

AFFINOR GROWERS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MAY 31, 2023 AND 2022

Presented in Canadian Dollars

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Affinor Growers Inc.

Opinion

We have audited the consolidated financial statements of Affinor Growers Inc. and its subsidiary (together the “Company”), which comprise the consolidated statements of financial position as at May 31, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders’ equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at May 31, 2023 and 2022 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements which indicates that the Company incurred a net loss of \$669,075 for the year ended May 31, 2023 and, as of that date, had a cumulative deficit of \$35,097,300. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audits of the consolidated financial statements as at and for the year ended May 31, 2023. These matters were addressed in the context of our audits of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="203 298 799 352">Evaluation of contingency disclosures for litigation and regulatory actions</p> <p data-bbox="203 388 799 443"><i>Refer to note 3 – Summary of Significant accounting policies and note 13 – Commitments and contingencies</i></p> <p data-bbox="203 478 799 596">The Company is involved in judicial and regulatory proceedings concerning matters arising in connection with a non-brokered private placement offering completed on March 8, 2018.</p> <p data-bbox="203 632 799 898">We identified the evaluation of provisions for litigation and regulatory actions as a key audit matter due to the subjective auditor judgment required to evaluate the provisions. Specifically, auditor judgment was required to evaluate the conclusions formed by the Company about the likelihood and amount of liabilities arising from litigation and regulatory claims that were dependent on the future outcome of continuing legal and regulatory processes.</p>	<p data-bbox="826 298 1421 352">Our approach to addressing the matter included the following procedures, among others:</p> <ul data-bbox="826 388 1421 1192" style="list-style-type: none"> <li data-bbox="826 388 1421 478">• We reviewed and discussed each claim with management and understood their basis for the treatment of each claim. <li data-bbox="826 485 1421 596">• We took into consideration our inquiries and discussions with management and others in assessment of management’s conclusions and disclosures. <li data-bbox="826 602 1421 751">• We reviewed the significant judgements adopted by management in respect to litigation and claims and assessed its consistency with the requirements of IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i>. <li data-bbox="826 758 1421 907">• We reviewed management’s calculations as to the value of any claim amounts and agreed the key inputs with the results of our inquiries and other procedures performed during the course of the audit. <li data-bbox="826 913 1421 968">• We considered the effect of these claims on the Company’s ability to continue as a going concern. <li data-bbox="826 974 1421 1064">• We obtained confirmation from the insurance company of their coverage of the associated legal fees and settlement. <li data-bbox="826 1071 1421 1192">• We assessed whether the appropriate disclosures regarding the nature of the claims have been adequately disclosed in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis (“MD&A”) but does not include the consolidated financial statements and our auditors’ report thereon.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the MD&A identified above and, in doing so, consider whether the MD&A is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be misstated.

We obtained the MD&A prior to the date of this auditors’ report. If, based on the work we have performed on this MD&A, we conclude that there is a material misstatement of this MD&A, we are required to report that fact in this auditors’ report. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audits. We also:

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



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audits. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audits of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audits resulting in this independent auditors' report is Laurence W. Zeifman, CPA, CA.

Toronto, Ontario
November 24, 2023

Zeifmans LLP
Chartered Professional Accountants
Licensed Public Accountants

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

	May 31, 2023	May 31, 2022
ASSETS		
Current assets		
Cash	\$ 2,172	\$ 1,815
Sales tax recoverable	10,023	91,285
Accounts receivable	-	13,280
Prepaid expenses and deposit	5,000	9,592
Due from related parties	2	2
	<u>17,197</u>	<u>115,974</u>
Non-current assets		
Property and equipment (Notes 4 & 10)	749,532	889,145
Intangible assets (Note 5)	837,509	866,895
Right of use asset (Note 9(ii))	507,101	567,054
	<u>2,094,142</u>	<u>2,323,094</u>
Total assets	<u>\$ 2,111,339</u>	<u>\$ 2,439,068</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Notes 6, 9 & 13)	\$ 1,083,960	\$ 1,038,202
Loans payable (Notes 7 & 9)	185,107	230,075
	<u>1,269,067</u>	<u>1,268,277</u>
Non-current liabilities		
Lease liability (Note 9(ii))	588,710	588,121
Total Liabilities	<u>1,857,777</u>	<u>1,856,398</u>
Shareholders' equity		
Share capital (Note 8)	27,861,979	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	(35,097,300)	(34,428,225)
Total shareholders' equity	<u>253,562</u>	<u>582,670</u>
Total liabilities and shareholders' equity	<u>\$ 2,111,339</u>	<u>\$ 2,439,068</u>

Nature of Operations and Going Concern (Note 1)
Commitments and contingencies (Note 13)
Subsequent events (Note 14)

These consolidated financial statements are authorized for issue by the Board of Directors on November 24, 2023. They are signed on the Company's behalf by:

/s/ Nicholas Brusatore
Director

/s/ Rick Easthom
Director

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

	2023	2022
EXPENSES		
Amortization - intangible assets	\$ 45,216	\$ 47,879
Amortization - right of use asset	59,953	32,474
Consulting and subcontractors	16,880	170,629
Depreciation - property and equipment	139,613	93,093
Gain on debt settlement	(11,468)	-
Interest expense	6,713	6,815
Investor relations and promotion	8,372	149,672
Management fees	160,000	26,667
Other income	(626)	(13,280)
Other operating expenses	48,369	129,594
Professional fees	137,945	140,549
Registration and information to shareholders	47,332	63,301
Share-based compensation	-	466,858
Travel	-	21,502
Wages, employee benefits and training	7,443	-
Write-off of intangible assets	3,333	-
Loss and comprehensive loss for the year	\$ (669,075)	\$ (1,335,753)
Basic and diluted loss per common share	\$ (0.03)	\$ (0.06)
Weighted average number of common shares outstanding	25,012,433	21,494,846

AFFINOR GROWERS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED MAY 31, 2023 AND 2022
(Presented in Canadian Dollars)

	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
Share issuance – private placements	1,043,001	362,215	-	-	-	362,215
Share based compensation	-	-	-	466,858	-	466,858
Net loss for the year	-	-	-	-	(1,335,753)	(1,335,753)
Balance as at May 31, 2022	22,146,365	27,522,012	1,364,161	6,124,722	(34,428,225)	582,670
Share issuance – private placements	1,550,000	124,000	-	-	-	124,000
Share issuance costs	-	(1,920)	-	-	-	(1,920)
Shares for debt	2,293,550	217,887	-	-	-	217,887
Net loss for the year	-	-	-	-	(669,075)	(669,075)
Balance as at May 31, 2023	25,989,915	\$ 27,861,979	\$ 1,364,161	\$ 6,124,722	\$ (35,097,300)	\$ 253,562

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

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (669,075)	\$ (1,335,753)
Item not affecting cash:		
Amortization - intangible assets	45,216	47,879
Amortization - right of use asset	59,953	32,474
Depreciation - property and equipment	139,613	93,093
Interest expense	6,097	318
Share-based compensation	-	466,858
Gain on debt settlement	(11,468)	-
Disposal of intangible assets	3,333	-
Changes in non-cash working capital items:		
Decrease (increase) in sales tax recoverable	81,262	(57,970)
Decrease (increase) in accounts receivable	13,280	(13,280)
Decrease in prepaid expenses and deposit	4,592	77,315
Increase in accounts payable and accrued liabilities	26,595	131,729
Net cash used in operating activities	<u>(300,602)</u>	<u>(557,337)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(439,039)
Intangible asset costs	-	(2,751)
Net cash used in investing activities	<u>-</u>	<u>(441,790)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares, net	122,080	362,215
Return of private placement funds	-	(25,000)
Loans received	178,879	230,075
Net cash provided by financing activities	<u>300,959</u>	<u>567,290</u>
Net increase (decrease) in cash for the year	357	(431,837)
Cash, beginning of year	<u>1,815</u>	<u>433,652</u>
Cash, end of year	<u>\$ 2,172</u>	<u>\$ 1,815</u>

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

Affinor Growers Inc. (please see Basis of Consolidation Note 3(a)) is incorporated under the Canada Business Corporations Act and its registered office is 4th Floor, 595 Howe St. Vancouver, BC, Canada, V6C 2TC. These 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 consolidated financial statements retrospectively reflect the 10-1 share consolidation that occurred June 20, 2022.

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

To date, the Company has generated limited revenue and significant losses, has not generated positive cash flows from operations and for the year ended May 31, 2023 incurred operating losses of \$669,075 (2022 - \$1,335,753) and at that date had accumulated deficit of \$35,097,300 (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 consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement on financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of preparation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

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

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

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

(b) Foreign currency translation

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

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

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

(c) Cash and cash equivalents

Cash equivalents include money market instruments which are readily convertible into cash or have maturities at the date of purchase of less than ninety days. As at May 31, 2023 and 2022, the Company did not have any cash equivalents.

(d) Property and equipment

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

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

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

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

(d) 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.

(e) 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 ("RUA") 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 RUA has been reduced to zero.

(f) 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*)

(f) 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.

(g) 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.

(h) 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.

(i) 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)

(j) 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.

(k) 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.

(l) 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.

(m) 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)

(m) 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.

(n) 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 or FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Financial instruments *(Continued)*

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

Account	Classification
Cash	Amortized cost
Accounts receivable (excluding GST/sales tax) receivable)	Amortized cost
Deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loans 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)

(n) 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)*

(n) 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.

(o) 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.

(p) 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)

(p) 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).

(q) 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	Office equipment	Total
Cost							
As at May 31, 2021	\$ 21,336	\$ 5,438	\$ -	\$ 295,460	\$ -	\$ 5,863	\$ 328,097
Additions	264,487	-	71,289	334,804	7,671	-	678,251
Reclassification	-	-	-	(630,264)	630,264	-	-
As at May 31, 2022 and May 31, 2023	\$ 285,823	\$ 5,438	\$ 71,289	\$ -	\$ 637,935	\$ 5,863	\$ 1,006,348
As at May 31, 2021	\$ 13,704	\$ 4,543	\$ -	\$ -	\$ -	\$ 5,863	\$ 24,110
Depreciation	41,964	895	3,564	-	46,670	-	93,093
As at May 31, 2022	55,668	5,438	3,564	-	46,670	5,863	117,203
Depreciation	69,046	-	6,773	-	63,794	-	139,613
As at May 31, 2023	\$ 124,714	\$ 5,438	\$ 10,337	\$ -	\$ 110,464	\$ 5,863	\$ 256,816
Net book value							
As at May 31, 2022	\$ 230,155	\$ -	\$ 67,725	\$ -	\$ 591,265	\$ -	\$ 889,145
As at May 31, 2023	\$ 161,109	\$ -	\$ 60,952	\$ -	\$ 527,471	\$ -	\$ 749,532

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 (the “Property”) in Abbotsford, BC (the “Lease”) (See Note 9(b)). Pursuant to the Lease, the CEO was responsible for the Landlord’s Work at the Company’s expense and the Company was responsible for the Tenant’s Work at its expense, to render the Greenhouse complete and suitable to open for business. 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. 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.

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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	-	19,163	19,163
Disposal	-	(3,333)	(3,333)
As at May 31, 2023	\$ 1,159,326	\$ 69,464	\$ 1,228,790
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	45,216	-	45,216
As at May 31, 2023	\$ 391,281	\$ -	\$ 391,281
Net book value			
As at May 31, 2022	\$ 813,261	\$ 53,634	\$ 866,895
As at May 31, 2023	\$ 768,045	\$ 69,464	\$ 837,509

As at May 31, 2023, 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

	May 31, 2023	May 31, 2022
Accounts payable	\$ 987,860	\$ 931,535
Accrued liabilities	96,100	106,667
	\$ 1,083,960	\$ 1,038,202

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7. LOANS PAYABLE

Loans payable consists of the following:

	May 31, 2023	May 31, 2022
Unsecured loan, bearing interest at 8% per annum, and has no fixed terms of repayment ⁽ⁱ⁾	\$ 7,923	\$ 165,644
Non-interest-bearing unsecured loan with no fixed terms of repayment from the CEO ⁽ⁱⁱ⁾	13,955	64,431
Unsecured loan, bearing interest at 8% per annum, and repayable on August 27, 2023	10,205	-
Unsecured loan, bearing interest at 8% per annum, and repayable on September 2, 2023	102,016	-
Unsecured loan, bearing interest at 8% per annum, and repayable on September 2, 2023	51,008	-
	\$ 185,107	\$ 203,075

i) 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).

ii) 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).

These non-cash transactions are not reflected in the statement of cash flows.

During the year ended May 31, 2023, the Company accrued interest of \$6,713 on loans (2022 - \$6,815).

8. SHARE CAPITAL AND RESERVES

(a) Authorized:

At May 31, 2023 and 2022, the authorized share capital was comprised of an unlimited number of common shares.

(b) Share issuances:

During the year ended May 31, 2023, the Company,

- i) settled \$229,355 of debt by issuing 2,293,550 units of the Company (Note 7). Each unit consists of one common share and one share purchase warrant exercisable at \$0.15 expiring on August 2, 2023. Under the residual value approach, \$Nil was assigned to the warrant component of the units. Under the residual value approach, \$Nil was assigned to the warrant component of the units.
- ii) 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 until October 12, 2024. The Company paid \$1,920 as finders' fees. Each warrant is exercisable into a common share of the Company at \$0.10 through October 12, 2024. Under the residual value approach, \$Nil was assigned to the warrant component of the units.

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8. SHARE CAPITAL AND RESERVES (Continued)

During the year ended 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 consisted 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 was paid in respect of the private placement. Under the residual value approach, \$Nil was assigned to the warrant 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.

(c) Warrants:

The continuity of warrants for the year ended May 31, 2023 is as follows:

Expiry date	Exercise price	As at May 31, 2022	Issued	Expired	As at May 31, 2023
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
October 12, 2024	\$ 0.10	-	1,550,000	-	1,550,000
Outstanding		5,188,885	3,843,550	(4,145,884)	4,886,551
Weighted average exercise price		\$ 0.52	\$ 0.13	\$ 0.40	\$ 0.21

* Expired subsequently

As of May 31, 2023, the weighted average contractual life is 0.65 years (2022 – 0.79 years).

The continuity of warrants for the year 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

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8. SHARE CAPITAL AND RESERVES (Continued)

(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.

A summary of changes in the Company’s common share purchase options for the year ended May 31, 2023 is as follows:

Expiry date	Exercise price	As at May 31, 2022	Issued	Expired/Cancelled/Forfeited	As at May 31, 2023
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 May 31, 2023, the weighted average remaining life is 7.70 years (2022 – 9.30 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		170,000	1,600,000	(170,000)	1,600,000
Weighted average exercise price	\$	1.05	\$	0.41	\$ 0.41

9. RELATED PARTY TRANSACTIONS

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

(a) Transactions with key management personnel

	For the year ended May 31, 2023	For the year ended May 31, 2022
Consulting fees (net)	\$ -	\$ 77,000
Management fees	\$ 160,000	\$ 26,667
Stock-based compensation	\$ -	\$ 249,494

At May 31, 2023, the Company had the following amounts owing to related parties:

- i) accounts payable of \$68,250 (2022 - \$68,250) owing to a former director of the Company, and \$Nil (2022 - \$16,942) owing to a former CFO.
- ii) loan payable to the CEO of \$13,955 (2022 - \$64,431). The amount is non-interest bearing with no fixed terms for repayment (Note 7).

(b) Industrial Lease

On January 21, 2021, the Company entered an industrial lease with the CEO of the Company, whereby the Company leased from the CEO (the "Landlord") the Greenhouse. 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 that commenced on December 15, 2021 with the completion of leaseholds and ends on December 15, 2031. The Company paid a \$5,000 security deposit and gross rent during the term is \$81,000 per year, payable monthly. The Company is responsible for utilities and services to the Greenhouse.

Right of Use Asset/Lease Liability

The continuity of ROU assets for the two years ended May 31, 2023 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		(59,953)
May 31, 2023	\$	507,101

The continuity of lease liabilities for the two years ended May 31, 2023 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		589
Lease liability, May 31, 2023	\$	588,710
Current lease liability	\$	-
Long term lease liability	\$	588,710

9. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Industrial Lease *(Continued)*

The Company has not made any lease payments since inception and accrued interest expense in arrears of \$589 (2022 - \$318) for the year ended May 31, 2023. 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 loans 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.

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 currently has no financial instruments at FVTPL.

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 May 31 2023, the Company had current liabilities of \$1,269,067 (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 May 31, 2023, the Company has a working capital deficiency of \$1,251,870 (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 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. INCOME TAXES

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

	2023	2022
	27.00%	27.00%
Loss before income taxes for the year	\$ (669,075)	\$ (1,335,753)
Income tax benefit computed at statutory rates	(180,650)	(360,653)
Permanent and temporary differences	-	126,052
Adjustments to carryforwards	-	271,314
Other	4,201	-
Tax assets not recognized	(176,449)	(36,713)
Income tax expense	\$ -	\$ -

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

	2023	2022
Non-capital and net capital losses carried forward	\$ 6,261,207	\$ 6,075,388
Share issue costs	5,147	7,644
Property and equipment and intangible assets	(46,218)	(39,345)
	\$ 6,220,136	\$ 6,043,687

AFFINOR GROWERS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2023 AND 2022
(Presented in Canadian Dollars)

13. INCOME TAXES *(Continued)*

The Company has non-capital losses of approximately \$23,041,320 (2022 - \$22,373,120) which are available to reduce taxes in future periods, for which no deferred income tax asset has been recognized in the consolidated statement of financial position, that can be carried over the following years:

2025	\$	2,000
2026		189,000
2027		448,000
2028		345,000
2029		139,000
2030		37,000
2031		63,000
2032		87,000
2033		205,000
2034		5,036,000
2035		3,780,000
2036		977,000
2037		1,376,000
2038		4,794,000
2039		1,176,000
2040		1,219,000
2041		1,398,000
2042		1,102,120
2042		668,200
	\$	<u>23,041,320</u>

14. 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.

14. COMMITMENTS AND CONTINGENCIES *(Continued)*

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 resumed in October 2023 and has not yet concluded.

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.

The Company has made an assessment and, at this time, the estimated financial effect is unknown. As such no contingency has been made.

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 defendants 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 occurred on October 6, 2023.

During October 2023, the B.C. Supreme Court certified the claims against the Company for settlement purposes only and approved the settlement agreement (with the class plaintiffs of the putative class proceedings, Tietz and others v. Bridgemark Financial and others, filed against it and two officers of the Company in 2019). The settlement was made without any admission of liability by the Company. The Company's insurer paid the aggregate of \$1,340,000 in settlement of the claim on October 12, 2023.

The Company anticipates recovery of legal fees pertaining to this matter from its insurance carrier.

Claim

During July 2022, the Company filed a claim against Bridgemark Financial Group in the British Columbia Supreme Court for contribution and/or indemnity in connection with the above civil claim. No accrual for potential recovery has been recorded in respect of this claim.

15. SUBSEQUENT EVENTS

Subsequent to May 31, 2023, the Company,

(a) 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 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 is to:

- 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.

Consideration for the products and services to be provided by the Company is an aggregate amount of \$135,757,350 (the “Contract Price”). Prior to receipt of any portion of the Contract Price by the Company, it is a condition precedent that:

- a) Freshbay obtain adequate financing to pay the Contract Price.

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

(b) received an unsecured loan of \$20,000 from Freshbay. The loan accrues interest at 8% per annum and matures on January 6, 2024.