Solarvest BioEnergy Inc.

Consolidated Financial Statements

July 31, 2019

ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS

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November 21, 2019

Independent Auditor's Report

To the Shareholders and Board of Directors of Solarvest BioEnergy Inc.

Opinion
We have audited the accompanying consolidated financial statements of Solarvest BioEnergy Inc., which comprise the consolidated statement of financial position as at July 31, 2019, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year 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 financial position of Solarvest BioEnergy Inc. as at July 31, 2019, and the results of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Solarvest BioEnergy Inc. in accordance with the ethical requirements that are relevant to our audit 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 in the consolidated financial statements, which indicates that the company incurred a net loss of $1,392,761 during the year ended July 31, 2019 and, as of that date, the company's deficit less capital stock is $1,202,773. As noted in note 1, these events or conditions, along with other matters as set forth in note indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information
Management is responsible for the other information. The other information comprises management's discussion and analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's 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 International Financial Reporting Standards, 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 Solarvest BioEnergy Inc.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Solarvest BioEnergy Inc. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Solarvest BioEnergy Inc.'s financial reporting process.

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

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

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

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

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.

We have served as the company's auditor since 2014.

Arsenault Best Cameron Ellis

Chartered Professional Accountants

Solarvest BioEnergy Inc.

Consolidated Statement of Financial Position
(expressed in Canadian dollars)
As at July 31, 2019

	2019 $	2018 $
Assets		
Current assets		
Cash and cash equivalents	57,555	128,307
Accounts receivable (note 5)	14,792	19,332
Marketable securities (note 6)	1,098,000	-
Prepaid expenses	3,960	3,551
Other assets (note 6)	1,797,750	-
	2,972,057	151,190
Property and equipment (notes 7 and 12)	398,795	472,757
Intellectual property (note 8)	254,074	278,523
	3,624,926	902,470
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 9 and 19)	835,877	853,756
Due to related parties (note 19)	1,081,609	1,090,830
Promissory note and accrued interest payable (notes 10 and 19)	160,394	154,378
Current portion of long-term debt	71,556	29,148
	2,149,436	2,128,112
Convertible debenture (note 11)	2,416,767	633,812
Long-term debt, less current portion (note 12)	261,496	293,052
	4,827,699	3,054,976
Deficit Less Capital Stock		
Deficit	(9,876,735)	(8,483,974)
Share capital (note 13)	7,000,691	5,154,462
Contributed surplus	509,074	439,374
Warrants (note 15)	1,164,197	737,632
	(1,202,773)	(2,152,506)
	3,624,926	902,470

Approved by the Board of Directors

"Gerri Greenham" Director *"Kenneth A. Cawkell"* Director

Solarvest BioEnergy Inc.

Consolidated Statement of Comprehensive Loss
(expressed in Canadian dollars)
For the year ended July 31, 2019

	2019 $	2018 $
Expenses		
Insurance	41,367	26,765
Interest expense (note 19)	36,774	12,862
License fees	5,832	4,649
Office and general	26,517	18,854
Professional fees (note 19)	238,111	191,963
Registration and filing fees	38,057	18,761
Rent and utilities	95,797	90,574
Research and development (notes 19 and 21)	725,232	447,722
Shareholder costs	2,124	5,173
Transfer agent	7,556	5,221
Travel	32,970	12,739
Amortization of intellectual property	24,449	24,449
Amortization of property and equipment	79,536	156,847
	1,354,322	1,016,579
Operating loss	(1,354,322)	(1,016,579)
Other income (expense)		
Foreign exchange gain (loss)	5,258	(19,465)
Unrealized loss on issuance of convertible debenture	-	(193,843)
Convertible debenture accretion and amortization	(43,697)	(42,862)
	(38,439)	(256,170)
Net loss for the year	(1,392,761)	(1,272,749)
Basic and diluted loss per share (note 16)	0.05	(0.05)

Solarvest BioEnergy Inc.

Consolidated Statement of Changes in Equity
(expressed in Canadian dollars)
For the year ended July 31, 2019

	Share Capital					
	Number of shares	Amount $	Contributed Surplus $	Warrants $	Deficit $	Total $
Balance - July 31, 2017	23,460,216	4,823,242	423,543	223,635	(7,211,225)	(1,740,805)
Private placement - net of costs (note 13)	1,710,000	274,700	-	87,300	-	362,000
Shares issued for services (note 14)	256,909	56,520	-	-	-	56,520
Fair value of warrants expired	-	-	15,831	(15,831)	-	-
Fair value of warrants issued (note 15)	-	-	-	442,528	-	442,528
Net loss for the year	-	-	-	-	(1,272,749)	(1,272,749)
Balance - July 31, 2018	25,427,125	5,154,462	439,374	737,632	(8,483,974)	(2,152,506)
Private placement - net of costs (notes 13 and 15)	8,877,500	1,168,720	-	461,500	-	1,630,220
Fair value of warrants expired	-	-	69,700	(69,700)	-	-
Conversion of convertible debenture (notes 11 and 13)	5,000,000	677,509	-	-	-	677,509
Fair value of warrants issued to brokers	-	-	-	34,765	-	34,765
Net loss for the year	-	-	-	-	(1,392,761)	(1,392,761)
Balance - July 31, 2019	39,304,625	7,000,691	509,074	1,164,197	(9,876,735)	(1,202,773)

Solarvest BioEnergy Inc.

Consolidated Statement of Cash Flows
(expressed in Canadian dollars)
For the year ended July 31, 2019

	2019 $	2018 $
Cash provided by (used in)		
Operating activities		
Net loss for the year	(1,392,761)	(1,272,749)
Items not affecting cash		
Amortization of intellectual property	24,449	24,449
Amortization of property and equipment	79,536	156,847
Unrealized loss on issuance of convertible debenture	-	193,843
Shares for debt settlement	-	56,520
Interest on convertible debenture	16,767	-
Convertible debenture accretion and amortization	43,697	42,862
	(1,228,312)	(798,228)
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	4,540	(5,995)
Increase in prepaid expenses	(409)	(391)
Decrease in accounts payable and accrued liabilities	(17,879)	(439,268)
	(1,242,060)	(1,243,882)
Financing activities		
Increase in long-term debt	40,000	225,000
Increase (decrease) in due to related parties	(9,221)	151,760
Net proceeds from convertible debenture financing	-	839,635
Proceeds from issuance of capital stock	1,175,500	362,000
Cost of issuing capital stock	(110,515)	-
Repayment of long-term debt	(29,148)	(132,338)
Increase in promissory note and accrued interest payable	6,016	6,017
	1,072,632	1,452,074
Investing activities		
Purchase of property and equipment	(5,574)	(281,006)
Proceeds on sale of marketable securities	104,250	-
	98,676	(281,006)
Decrease in cash and cash equivalents	(70,752)	(72,814)
Cash and cash equivalents - Beginning of year	128,307	201,121
Cash and cash equivalents - End of year	57,555	128,307
Non-cash transactions		
Receivable from FSD Pharma Inc. (notes 5 and 6)	1,797,750	-
Marketable securities (note 6)	(3,000,000)	-
Convertible defenture financing (notes 6 and 11)	2,400,000	-
Issuance of capital stock (notes 6 and 13)	600,000	-
Conversion of convertible debenture to capital stock (note 11)	677,509	-
Shares for debt settlement	-	256,909

1 Nature of operations and continuance of operations

The Company was incorporated under the Business Corporations Act (BC) on November 9, 2005. The principal business of the Company is the development of its algal-based production systems to produce natural based "green" commercial projects. The address of the Company's registered office is 439 Helmcken Street, Vancouver B.C. V6B 2E6. To date the Company has not earned significant revenues and is considered to be in the development stage.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Phycobiologics (Europe) Limited ("Phyco Europe"), Phyco Hydrogen Inc. ("PHI"), and Solarvest (P.E.I.) Inc. ("PEI"). All significant inter company accounts and transactions have been eliminated upon consolidation.

The Company has financed its activities to date through the issuance of common shares and continues to seek capital through various means including the issuance of equity and/or debt.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has had net losses for the past two years, has a working capital deficiency and a deficit, as follows:

	2019	**2018**
	$	**$**
Working capital (deficiency)	822,621	(1,976,922)
Deficit	(9,876,735)	(8,483,974)

The continuing operations of the Company are dependent upon its ability to secure adequate financing and to commence profitable operations in the future.

2 Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance 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").

These consolidated financial statements have been approved by the Board of Directors on November 21, 2019.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting.

(c) Functional currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments that have the most significant effect on the amounts recognized in the financial statements are detailed in note 4.

3 Summary of significant accounting policies

(a) Basis of consolidation

These financial statements include the operations of wholly owned subsidiaries Phyco Hydrogen Inc., Phycobiologics (Europe) Limited, and Solarvest (P.E.I.) Inc.

(b) Foreign currency translation

Foreign currency transactions are initially recorded by the Company using the exchange rates prevailing at the date of the transaction. At the financial reporting date, monetary assets, and liabilities denominated in foreign currencies are translated at the period end rates of exchange. Non monetary assets and liabilities are translated at the historical exchange rates. Exchange gains and losses arising from the translation of foreign currency items are in the Statement of Comprehensive Loss.

(c) Financial instruments prior to August 1, 2018

The Company has adopted IFRS 9 using the modified retrospective approach, the prior period results have not been restated. The accounting policies applied from August 1, 2018 onwards follow IFRS 9. The accounting policy and impact of adoption can be found in *New or amended standards* below.

The policies applied under the previous accounting standard (IAS 39) were applied in accounting for the comparative period results. The following is applicable only for periods prior to August 1, 2018, for financial instruments accounted for under IAS 39.

The Company classifies its financial assets and liabilities into one of the following categories, depending on the purpose for which the instrument was acquired. The Company's accounting policy for each category is as follows:

Financial assets

Cash and cash equivalents - These financial assets are initially recorded and subsequently remeasured at fair value through profit and loss.

Loans and receivables - These are financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost initially and subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

All financial assets are subject to review for impairment at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

Financial liabilities at amortized cost - This category includes accounts payable and accrued liabilities, due to related parties, promissory note and accrued interest payable, long-term debt and convertible debentures. Convertible debentures are initially recognized at their fair value and subsequently at amortized cost using the effective interest method; the liability is accreted to the face value over the term of the convertible debenture. Transaction costs associated with financial liabilities are capitalized to the financial liability and accreted over the life of the financial liability.

(d) Fair value

The Company measures financial assets and financial liabilities under the following fair value hierarchy. The different levels have been defined as follows:

- Fair Value Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Fair Value Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Fair Value Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

Unrealized gains and losses on changes in fair value are recognized in operating loss in the period in which they are incurred.

(e) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of twelve months or less.

(f) Property and equipment

Property and equipment is recorded at cost less accumulated amortization. Bases of amortization are as follows:

Buildings	4% declining balance
Equipment	20% declining balance
Computer	3 years, straight line
Leasehold improvements	5 years, straight line

Amortization is calculated at one-half of the normal rate of amortization in the year of acquisition; no amortization is recorded in the year of disposal.

(g) Intellectual property

Intellectual property is recorded at cost less accumulated amortization. The intellectual property is being amortized over 20 years on a straight-line basis.

(h) Government assistance

The Company incurs research and development expenditures which are eligible for government grants, some of which are contingently repayable government loans. Government assistance is recorded as a reduction of research and development expenses when the amounts are expected to be recovered based on the signed funding agreements.

When conditions requiring repayment of conditionally repayable government assistance have been reached, the amount is recorded as an expense and is offset by a liability.

(i) Research and development expenses

Research and development expenditures are expensed in the period in which they are incurred, unless a development project meets the criteria under IFRS for deferral and amortization. The Company has not deferred any such development expenditures to date.

(j) Income taxes

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

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

Deferred tax is calculated using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and 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 at the end of the reporting period.

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 in the near term, it provides a valuation allowance against that excess.

(k) 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.

(l) Share based payment transactions

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

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

(m) Related parties

A related party is a person or an entity that is related to the Company.

A person or a close member of that person's family is related to the Company if that person:

i) Has control or joint control over the Company, with the power to govern the Company's financial and operating policies;

ii) Has significant influence over the Company, participating in financial and operating policy decisions, but not control over these policies; or

iii) Is a member of the key management personnel of the Company. Key management personnel, consistent with the definition under IAS 24, Related Party Disclosures, are persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director of the Company.

(n) New or amended standards effective August 1, 2018

The Company has adopted the following new or amended IFRS standards for the annual period beginning on August 1, 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. The Company adopted the new revenue standard on August 1, 2018.

The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods and transitional adjustments required as a result of the adoption of this standard.

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The Company has adopted IFRS 9 on a modified retrospective basis and determined that there is no material impact to the Company's financial statements upon adoption.

The details of the new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

(i) Classification and measurement of financial assets and liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out as follows. A financial asset is classified as the following measurement categories: amortized cost; fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Company's financial assets consist of cash and cash equivalents and marketable securities measured at FVTPL, and accounts receivable classified at amortized cost. The Company's financial liabilities consist of accounts payable and accrued liabilities, due to related parties, promissory note and accrued interest payable, long-term debt and convertible debenture are classified at amortized cost which is unchanged from IAS 39.

(ii) Impairment of financial assets

An expected credit loss ("ECL") model applies to financial assets measured at amortized cost including trade receivables. The Company's financial assets measured at amortized cost and subject to the ECL model consist of accounts receivable which has a significant low credit risk due to the nature of the counterparties involved and historical default experienced. The Company applied the practical expedient and used the simplified approach in calculating ECL for accounts receivable. The impact was negligible on the carrying amounts of the Company's financial assets on the transition date given the receivables are substantially all current and the minimal historical level of customer default.

(o) New and revised IRFS in issue but not yet effective.

IFRS 16 Leases ("IFRS 16")
IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for the Company for its annual period beginning August 1, 2019 with early adoption permitted.

The Company has not yet determined the impact on its financial position and financial statements.

4 Critical accounting estimates and judgments

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

(a) Significant judgments

The significant judgments attributed to the Company's are:

(i) Going Concern

The Company reviews its operations periodically to ensure that it has the potential to be an economic viable entity.

(ii) Impairment and valuation of intellectual property

In making this judgment, Company evaluates, among other factors, market capitalization in addition to the milestone progress in its research and development program.

(iii) Determination of cash generating units (CGU)

Judgment is required in determining the aggregation of the Company's assets into CGUs. Based on economic and commercial influences as well as the interdependence of cash flows of the Company's operating facility, the Company determined that its operations comprise a single CGU.

(b) Significant estimates

Reported amounts and note disclosures reflect the overall economic conditions that management estimates are most likely to occur and anticipated measures management intends to take. Actual results could differ materially from those estimates. Estimates and assumptions are reviewed quarterly. All revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant estimates in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements relate to:

(i) Impairment of property and equipment and intellectual property

Whether an asset is impaired requires management to determine whether there is an indication of impairment based on the consideration of external and internal indicators. If an indication of impairment exists, management must determine if the carrying value of the asset exceeds its recoverable amount. The estimation of future cash flows requires assumptions to be made by management. Therefore, the determination of a recoverable amount requires estimates which may affect the amount of an impairment loss, if any.

(ii) Valuation of share-based compensation and warrants

Management measures the costs for share-based compensation and warrants using market-based option valuation techniques. Assumptions are made and estimates are used in applying the valuation techniques. These include estimating the future volatility of the share price, expected dividend yield, expected risk-free interest rate, future employee turnover rates, future exercise behaviours and corporate performance. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of the share-based payments and warrants.

The Company reviewed its previous assumptions and concluded that no changes were required.

5 Accounts receivable

	2019	2018
	$	$
HST receivable	13,042	10,580
Government contributions receivable	1,750	8,752
	14,792	19,332

6 Marketable securities

On May 7, 2019, the Company entered into a collaborative research and development agreement with FSD Pharma Inc. ("FSD"). Pursuant to the agreement, the Company received 10,000,000 class B subordinate voting shares in the capital of FSD at a deemed price of $0.30 per share. Per the agreement, if the value realized on liquidation of these shares, within 8 months of acquisition, falls below $0.30 (the "minimum value"), then FSD shall issue additional shares such that the company will be able to realize the minimum value.

During the year, 850,000 shares were sold at an average price of $0.13 per share. As a result, an other asset in the amount of $150,750 from FSD has been recorded. As at July 31, 2019, the company held 9,150,000 shares with a market value of $0.12 per share. The carrying value of the investment in marketable securities has been reduced by $1,647,000 to $1,098,000, resulting in the recognition of an other asset of $1,647,000 due from FSD being recorded. The total other asset of $1,797,750 from FSD will be repaid in shares of FSD by January 7, 2020.

On receipt of the FSD common shares above, the Company issued 3,000,000 units to FSD at a price of $0.20 per unit. Each unit is comprised of one common share and one warrant, with each warrant exercisable in exchange for one additional share at an exercise price of $0.25 for a period of two years following the issuance. In addition to the 3,000,000 common shares and warrants, the company issued a five year term convertible debenture in the principal amount of $2,400,000 at an interest rate of 3% per annum convertible into common shares at a conversion price of $1.00 per share, provided that FSD will be required to convert the debenture should the Company's shares close at a price of at least $1.20 for a period of 20 consecutive trading days.

7 Property and equipment

	Land $	Buildings $	Equipment $	Computer $	Leasehold improvements $	Total $
Cost						
Balance - July 31, 2018	10,000	90,000	1,061,753	19,883	520,255	1,701,891
Additions	-	-	-	5,574	-	5,574
Balance - July 31, 2019	10,000	90,000	1,061,753	25,457	520,255	1,707,465
Accumulated amortization						
Balance - July 31, 2018	-	1,800	689,792	17,287	520,255	1,229,134
Current year amortization	-	3,528	74,393	1,615	-	79,536
Balance - July 31, 2019	-	5,328	764,185	18,902	520,255	1,308,670
Carrying value						
July 31, 2019	10,000	84,672	297,568	6,555	-	398,795
July 31, 2018	10,000	88,200	371,961	2,596	-	472,757

8 Intellectual property

The Intellectual property consists of the acquisition costs of worldwide exclusive rights, subject to limited exceptions, to an Inducible Chloroplast Gene Expression System, through the acquisition of the shares of Phyco Europe, the issuance of Class B common shares of PHI, the subsequent repurchase of the Class B common shares of PHI and patent acquisition costs. Component costs have been summarized below:

	2019 $	2018 $
Acquisition of shares of Phyco Europe	146,886	146,886
Issuance of Class B common shares of PHI	10	10
Acquired pursuant to acquisition of shares of PHI	144,426	144,426
Patent acquisition costs	95,011	95,011
Kohilo Bio Inc. patent acquisition costs	102,643	102,643
	488,976	488,976
Accumulated amortization	234,902	210,453
	254,074	278,523

9 Accounts payable and accrued liabilities

	2019 $	2018 $
Trade	813,268	844,110
Payroll withholding taxes	22,609	9,646
	835,877	853,756

10 Promissory note payable

The promissory note issued to a directory of the Company on July 15, 2009 is unsecured and bears an interest rate of 6% compounded annually. The note is due on demand. Interest of $60,394 (2018 - $54,378) has been accrued.

11 Convertible debenture

0% Convertible debenture due March 26, 2021

On March 26, 2018, the Company closed a financial transaction in which it issued convertible debenture units ("Units") for aggregate gross proceeds of $1,000,000 and 5,000,000 warrants. The 0% convertible debenture can be converted into common shares ("Shares") at a price of $0.20 per share for a period of 36 months from the closing date. If the debenture is not converted into common shares, the principal amount is due and payable in full within 30 days following the due date of March 26, 2021. On November 30, 2018, the convertible debenture was converted to common shares and in connection there with, the Company issued 5,000,000 common shares valued at $677,509.

The 5,000,000 warrants issued as part of the convertible debenture units can be converted into common shares at a price of $0.25 per share for a period of 36 months from closing date.

In connection with the financing, the Company paid $80,000 in finders' fees and issued 400,000 finders' warrants having a fair value of $14,900 assigned using the Black-Scholes model. Each finder warrant entitles the holder to acquire one share at a price of $0.25 for a period of 36 months from the date of closing.

	July 31, 2018 $	Changes $	July 31, 2019 $
Cash received	1,000,000	-	1,000,000
Value of warrants assigned (note 15)	(442,528)	-	(442,528)
	557,472	-	557,472
Unrealized loss due to fair value adjustment on convertible debenture	193,843	-	193,843
Fair value of convertible debenture	751,315	-	751,315
Transaction costs	(160,365)	-	(160,365)
Interest expense accretion	25,043	25,878	50,921
Amortization of transaction costs	17,819	17,819	35,638
Conversion of convertible debenture to common shares	-	-	(677,509)
	633,812	43,697	-

Imputed interest at 10% of the convertible debenture has been recognized as a reduction in the carrying value of the debenture and an unrealized loss on issuance of convertible debenture.

3% Convertible debenture due May 7, 2024

As referred to in note 6, the Company issued a five year term convertible debenture in the principal amount of $2,400,000 at an interest rate of 3% per annum which is convertible into common shares at a price of $1.00 per share. Interest accrued to July 31, 2019 aggregates $16,767 and is payable on each anniversary date.

12 Long-term debt

	2019 $	2018 $
0% ACOA loan, due April 1, 2025, repayable in monthly instalments of $1,200	82,800	97,200
7% promissory note, due February 2027, repayable in monthly installments of $2,613, including principal and interest	210,252	225,000
0% Short-term loan payable, due on demand	40,000	-
	333,052	322,200
Less: Current portion	71,556	29,148
	261,496	293,052

On January 23, 2013, the Company entered into an agreement with Atlantic Canada Opportunities Agency (ACOA) whereby ACOA agreed to loan 50% of the value of eligible capital assets incurred on the newly leased premises estimated to be $789,000. On March 25, 2015, the loan agreement was amended under same terms and conditions except that the monthly repayment amount is changed to $1,200 per month commencing May 1, 2015. This loan is unsecured.

On July 29, 2018, the Company entered into a loan agreement with Active Communities Lending Inc. ("ACLI"), a PEI corporation. The loan is secured by land, building and a Model P1 pulse dryer system with a net book value of 220,672, and bears interest at 7% per annum, calculated daily, not in advance and has a term of 9.5 years maturing on February 28, 2027.

On July 31, 2019, the Company received a short term loan of $40,000. The loan was repaid in August 2019.

The aggregate amount of principal payments estimated to be required in each of the next five years to meet retirement provisions is as follows:

	$
Year ending July 31, 2020	71,556
2021	32,829
2022	34,145
2023	35,573
2024	37,093

13 Capital stock

Authorized share capital

At July 31, 2019, the authorized share capital consisted of unlimited number of no par value common shares. The 39,304,625 common shares were issued for net consideration of $7,000,691. All issued shares are fully paid.

Fiscal year ended July 31, 2018

Private placements
On June 8, 2018, the Company closed a non-brokered private placement of 400,000 units at a price of $0.25 per unit for gross proceeds of $100,000. Each unit consists of one common share and one warrant. Each whole warrant is exercisable at $0.35 per share for a period of two years from the date of issuance and include an acceleration clause that is triggered by a 20-day volume weighted average share price of $0.95 per share.

On June 13, 2018, the Company issued 256,909 common shares valued at $0.22 per share to settle debt to a supplier aggregating US$43,652 (CDN $56,520).

Between July 17, 2018 and July 27, 2018, the Company closed a non-brokered private placement of 1,310,000 units at a price of $0.20 per unit for gross proceeds of $262,000. Each unit consists of one common share and one warrant. Each whole warrant is exercisable at $0.25 per share for a period of two years from the date of issuance and include an acceleration clause that is triggered by a 20-day volume weighted average share price of $0.55 per share.

Fiscal year ended July 31, 2019

Private placements
On November 13, 2018 and January 22, 2019, the Company closed a non-brokered private placement of 5,477,500 Units at a price of $0.20 per unit for gross proceeds of $1,095,500. Each unit consists of one common share and one warrant. Each whole warrant is exercisable at $0.25 per share for a period of three years following closing. In connection with the private placement, the Company paid $83,840 cash commission and issued 419,200 broker warrants with each broker warrant under the same terms and conditions as a regular warrant.

On November 30, 2018, 5,000,000 common shares were issued on conversion of the 0% convertible debenture due March 26, 2021.

In connection with the mutual investment transaction with FSD Pharma, the Company issued 3,000,000 Units at a price of $0.20 per unit. Each unit is comprised of one common share and one warrant, with each warrant exercisable into one additional share at an exercise price of $0.25 per share for a period of two years following the issuance.

On June 13, 2019, the Company closed a non-brokered private placement of 400,000 Units at a price of $0.20 per unit for gross proceeds of $80,000. Each unit consists of one common share and one warrant. Each whole warrant is exercisable at $0.25 per share for a period of three years following closing. In connection with the private placement, the Company paid $1,600 cash commission and issued 80,000 broker warrants with each broker warrant under the same terms and conditions as a regular warrant.

Other Commitments to Issue Shares

As at July 31, 2019, the Company was obligated to issue up to a total of 500,000 shares pursuant to the project having reached a level in research whereby hydrogen production can be brought to a viable commercial production through a method of controlling key genes in algae which will result in continuous production of hydrogen.

14 Share options

The Company has a Share Option Plan (the "Plan") under which it is authorized to grant options to purchase common shares of the Company to directors, senior officers, employees and/or consultants of the Company. The aggregate number of shares of the Company which may be issued and sold under the Plan will not exceed 10% of the total number of common shares issued and outstanding. Share options are granted with a maximum term of five years with vesting requirements at the discretion of the Board of Directors.

The Company records a charge to the statement of comprehensive loss and a corresponding increase to contributed surplus using the Black Scholes fair valuation option pricing model with respect to a share option grant. The valuation is dependent on a number of estimates, including the risk free interest rate, the level of share volatility, together with an estimate of the level of forfeiture. The level of share volatility is calculated with reference to the historic traded daily closing share price at the date of issue. 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.

The following table reflects the actual share options issued and outstanding as at July 31, 2019:

No. of options Outstanding and Exercisable	Average Exercise Price $	Expiry Date
800,000	0.30	February 18, 2021

15 Warrants

In connection with the private placement between December 4, 2015 and April 6, 2016, the Company issued 600,000 warrants to subscribers. These warrants expired between June 4, 2017 and October 5, 2017 respectively and had a fair value of $40,336 using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 1.25%; dividend yield - 0%; expected stock volatility - 72% to 87% and an expected life of 1.5 years.

On May 19, 2017, these 600,000 warrants were extended for an additional twelve (12) months and will expire between June 4, 2018 to October 5, 2018 with all other terms and conditions, including the exercise price of $0.35 per share remaining unchanged. On May 18, 2018, these warrants were further extended for another period of two years with all other terms remaining unchanged.

As explained in note 11, in connection with the convertible debenture financing on March 26, 2018, the Company issued 5,000,000 warrants to subscribers and 400,000 finders' warrants. These 5,400,000 warrants expire on March 26, 2021 and have a fair value of $442,528 assigned using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 1.25%; dividend yield - 0%; expected stock volatility - 60% and an expected life of 3 years.

As explained in note 13, in connection with the private placement on June 8, 2018, the Company issued 400,000 warrants to subscribers. These warrants expire on June 8, 2020 and have a fair value of $14,900 assigned using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 1.25%; dividend yield - 0%; expected stock volatility - 56.56% and an expected life of 2 years.

As explained in note 13, in connection with the private placements between July 17, 2018 and July 27, 2018, the Company issued 1,310,000 warrants to subscribers. These warrants expire between July 7, 2021 and July 27, 2021 and have a fair value of $72,400 assigned using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 1.25%; dividend yield - 0%; expected stock volatility - 57.69% and an expected life of 3 years.

As explained in note 13, in connection with the private placements between November 13, 2018 and January 22, 2019, the Company issued 5,477,500 warrants to subscribers. These warrants expire between November 13, 2021 and January 22, 2022 and have a fair value of $275,800 assigned using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 1.50%; dividend yield - 0%; expected stock volatility - 70% and an expected life of 3 years. The value ascribed to the 419,200 broker warrants is $34,165 using the same assumptions as noted above.

As explained in note 6, in connection with the mutual investments with FSD Pharma, the Company issued 3,000,000 warrants with an expiry date of 2 years from date of issuance and have a fair value of $164,300 assigned using the Black Scholes model for pricing options under the following assumptions: risk free interest rate - 1.50%; dividend yield - 0%; expected stock volatility - 73% and an expected life of 2 years.

As explained in note 13, in connection with the private placement on June 13, 2019 the Company issued 400,000 warrants with an expiry date of three years from date of issuance. These warrants have a fair value of $21,400 assigned using the Black-Scholes model for pricing options under the following assumptions: risk free interest rate - 1.50%; dividend yield - 0%; expected stock volatility - 70% and an expected life of 3 years. The value ascribed to the 8,000 broker warrants is $600 using the same assumptions as noted above.

The warrants outstanding as at July 31, 2019 are summarized below:

No. of warrants Outstanding and Exercisable	Exercise Price $	Expiry Date
300,000	0.35	June 4, 2020
100,000	0.35	August 4, 2020
200,000	0.35	October 5, 2020
5,400,000	0.25	March 26, 2021
400,000	0.35	June 8, 2020
960,000	0.25	July 17, 2021
350,000	0.25	July 27, 2021
2,376,000	0.25	November 13, 2021
3,520,700	0.25	January 22, 2022
3,000,000	0.25	May 7, 2021
408,000	0.25	June 13, 2022
17,014,700		

16 Loss per share

Basic and diluted loss per share

The calculations of basic and diluted loss per share for the year ended were based on the following losses attributable to common shareholders and weighted average number of common shares outstanding:

Basic loss per share

	2019 $	2018 $
Net loss for the year	(1,392,761)	(1,272,749)
Weighted average number of common shares outstanding for the period	27,505,624	22,064,230
Loss per share	(0.05)	(0.05)

Diluted loss per share

	2019 $	2018 $
Net loss for the year	(1,392,761)	(1,272,749)
Weighted average number of common shares (diluted) for the period	28,305,624	22,959,230
Loss per share	(0.05)	(0.05)

Diluted loss per share does not include the effect of the warrants or convertible debentures outstanding, as they are antidilutive.

17 Income taxes

(a) The Company recognized no income taxes in the consolidated statement of comprehensive loss as it has been incurring losses since inception.

(b) The significant components of the Company's future income tax assets are as follows:

	2019 $	2018 $
Future income tax assets		
Non-capital loss carry forward	8,084,067	6,839,735
Temporary differences between accounting amortization and tax amortization	760,174	646,191
Share issuance costs and other assets	140,033	289,864
	8,984,274	7,775,790
Valuation allowance	(8,984,274)	(7,775,790)
Net future income tax assets	-	-

The Company has unutilized income tax loss carryforwards of $8,084,068 available to reduce future years' taxable income. If not utilized, these loss carryforwards expire as follows:

	$
Year ending July 31, 2026	37,802
2027	68,048
2028	147,982
2029	257,863
2030	206,612
2031	152,638
2032	329,284
2033	510,934
2034	896,533
2035	1,439,350
2036	1,160,169
2037	715,771
2038	901,825
2039	1,259,257

Future tax benefits which may arise as a result of these non-capital losses and other tax assets have not been recognized in these financial statements and have been offset by a valuation allowance due to the uncertainty of their realization.

The company has investment tax credits of $17,943 which may be carried forward and used to reduce federal income taxes and for which no future tax benefits have been recognized in these statements. These credits may be claimed no later than:

	$
Year ending July 31, 2034	10,571
2035	5,295
2036	1,649
2038	428

18 Financial instruments

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk, and liquidity risk. Management, the Board of Directors, and the Audit Committee monitor risk management activities and review the adequacy of such activities.

Credit risk

Credit risk is the risk of potential loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is limited to the carrying amount on the balance sheet and arises from the Company's cash and receivables.

The Company's cash is held with high credit quality financial institutions. Receivables mainly consist of goods and services tax due from the Federal Government of Canada, funding receivables from SkillsPEI, a governmental agency, and a mutual investment receivable with FSD Pharma Inc. pursuant to an agreement.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations, selling shares, and anticipating investing and financing activities. As at July 31, 2018, the Company had cash of $57,555 which is insufficient to settle current liabilities of $2,149,436, which have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market prices, such as interest rates and foreign exchange rates.

i) Interest rate risk

The Company has cash and has a fixed interest rate bearing promissory note payable as a debt instrument. The Company's current policy is to invest excess cash in investment grade short term certificates of deposit issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks.

ii) Foreign exchange rate risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations and administrative activities in United States by using US dollar currency from its Canadian dollar bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

Sensitivity analysis

The carrying values of cash, receivables, and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturities of these financial instruments.

Based on management's knowledge of and experience in the financial markets, management does not believe that the Company's current financial instruments will be affected by credit risk, liquidity risk or market risk.

19 Related party transactions

The Company entered into the following transactions with related parties during the years ended July 31, 2018 and July 31, 2019.

Year ended July 31, 2018:
(a) Received advances of $289,294 from a director of the Company.
(b) Accrued interest of $6,017 due on the promissory note held by a director of the Company.
(c) Incurred and accrued $39,515 of legal fees to a legal firm where a principal is a director of the Company.
(d) Accrued accounting fees of $24,000 to the CFO of the Company for accounting services.

Included in accounts payable and accrued liabilities is $256,064 due to companies controlled by directors and $129,458 due to directors of the Company.

Included within the due to a related party balance is $738,829 due to Gerri Greenham (a control person of the Company), $140,000 due to another shareholder, and $60,241 owed to Kohilo Bio Inc., a company controlled by an employee and a director within the consolidated group of companies of Solarvest BioEnergy Inc.

The unsecured promissory note payable in the amount of $154,378 is also due to Gerri Greenham. The note bears interest at 6% compounded annually and is due on demand.

Year ended July 31, 2019:
(a) Received advances of $56,294 from a director of the Company.
(b) Accrued interest of $6,017 due on the promissory note held by a director of the Company.
(c) Incurred and accrued $50,909 of legal fees to a legal firm where a principal is a director of the Company.
(d) Accrued accounting fees of $24,000 to the CFO of the Company for accounting services.

Included in accounts payable and accrued liabilities is $312,973 due to companies controlled by a director and $154,552 due to directors of the Company.

Included within the due to a related party balance is $887,630 due to Gerri Greenham (a control person of the Company), $86,745 due to another shareholder and $60,061 owed to Kohilo Bio Inc., a company controlled by an employee and a director within the consolidated group of companies of Solarvest BioEnergy Inc.

The unsecured promissory note payable in the amount of $160,394 is also due to Gerri Greenham. The note bears interest at 6% compounded annually and is due on demand.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

Compensation of directors and key management personnel

The remuneration of directors and key management personnel during 2019 and 2018 were as follows:

	2019 $	2018 $
Salaries (included in research and development)	77,923	70,000

Key management personnel consist of the Chief Operating Officer, Chief Financial Officer and Team Engineering Lead.

20 Capital management

The objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders, benefits to other stakeholders and to have sufficient funds on hand to ensure the Company's on going growth of the business.

The Company considers the promissory note payable and accrued interest payable and the items in the shareholders' equity as capital. 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. In order to maintain or adjust capital structure, the Company may issue new shares through private placements, sell assets, incur debts, or return capital to shareholders. As of July 31, 2019, the Company has an unsecured promissory note payable (see note 10) and is not subject to externally imposed capital requirements.

21 Research and development and Contingent liabilities

Atlantic Innovation Fund

As at July 31, 2019, the Company received funding of $1,999,775 from ACOA through the Atlantic Innovation Fund. Under terms of the agreement, these funds are contingently repayable on a royalty basis of 5% of gross revenue from the above project beginning March 31, 2015. The Company did not meet the repayment conditions in 2019 or prior years.

Business Development Program

As at July 31, 2019, the Company has received funding of $377,927 from ACOA through the Business Development Program. Under the terms of the agreement, these funds are contingently repayable on a royalty basis of 2.5% of gross revenue from the above project beginning March 31, 2015. The Company did not meet the repayment conditions in 2019 or prior years.

22 Commitments

The future minimum rental lease payments for the next five years under an operating lease expiring on December 31, 2023 as follows:

	$
Year ending July 31, 2020	54,000
2021	54,000
2022	54,000
2023	54,000
2024	22,500

23 Subsequent event

As of September 6, 2019, Solarvest (P.E.I.) Inc. legally changed their legal name to Eversea Inc. and, on September 24, 2019, Phyco Hydrogen Inc. changed their legal name to Eversea America Inc.

As of the audit report date, an additional 8,750,000 shares of FSD Pharma Inc. have been sold at a range of $0.047 to $0.120 per share for total proceeds of $642,036.