii) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

- r) Significant accounting judgments, estimates and assumptions (*Continued*)

Significant estimates and assumptions

- (i) Costs of defence – as management is not able to determine the amount of legal fees that will ultimately be covered pursuant to the Notice of Civil Claim with any degree of certainty, any legal fees covered will be recorded as a recovery in the period of final adjudication (see Note 13).
- s) New standards, amendments and interpretations not yet adopted

IAS 1, Presentation of Financial Statements ("IAS 1") - Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to IAS 1. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the consolidated statements of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2, Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policies disclosures that are more useful by replacing the requirement for entities to disclose "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to IFRS Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The amendments are not expected to have a material impact on the Company's consolidated financial statements.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") - Definition of Accounting Estimates

In February 2021, the IASB amendments to IAS 8. The amendment will require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarifies how to distinguish changes in accounting policies from changes in accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company has determined that adoption of these amendments has no significant effect on the Company's consolidated financial statements.

IAS 12, Income Taxes ("IAS 12") - Deferred Tax related to Assets and Liabilities Arising from a Single Transaction

In May 2021, the IASB issued amendments to IAS 12. The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal taxable and deductible temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company has determined that adoption of these amendments has no significant effect on the Company's consolidated financial statements.

All other IFRSs and amendments issued but not yet effective have been assessed by the Company and are not expected to have a material impact on the Company's consolidated financial statements.

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4. PROPERTY AND EQUIPMENT

	Growing equipment	Computer equipment	Lighting equipment	Greenhouse in progress	Greenhouse	Total
Cost						
As at May 31, 2021	\$ 21,336	\$ 5,438	\$ -	\$ 295,460	\$ -	\$ 322,234
Additions	264,487	-	71,289	334,804	7,671	678,251
Reclassification	-	-	-	(630,264)	630,264	-
As at May 31, 2022 and August 31, 2022	<u>\$ 285,823</u>	<u>\$ 5,438</u>	<u>\$ 71,289</u>	<u>\$ -</u>	<u>\$ 637,935</u>	<u>\$ 1,000,485</u>
Depreciation						
As at May 31, 2021	\$ 13,704	\$ 4,543	\$ -	\$ -	\$ -	\$ 18,247
Depreciation	41,964	895	3,564	-	46,670	93,093
As at May 31, 2022	55,668	5,438	3,564	-	46,670	111,340
Depreciation	17,262	-	1,693	-	15,948	34,903
As at August 31, 2022	<u>\$ 72,930</u>	<u>\$ 5,438</u>	<u>\$ 5,257</u>	<u>\$ -</u>	<u>\$ 62,618</u>	<u>\$ 146,243</u>
Net book value						
As at May 31, 2022	<u>\$ 230,155</u>	<u>\$ -</u>	<u>\$ 67,725</u>	<u>\$ -</u>	<u>\$ 591,265</u>	<u>\$ 889,145</u>
As at August 31, 2022	<u>\$ 212,893</u>	<u>\$ -</u>	<u>\$ 66,032</u>	<u>\$ -</u>	<u>\$ 575,317</u>	<u>\$ 854,242</u>

Construction-in-progress

During the year ended May 31, 2021, the Company entered into an industrial lease with the CEO of the Company, whereby the Company leased from the CEO the Greenhouse and compost buildings (the “Greenhouse”) and their equipment and fixtures on his property in Abbotsford, BC (the “Lease”) (See Note 9(b)). Pursuant to the Lease, the CEO is responsible for the Landlord’s Work at the Company’s expense and the Company is responsible for the Tenant’s Work at its expense, to render the Greenhouse complete and suitable to open for business. The original commencement date of the Lease was intended to be March 1, 2021. Because the CEO was delayed in delivering possession of all or any portion of the Greenhouse to the Company on or before that date, the date on which the Greenhouse are to be made available to the Company is postponed for a period equal to the ultimate duration of the delay. At commencement, the Lease will be accounted for under IFRS 16, Leases and a right of use asset and the related lease liability will be recognized on the condensed interim consolidated statement of financial position at the end of the reporting in which the commencement occurs. During the year ended May 31, 2022, the Landlord’s work was completed, and the Greenhouse was made available to the Company.

All the costs associated with the Greenhouse improvements were transferred from work-in-progress to Greenhouse and are being amortized on a straight-line basis over the term of the lease of ten years, plus the renewal period of five years. All assets that are not attached to the Greenhouse, such as the lights and the towers and their respective watering system are included in the Vertical Growing Farms category. They are also being amortized over a period of fifteen years.

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5. INTANGIBLE ASSETS

	Patents	Patents Pending	Total
Cost			
As at May 31, 2021	\$ 1,151,470	\$ 50,166	\$ 1,201,636
Additions	-	11,324	11,324
Reclassifications	7,856	(7,856)	-
As at May 31, 2022	1,159,326	53,634	1,212,960
Additions	-	235	235
As at August 31, 2022	\$ 1,159,326	\$ 53,869	\$ 1,213,195
Accumulated amortization			
As at May 31, 2021	\$ 298,186	\$ -	\$ 298,186
Amortization	47,879	-	47,879
As at May 31, 2022	346,065	-	346,065
Amortization	11,304	-	11,304
As at August 31, 2022	\$ 357,369	\$ -	\$ 357,369
Net book value			
As at May 31, 2022	\$ 813,261	\$ 53,634	\$ 866,895
As at August 31, 2022	\$ 801,957	\$ 53,869	\$ 855,826

As at August 31, 2022, patents and patents pending were comprised of the following:

Patents

- Method and Apparatus for Automated Horticulture and Agriculture (Canada and United States)
- Method and Apparatus for Automated Vertical Horticulture and Agriculture (Canada and United States)
- Vertical Growing Tower for Automated Horticulture and Agriculture (Aruba, Canada, Colombia, United States, South Africa)
- Agricultural and Horticultural Growing Tower (Canada); and
- Growing Tower (United States).

Patents Pending

Patents were pending for certain of the above-noted patents in various countries including Australia, EU, India, New Zealand, Republic of Korea, Saudi Arabia, South Africa, and United Arab Emirates.

On June 22, 2021, the Company applied for the following patents:

- System and Method for Plant Cultivation and Drying (United States)
- Automated Plant Growing Apparatus and Methods (United States)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	August 31, 2022	May 31, 2022
Accounts payable	\$ 1,073,724	\$ 931,535
Accrued liabilities	82,500	106,667
	\$ 1,156,224	\$ 1,038,202

7. LOANS PAYABLE

During the period ended August 31, 2022, the Company:

- i) accrued \$2,279 (2021 - \$Nil) of interest payable on the unsecured loan of \$160,000 (below). The Company settled principal of \$160,000 by issuance of 1,600,000 units valued at \$152,000, which resulted in a gain of \$8,000 (Note 8). As of August 31, 2022, the amount outstanding was \$7,923.
- ii) received an additional unsecured non-interest-bearing loan from the CEO of \$7,505 with no fixed terms for repayment. The Company settled loan amount of \$69,355 by issuance of 693,550 units valued at \$69,887, which resulted in a gain of \$3,468 (Note 8). As of August 31, 2022, the amount outstanding was \$2,581 (Note 9).

During the year ended May 31, 2022, the Company:

- i) received an unsecured loan of \$160,000 from a third party and accrued \$5,644 of interest payable. The loan accrues interest at 10% per annum and has no fixed terms of repayment.
- ii) received an unsecured non-interest-bearing loan from the CEO of \$64,431 with no fixed terms for repayment (Note 9).

8. SHARE CAPITAL AND RESERVES

- (a) Authorized:

At August 31, 2022 and May 31, 2022, the authorized share capital was comprised of an unlimited number of common shares.

- (b) Share issuances:

During the period ending August 31, 2022, the Company settled \$229,355 of related party debt by issuing 2,293,550 units of the Company at a value of \$217,887. Each unit consists of one common share and one share purchase warrant exercisable at \$0.15 expiring on August 2, 2023.

During the year ending May 31, 2022, the Company closed a private placement for 1,043,001 units at a price of \$0.35 per unit for gross proceeds of \$365,050. 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 \$0.50 per common share. Cash finder's fee of \$2,835 were paid in respect of the private placement. Under the residual value approach, \$Nil was assigned to the warrants component of the units. During the year ended May 31, 2021, the Company received \$25,000 in subscriptions proceeds refundable that were refunded during the year ended May 31, 2022.

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8. SHARE CAPITAL AND RESERVES (Continued)

(c) Warrants:

The continuity of warrants for the period ended August 31, 2022 is as follows:

Expiry date	Exercise price	As at May 31, 2022	Issued	Expired	As at August 31, 2022
August 21, 2022	\$ 0.60	1,274,456	-	(1,274,456)	-
February 26, 2023*	\$ 0.50	2,871,428	-	-	2,871,428
August 4, 2023	\$ 0.15	-	2,293,550	-	2,293,550
January 14, 2024	\$ 0.50	1,043,001	-	-	1,043,001
Outstanding		5,188,885	2,293,550	(1,274,456)	6,207,979
Weighted average exercise price		\$ 0.52	\$ 0.15	\$ 0.60	\$ 0.62

*expired subsequently

As of August 31, 2022, the weighted average contractual life is 0.80 years (May 31, 2022 – 0.86 years).

The continuity of warrants for the period ended May 31, 2022 is as follows:

Expiry date	Exercise price	As at May 31, 2021	Issued	As at May 31, 2022
August 21, 2022	\$ 0.60	1,274,456	-	1,274,456
February 26, 2023*	\$ 0.50	2,871,428	-	2,871,428
January 14, 2024	\$ 0.50	-	1,043,001	1,043,001
Outstanding		4,145,884	1,043,001	5,188,885
Weighted average exercise price		\$ 0.53	\$ 0.50	\$ 0.52

* Expiry date amended from February 26, 2022 to February 26, 2023

(d) 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). 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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8. SHARE CAPITAL AND RESERVES (Continued)

(d) Share Purchase Options Compensation Plan (Continued):

A summary of changes in the Company's common share purchase options for the period ended August 31, 2022 is as follows:

Expiry date	Exercise price	As at May 31, 2022	Issued	Expired/Cancelled/Forfeited	As at August 31, 2022
May 10, 2025	\$ 0.50	200,000	-	-	200,000
July 25, 2031	\$ 0.40	650,000	-	(200,000)	450,000
August 10, 2031	\$ 0.50	100,000	-	-	100,000
November 2, 2031	\$ 0.50	100,000	-	-	100,000
November 2, 2031	\$ 0.30	400,000	-	-	400,000
December 7, 2031	\$ 0.50	100,000	-	-	100,000
February 22, 2032	\$ 0.40	50,000	-	-	50,000
Outstanding		1,600,000	-	(200,000)	1,400,000
Options exercisable		1,600,000	-	(200,000)	1,400,000
Weighted average exercise price	\$	0.41	\$	-	\$ 0.41

As at August 31, 2022, the weighted average remaining life is 8.45 years (May 31, 2022 – 8.77 years)

A summary of changes in the Company's common share purchase options for the year ended May 31, 2022 is as follows:

Expiry date	Exercise price	As at May 31, 2021	Issued	Expired/Cancelled/Forfeited	As at May 31, 2022
July 16, 2021	\$ 1.00	10,000	-	(10,000)	-
August 24, 2021	\$ 1.15	60,000	-	(60,000)	-
September 27, 2021	\$ 1.00	100,000	-	(100,000)	-
May 10, 2025	\$ 0.50	-	200,000	-	200,000
July 25, 2031 *	\$ 0.40	-	650,000	-	650,000
August 10, 2031	\$ 0.50	-	100,000	-	100,000
November 2, 2031	\$ 0.50	-	100,000	-	100,000
November 2, 2031	\$ 0.30	-	400,000	-	400,000
December 7, 2031	\$ 0.50	-	100,000	-	100,000
February 22, 2032	\$ 0.40	-	50,000	-	50,000
Outstanding		170,000	1,600,000	(170,000)	1,600,000
Options exercisable					1,600,000
Weighted average exercise price	\$	1.05	\$	0.41	\$ 1.05
			\$	1.05	\$ 0.41

* 200,000 forfeited subsequently

9. RELATED PARTY TRANSACTIONS

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

	For the period ended August 31, 2022	For the period ended August 31, 2021
Consulting fees (net)	\$ -	\$ 21,000
Management fees	\$ 40,000	\$ -

At August 31, 2022, the Company had the following amounts owing to related parties:

- i) accounts payable of \$66,667 (May 31, 2022 - \$Nil) owing to the CEO, \$68,250 (May 31, 2022 - \$68,250) owing to a former director of the Company, \$23,024 (May 31, 2022 - \$16,942) owing to a former CFO.
- ii) loan payable to the CEO of \$2,581 (May 31, 2022 - \$64,431). The amount is non-interest bearing with no fixed terms for repayment (Note 7).

(ii) Industrial Lease

On January 21, 2021, the Company entered an industrial lease with the CEO of the Company, whereby the Company (the "Tenant") leased from the CEO (the "Landlord") the greenhouse and compost buildings and their equipment and fixtures (the "Greenhouse") located on his property in Abbotsford, BC (collectively, the "Property"). In May 2021, the Company and the CEO entered a lease amending agreement (collectively with the industrial lease, (the "Lease"). The Lease has a 10-year term commencing on March 1, 2021 and ending on February 28, 2031. In the event that the Landlord's Work (as defined) is not complete to a stage sufficient to permit the Company to commence the Tenant's Work (as defined) and the Landlord is delayed in delivering possession of all or any portion of the Greenhouse to the Company on or before the commencement date, then the date on which the Greenhouse are to be made available to the Company, the commencement date, the obligation of the Company to pay rent and the expiry date of the term will be will be postponed for a period equal to the duration of the delay. The Company paid a \$5,000 security deposit and gross rent during the term is \$81,000 per year, payable monthly. The Company has no obligation to pay or reimburse the Landlord or anyone else for any costs or expenses of owning or operating the Property including, without limitation, realty taxes, insurance, alterations, repairs or maintenance. The Company is responsible for paying the costs of supplying utilities and services to the Greenhouse and for operating, maintaining and repairing the Greenhouse that are not supplied, or required to be made by, the Landlord.

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9. RELATED PARTY TRANSACTIONS *(Continued)*

The Landlord is to provide and carry out, at the Company's expense, all equipment and work (as specified) other than the Tenant's Work (the "Landlord's Work") and the Company will provide and carry out, at its expense, all equipment and work (as specified) other than the Landlord's Work (the "Tenant's Work") required to be provided in order to render the Greenhouse complete and suitable to open for business. In consideration for the Company being responsible for all of the costs associated with the Landlord's Work, the cost of the Landlord's Work will be included in the total amount recoverable by the Company and to the Free Rent Period. All leasehold improvements (as defined and excluding trade fixtures (including the items installed as the Tenant's Work) and furniture and fixtures not in the nature of fixtures) immediately on their placement become the Landlord's property without compensation to the Company.

Provided that the Tenant's Work has been completed as specified and there is no active, outstanding or unresolved dispute with respect thereto then, the Company performing the Tenant's Work at its sole cost and expense and the Company paying for the Landlord's Work at the Company's sole cost, the rent payable under the Lease will not be payable by the Company until such time as the Company has recovered the entire cost of the Tenant's Work and the Landlord's Work with such recovery to be calculated based on the Company's EBITDA (being earnings before interest, taxes, depreciation and amortization) generated from the sale of products grown and prepared at the Premise (the "Free Rent Period"). For the sake of clarity, the Free Rent Period is not a deferral of rent payable but a free rent period until such time as the Company recovers its costs for the Tenant's Work and the Landlord's Work.

During the Free Rent Period, the Company must provide the Landlord with monthly progress reporting (the "Free Rent Reports") on the status (as specified) of its cost recovery. In the event that the Company fails to comply with the requirements of the Free Rent Period, rent immediately becomes payable to the Landlord for the remainder of the balance of the term. In the event that the foregoing has occurred, and provided that the Company has not recovered the costs or any portion of the costs with the Landlord's Work, then the Landlord will immediately pay to the Company the outstanding balance of Landlord's Work that the Company has not recovered at the time rent becomes payable. At such time during the term when the Company has recovered the final, total costs of the Tenant's Work and the Landlord's Work, rent will immediately become payable to the Landlord for the remainder of the balance of the term.

Provided that the Company is not in default of its obligations under the Lease, it has one additional option to extend the term of the Lease as it relates to all of the Greenhouse (the "Option") for an additional five years at a rent to be determined based on the fair market rent at the time of the Option is exercised. If, at the expiration of the initial term or any subsequent renewal or extension thereof, the Company continues to occupy the Greenhouse without further written agreement, the tenancy will be from month to month and either party can terminate the Lease by giving one month's written notice to the other.

During the term of the Lease, including any Option to renew, and provided that the Company is not in default under the Lease, the Landlord must not permit any conveyance, sale or transfer of his interest in the Property to a bona fide third party (collectively, the "Offer") to occur until he has first offered the Company the right to acquire his interest in the Property on the same terms and conditions as set out in the Offer.

Possession

As of August 31, 2022, the Landlord's Work had been completed and the Company also completed the Tenant's Work and planted their produce. The commencement date and possession date was December 15, 2021 and the expiry date of the term was extended in length equal to the aggregate delay of 9.5 months.

9. RELATED PARTY TRANSACTIONS (Continued)

(b) Industrial Lease (Continued)

Right of Use asset/Lease Liability

IFRS 16 Leases requires that the Tenant, recognized a right-of-use asset and a lease liability on its consolidated statements of financial position at the commencement date of the lease. Accordingly, the asset and the liability have been appropriately reported.

The continuity of ROU assets is as follows:

May 31, 2021	\$	-
ROU asset on commencement		599,528
Amortization of ROU asset		(32,474)
May 31, 2022		567,054
Amortization of ROU asset		(14,988)
August 31, 2022	\$	552,066

The continuity of lease liabilities is as follows:

Lease liability, May 31, 2021	\$	-
Lease liability on commencement		599,528
Deferred lease payment		(11,725)
Interest expense		318
Lease liability, May 31, 2022	\$	588,121
Interest expense		147
Lease liability, August 31, 2022	\$	588,268
Current lease liability	\$	-
Long term lease liability	\$	588,268

During the year ended May 31, 2022, the Company recognized lease liabilities of \$599,528 for the right of use asset.

The Company has not made any lease payments since inception and accrued interest expense in arrear of \$147 (2021 - \$Nil) during the period ended August 31, 2022. It was agreed by the Landlord that the lease will remain in good standing while maintaining the same terms.

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company has classified its financial instruments as follows:

The fair values of the Company's cash, receivables (excluding GST/sales tax), deposits, due from related parties, accounts payable and accrued liabilities and interest payable approximate their carrying values because of the short-term nature of these instruments.

The Company has categorized its financial instruments that are carried at fair value, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three-level fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. Cash is carried at a fair value using level 1 fair value measurement.

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

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company's derivative liability was included in Level 3 of the fair value hierarchy.

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

The Company has no financial instruments under Level 2.

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

(a) **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.

(b) **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, 2022, the Company had current liabilities of \$1,166,728 (May 31, 2022 - \$1,268,277), the majority of which have contractual maturities of less than 30 days and are subject to normal trade terms. As at August 31, 2022, the Company has a working capital deficiency of \$1,047,694 (May 31, 2022 - \$1,152,303). The ability of the Company to continue its activities relies upon the support of its suppliers and obtaining additional financing.

(c) **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.

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

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. 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 year.

12. SEGMENTED FINANCIAL INFORMATION

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

13. COMMITMENTS AND CONTINGENCIES

The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses our potential liability by analyzing our litigation and regulatory matters using available information. The Company develops our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

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 BCSC 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.

During the year ended May 31, 2021, the Notice of Hearing was amended to remove the Company as a respondent and there is no current proceeding against the Company from the 2019 proceeding. However, the BCSC held the right to re-institute proceedings in the future and the Company received notice of the re-institution on January 26, 2022 when the BCSC issued a new Notice of Hearing. An enforcement hearing commenced in March 2023 and is set to resume in October 2023.

The Company has made an assessment and, at this time, the Company has only disclosed information that will not prejudice the position of the Company in this dispute.

13. COMMITMENTS AND CONTINGENCIES *(Continued)*

Notice of Civil Claim

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, its CEO and former CFO 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 by the Company and other reporting issuers.

During the year ended May 31, 2022, the Court denied the Plaintiffs’ application for leave to bring the Claim. The Plaintiffs filed an appeal. The Court of Appeal overturned the earlier court decision and granted leave to the Plaintiff to bring the Claim. The Company filed for leave to the Supreme Court of Canada to appeal the Court of Appeal’s ruling granting leave to bring the secondary market claims. The certification hearing for the putative class action is scheduled for hearing in August 2023. The Company anticipates recovery of legal fees pertaining to this matter from its insurance carrier.

The Company has made an assessment and, at this time, the Company has only disclosed information that will not prejudice the position of the Company in this dispute.

14. SUBSEQUENT EVENTS

Subsequent to August 31, 2022, the Company:

- i) completed a private placement for 1,550,000 units at \$0.08 per unit for total proceeds of \$124,000. Each unit consists of one common share and one share purchase warrant exercisable at \$0.10 for 24 months. The Company paid \$1,920 finders’ fees. Each agent warrant is exercisable into a common share of the Company at \$0.10 through October 12, 2024.
- ii) entered into an Agriculture Technology Agreement dated June 16, 2023 (the “Definitive Agreement”) with Freshbay, Inc. (“Freshbay”).

Pursuant to the terms and conditions of the Definitive Agreement, Freshbay has engaged the Company to provide certain products and services for use at the Project Site to support Freshbay in its production and commercialization of strawberries. More specifically, the Company will:

- a) supply and arrange for the installation of 17,530 vertical hydroponic towers with self-pollinating capabilities at the Project Site (the “Towers”).
- b) supply and arrange for the installation of 34 polycarbonate Atlantis greenhouses (the “Greenhouses”) at the Project Site.
- c) arrange for the initial introduction between Freshbay and Berrymobile Fruit Distribution Inc. to explore the purchase of strawberries grown at the Project Site (the “Offtake Products”).
- d) grant Freshbay certain licenses to use certain trademarks, intellectual property, and standard operating procedures of the Company.

As consideration for the products and services to be provided by the Company, and in accordance with the terms and conditions of the Definitive Agreement, Freshbay has agreed to pay the Company an aggregate payment of \$135,757,350 (the “Contract Price”). Prior to paying any portion of the Contract Price, it is a condition precedent that:

- a) Freshbay obtain adequate financing to pay the Contract Price.
- b) the parties agree to a work schedule for the project.

Assuming the conditions precedent are satisfied, \$20,000,000 of the Contract Price will be payable within two business days of the satisfaction of the conditions precedent, and \$47,878,675 will be payable on the date that is thirty days thereafter. The remaining portion of the Contract Price is payable in installments based on the delivery of the Equipment at the Project Site.