Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2019 and 2018

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

Contents

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements, and accompanying notes, of Clean Seed Capital Group Ltd. for the three months ended September 30, 2019 and 2018 have been prepared by management and approved by the Company's Audit Committee and Board of Directors.

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

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

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

/s/ Graeme Lempriere

Graeme Lempriere, Chief Executive Officer
Burnaby, BC Canada
November 27, 2019

/s/ Steven Brassard

Steven Brassard, Chief Financial Officer
Burnaby, BC Canada
November 27, 2019

Clean Seed Capital Group Ltd.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited – Expressed in Canadian Dollars)

	Notes		**September 30, 2019**		June 30, 2019
ASSETS					
Current Assets					
Cash and cash equivalents	**5**	**$**	**136,467**	$	91,763
Receivables	**6**		**74,303**		83,141
Prepaid expenses and deposits	**7**		**32,216**		36,905
Total current assets			**242,986**		211,809
Non-Current Assets					
Intellectual property	**9**		**9,729,462**		9,597,835
Property and equipment	**10**		**557,645**		154,896
Total non-current assets			**10,287,107**		9,752,731
TOTAL ASSETS		**$**	**10,530,093**	$	9,964,540
LIABILITIES					
Current Liabilities					
Accounts payable	**11**	**$**	**1,129,593**	$	2,679,728
Due to related parties	**16b**		**577,551**		538,159
Loans payable	**13**		**3,127,394**		2,178,831
Total current liabilities			**4,834,538**		5,396,718
Non-Current Liabilities					
Loans payable	**13**		**1,369,260**		1,069,993
TOTAL LIABILITIES			**6,203,798**		6,466,711
SHAREHOLDERS' EQUITY					
Share capital	**14**		**20,441,493**		19,308,243
Obligation to issue shares	**14**		**-**		280,000
Share-based payment reserve	**15b**		**2,723,038**		2,118,865
Deficit			**(18,838,236)**		(18,209,279)
TOTAL SHAREHOLDERS' EQUITY			**4,326,295**		3,497,829
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**10,530,093**	$	9,964,540

Ability to Continue as a Going Concern (Note 2d)
Commitments and Contingencies (Note 17)
Comparative Figures (Note 19)
Subsequent Events (Note 20)

Approved on behalf of the Board:

/s/ Graeme Lempriere
Director

/s/ Colin Rush
Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Clean Seed Capital Group Ltd.

Condensed Consolidated Interim Statements of Comprehensive Loss
(Unaudited – Expressed in Canadian Dollars)

	Three Months Ended September 30, 2019	2018
Operating expenses		
Amortization of intellectual property (Note 9)	**$ 180,752**	$ 158,360
Depreciation of property and equipment (Note 10)	**54,716**	18,658
Interest (Note 16(c))	**147,846**	85,193
Office and miscellaneous	**41,692**	29,411
Personnel	**139,368**	225,248
Premises	**22,011**	22,809
Professional	**8,983**	53,787
Research and development (Note 16(c))	**14,242**	161,214
Share-based compensation (recovery from forfeitures) (Note 15b)	**573**	(61,715)
Travel and trade shows	**18,774**	81,600
Net loss and comprehensive loss for the period	**$ (628,957)**	$ (774,565)
Basic and diluted loss per share	**$ (0.01)**	$ (0.01)
Weighted average number of common shares outstanding	**59,971,543**	58,218,500

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Clean Seed Capital Group Ltd.

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited – Expressed in Canadian Dollars)

	Share Capital					
	Number	Amount	Obligation to Issue Shares	Share-based Payment Reserve	Deficit	Total
Balance, June 30, 2018	**58,218,500**	**$ 19,305,263**	**$ -**	**$ 2,149,947**	**$ (14,437,954)**	**$ 7,017,256**
Share issue cost recovery	-	2,980	-	-	-	2,980
Share-based compensation (recovery of forfeitures)	-	-	-	(61,715)	-	(61,715)
Net loss and comprehensive loss for the period	-	-	-	-	(774,565)	(774,565)
Balance, September 30, 2018	**58,218,500**	**19,308,243**	**-**	**2,088,232**	**(15,212,519)**	**6,183,956**
Units and shares issued for cash	-	-	280,000	-	-	280,000
Share-based compensation	-	-	-	30,633	-	30,633
Net loss and comprehensive loss for the period	-	-	-	-	(2,996,760)	(2,996,760)
Balance, June 30, 2019	**58,218,500**	**19,308,243**	**280,000**	**2,118,865**	**(18,209,279)**	**3,497,829**
Units issued for cash	6,720,000	1,142,400	(280,000)	537,600	-	1,400,000
Share issue cost	-	(9,150)	-	-	-	(9,150)
Warrants committed to issue as loan consideration	-	-	-	66,000	-	66,000
Share-based compensation	-	-	-	573	-	573
Net loss and comprehensive loss for the period	-	-	-	-	(628,957)	(628,957)
Balance, September 30, 2019	**64,938,500**	**$ 20,441,493**	**$ -**	**$ 2,723,038**	**$ (18,838,236)**	**$ 4,326,295**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Clean Seed Capital Group Ltd.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited – Expressed in Canadian Dollars)

	Three Months Ended September 30, **2019**	2018
Cash flows from operating activities		
Net loss for the period	**$ (628,957)**	$ (774,565)
Adjustments for items not affecting cash		
Amortization of intellectual property	**180,752**	158,360
Depreciation of property and equipment	**54,716**	18,658
Benefit of government loan treated as a government grant included in development expenses	**-**	(25,720)
Interest accretion and expense	**143,172**	66,942
Share-based compensation (recovery of forfeitures)	**573**	(61,715)
Warranty provision recovery	**-**	(6,443)
Changes in non-cash working capital items		
Receivables	**8,838**	11,809
Prepaid expenses and deposits	**4,689**	31,591
Inventory	**-**	(282,832)
Accounts payable	**(305,135)**	(713,116)
Due to related parties	**11,615**	56,995
	(529,737)	(1,520,036)
Cash flows from financing activities		
Proceeds from private placements	**1,100,000**	-
Proceeds from loans payable	**-**	200,000
Repayments of loans payable	**(243,957)**	(14,269)
Share issue cost recovery	**(9,150)**	2,980
	846,893	188,711
Cash flows from investing activities		
Development of intellectual property	**(272,452)**	(187,938)
Purchase of property and equipment	**-**	(4,519)
	(272,452)	(192,457)
Increase (decrease) in cash and cash equivalents for the period	**44,704**	(1,523,782)
Cash and cash equivalents, beginning of period	**91,763**	1,800,131
Cash and cash equivalents, end of period	**$ 136,467**	$ 276,349

Supplemental Cash Flow (Note 18)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. CORPORATE INFORMATION

Clean Seed Capital Group Ltd. (the "Company" or "Clean Seed") was incorporated under the British Columbia *Business Corporations Act* on January 28, 2010. The Company is listed on the TSX Venture Exchange ("TSX-V"), having the symbol CSX. The Company's primary business is the production and distribution of its CX-6 SMART Seeder™ and the advancement of its SMART Seeder™ technology developed from its portfolio of intellectual property. The Company operates in one segment, the agriculture equipment industry. All of the Company's assets are in Canada. The Company is working on forming a joint venture with Norwood Sales Inc. ("Norwood") to commercialize new seeding and hybrid planting equipment for the North American market. Norwood is a US-based agricultural equipment manufacturer located in Horace, North Dakota. The Company and Norwood have not entered into a definitive joint venture agreement.

The address of the Company's registered office is Suite 2900, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1J5. The address of the Company's principal place of business is 7541 Conway Avenue, Unit 14, Burnaby, British Columbia, V5E 2P7.

2. BASIS OF PREPARATION

a) Statement of Compliance

The condensed consolidated interim financial statements of the Company for the three months ended September 30, 2019, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

These condensed consolidated interim financial statements have been prepared on the basis of and using accounting policies, methods of computation and presentation consistent with those applied in the audited annual consolidated financial statements for the year ended June 30, 2019, with the exception of IFRS 16, Leases, which was adopted effective July 1, 2019, the impact of which is disclosed in note 3.

The condensed consolidated interim financial statements do not include all the information required for full annual consolidated financial statements. On November 27, 2019, the Company's Audit Committee and its Board of Directors approved and authorized these condensed consolidated interim financial statements for issue.

b) Basis of Measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments that are stated at fair value.

The condensed consolidated interim financial statements are presented in Canadian dollars and all values are rounded to the nearest dollar, unless otherwise indicated.

c) Use of Estimates and Judgments

The preparation of these condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. 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 future periods, if the revision affects both current and future periods.

2. BASIS OF PREPARATION (continued)

c) Use of Estimates and Judgments (continued)

Judgments made by management in the application of IFRS that have a significant effect on the condensed consolidated interim financial statements, and estimates with a significant risk of material adjustment in the current and following fiscal years, are discussed in Note 4.

d) Ability to Continue as a Going Concern

These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business. The Company had been in the development stage whereby it has been advancing its intellectual property to increase its technological capability and by developing products from its intellectual property portfolio. The Company has never achieved profitable operations and did not complete any sales during the three months ended September 30, 2019. The Company is evaluating opportunities to commercialize its SMART Seeder technology and is seeking financing.

The Company's primary asset is its intellectual property portfolio. The underlying value of the intellectual property is dependent upon the Company's ability to i) generate future profitable business operations based upon that intellectual property and ii) pay its obligations arising from business operations as they come due. While these condensed consolidated interim financial statements have been prepared on the assumption that the Company is a going concern and will be able to realize its assets and meet its obligations in the normal course of operations, the following conditions and events indicate the existence of a material uncertainty that may cast significant doubt on the validity of that assumption:

- as at September 30, 2019, the Company has an accumulated deficit of $18,838,236;
- the Company has incurred a loss of $628,957 for the three months ended September 30, 2019;
- the Company has net cash flows used in operating activities of $529,737 for the three months ended September 30, 2019;
- the Company has a history of losses from operations; and
- the Company has a net working capital deficit of $4,591,552.

The Company's ability to continue as a going concern is dependent on achieving profitable operations through the sales of its product, the acquisition of profitable operations, or management's ability to raise the necessary funding through future equity issuances, debt issuances, asset sales or a combination thereof. There is no assurance that any necessary future financing will be sufficient to sustain operations until such time that the Company can generate sufficiently profitable operations to support its requirements. These condensed consolidated interim financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material. While these condensed consolidated interim financial statements have been prepared on the assumption that the Company is a going concern and will be able to realize its assets and meet its obligations in the normal course of operations, these conditions and events may cast significant doubt on the validity of that assumption.

e) Subsidiaries

In addition to the Company, the condensed consolidated interim financial statements include its subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding the majority of the voting rights. Subsidiaries are fully consolidated from the date on which the Company acquires control. They are de-consolidated from the date that control by the Company ceases.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

2. BASIS OF PREPARATION (continued)

f) Consolidation Principles

The subsidiaries of the Company are as follows:

				Portion of Ownership Interest and Voting Power Held	
Name of Subsidiary	**Principal Activity**	**Fiscal Year-End**	**Place of Incorporation and Operation**	**September 30, 2019**	**June 30, 2019**
Clean Seed Agricultural Technologies Ltd.	Agriculture Equipment	June 30	British Columbia, Canada	100%	100%
Seed Sync Systems Ltd.	Software Development	June 30	British Columbia, Canada	100%	100%

Assets, liabilities, revenues and expenses of the subsidiaries are recognized in accordance with the Company's accounting policies. Intercompany transactions are eliminated at consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A complete summary of significant accounting policies can be found in Note 3 of the audited annual consolidated financial statements for the year ended June 30, 2019.

Adoption of IFRS 16 *Leases*

On July 1, 2019, the Company adopted IFRS 16, which supersedes IAS 17 *Leases*. IFRS 16 removes the distinction between operating leases and finance leases and instead has all leases accounted for as a finance lease, which requires the recognition of a right-of-use ("ROU") asset and a lease liability on the consolidated statements of financial position at the lease commencement for all leases, subject to certain exemptions. Additionally, IFRS 16 requires the Company to recognize depreciation expense relative to the ROU assets and interest expense relative to the lease liability in the consolidated statements of comprehensive loss.

The Company determined that it had one lease accounted for as an operating lease under IAS 17, which is required to be accounted for as a finance lease under IFRS 16. This is a premises lease for the Company's on-farm facilities in Ponoka, Alberta. As a result, at July 1, 2019, the Company recognized an additional $457,465 of ROU assets on its statement of financial position with an offsetting $457,465 of lease liabilities.

<u>Accounting Policy</u>

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is a lease or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases, except for those leases that are short-term or convey the right to control the use of low value assets, are recognized as ROU assets and corresponding liabilities at the date at which a leased asset is available for use. Lease payments are allocated between finance costs, calculated using the effective interest method, and a reduction of the liability. ROU assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of IFRS 16 *Leases* (continued)

ROU assets are measured at cost, less any impairments, including:

- the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- an estimate of costs, if any, to be incurred by the Company in restoring the underlying asset to the condition required by the terms and conditions of the lease.

Liabilities arising from a lease are initially measured as the net present value of the future lease payments, including:

- fixed payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

In recording ROU assets and related liabilities at inception of a lease, lease payments are discounted using the interest rate implicit in the lease. If that implicit rate cannot be determined, an incremental borrowing rate is used, being a rate that the Company would have to pay to borrow the funds required to obtain a similar asset, adjusted for term, security, asset value and the borrower's economic environment. The carrying amount of ROU assets and lease liabilities is remeasured if there is a modification of the lease, a change in the lease term, a change in the in-substance fixed lease payments, a change in the expected amount under a residual value guarantee, or a change in the assessment to exercise a purchase, extension or termination option.

Payments for short-term leases and leases of low-value assets are expensed on a straight-line basis. Short-term leases are leases with a lease term of 12 months or less that do not contain a purchase option. Low-value assets generally comprise computers and office furniture.

<u>Method of Adoption of IFRS 16</u>

The Company adopted IFRS 16 using the modified retrospective method, which in the Company's case resulted in prospective application, as there was no impact to opening retained earnings on transition. Under this method of adoption, the Company measured the ROU asset equal to the lease liability and used the Company's incremental borrowing rate to determine the present value of future lease payments. The Company has chosen to apply the practical expedient of exempting short-term and low-value leases.

<u>Nature of Leases</u>

Major categories of assets leased by the Company are:

(i) Real estate used as office space and test facilities, which have varying terms by location; and
(ii) Computer hardware, computer software and shop tools, which are not considered low cost and have varying terms based on the nature of the asset being purchased.

The Company's lease agreements do not contain significant covenants.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of IFRS 16 *Leases* (continued)

Accounting Estimates and Judgments Applied in Leasing Activities

Judgment is required to determine:

- whether a contract or arrangement includes a lease; and
- if it is reasonably certain that an extension option will be exercised.

Estimation is used to determine:

- the lease term; and
- the appropriate rate to discount the lease payments.

Impact of Adopting IFRS 16 on the condensed consolidated interim financial statements

The following tables summarizes the impact of adopting IFRS 16 on the condensed consolidated interim financial statements:

		June 30, 2019		IFRS 16 Adoption		July 1, 2019
Property, plant and equipment						
ROU assets	$	-	$	457,465	$	457,465
Current portion of long-term debt and long-term debt						
Lease liabilities	$	-	$	457,465	$	457,465

A reconciliation of the impact from adopting IFRS 16 is as follows:

Undiscounted operating lease commitments at June 30, 2019	$	585,000
Effect of discounting using the incremental borrowing rate at July 1, 2019		(127,535)
		457,465
Finance lease liabilities at June 30, 2019		34,580
Total lease liabilities at July 1, 2019	$	492,045

Amortization of ROU assets incurred, which were classified as operating leases under IAS 17, for the three months ended September 30, 2019 was $35,190.

During the three months ended September 30, 2019, the total cash outflow related to the lease was $nil.

See Note 12 for the summary of the lease liability balance and the maturity analysis of the Company's lease liabilities as at September 30, 2019.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, in the period of the change and future periods, if the change affects both. Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustments to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below.

Capitalization and Recovery of Development Costs in Intellectual Property

The Company capitalizes development costs to intellectual property when they meet the definition of an intangible asset under IFRS. In determining whether development costs should be capitalized the Company needed to establish i) whether completion of the intangible asset is technically feasible, ii) whether the intangible asset would generate probable future economic benefits, and iii) whether there were adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. Development costs related to the SMART Seeder technology are expensed as incurred when they do not meet the criteria outlined above. During the current year, the Company has capitalized development costs, as intellectual property, related to the SMART Seeder technology when those costs were considered betterments and met the criteria for capitalization as an intangible asset.

Impairment of Intellectual Property

The Company reviews intellectual property (intangible assets) at each reporting period to determine whether there is an indication of impairment. An asset may be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the asset or fair value less cost to sell. In determining indicators of impairment of intangible assets, the Company considers external sources of information, such as prevailing economic and market conditions, including the Company's market value in comparison to its net book value. The Company also considers internal sources of information, such as the historical and expected financial performance of the intangible assets. If an indication of impairment exists, the asset's recoverable amount is estimated. If the carrying amount exceeds the recoverable amount (on a discounted basis), the asset value is written down to the recoverable amount. The Company has reviewed the recoverable amount of the intellectual property and assessed that its recoverable amount exceeds its carrying amount.

Loans Payable

During the 2017 fiscal year, the Company entered into two repayable contribution agreements (the "Loans") with different ministries of the Government of Canada. Each Loan is unsecured, bears 0% interest and allowed for multiple drawdowns throughout the Loan's eligible contribution period, which ended during the Company's 2018 fiscal year.

As each Loan bore no interest, the interest rate of each Loan is below the market rate for a commercial loan with similar terms. The initial fair value of these Loans was determined by using a discounted cash flow analysis. To determine the discounted cash flow, the Company had to determine the discount rate, representing fair market value, to apply. The discount rate selected at initial recognition has a significant impact on the amount recorded for the initial fair value of the Loans. In determining the appropriate discount rate, the Company considered the interest rates of similar long-term debt arrangements with similar terms. These Loans were issued by the Government of Canada to support innovation and economic development and requires repayments starting one year after the end of each project. One Loan has a five-year repayment term and the other Loan has a nine-year repayment term. Accordingly, finding financing arrangements with non-government arm's length parties under similar terms required judgment. Management determined there was no observable market for the Company to obtain long-term, unsecured borrowing of this nature and management was required to use significant judgment in determining the appropriate discount rate to apply in the fair value calculation of these financial instruments.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Loans Payable (continued)

Management used an average discount rate of 17% based on its analysis of:

(i) other companies receiving similar loans at early commercialization stages;
(ii) the cost of borrowing for debt instruments of comparable term for companies with a comparable investment grade to the Company; and
(iii) the Company's risk factors.

Management determined that interest rates incurred by companies with a comparable investment grade and discount rates applied by venture stage companies in comparable circumstances were within a range of 8% to 30% for unsecured term loans. Management considered discount rates in the range of 12% to 22% in ultimately determining that the average discount rate of 17% was most appropriate.

Using a discount rate of 17%, the difference between the calculated fair value and the face value liability of the financial instruments was $1,171,010. This difference of $1,171,010 reduces the original eligible expenditures proportionately recorded and will be accreted as interest over the life of the instruments. If the average discount rate used for the Loans had been determined to be higher or lower by 5% (resulting in discount rates of 22% or 12%, respectively), the calculated fair value would have been an estimated $161,962 lower or $221,827 higher. See Note 13 for additional information about the Loans.

5. CASH AND CASH EQUIVALENTS

		September 30, 2019		June 30, 2019
Cash	**$**	**113,243**	$	68,538
Redeemable guaranteed investment certificates		**23,224**		23,225
	$	**136,467**	$	91,763

6. RECEIVABLES

		September 30, 2019		June 30, 2019
Goods and Services Tax receivable and other	**$**	**74,303**	$	83,141

7. PREPAID EXPENSES AND DEPOSITS

		September 30, 2019		June 30, 2019
Legal retainer for patent applications	**$**	**19,198**	$	23,715
Other		**13,018**		13,190
	$	**32,216**	$	36,905

8. INVENTORY

The Company's inventory consists of raw materials and finished goods inventory. Raw materials consumed in the development of prototypes that meet the criteria as an intangible asset are capitalized to intellectual property. Raw materials consumed in development activities that do not meet the criteria as an intangible asset are recorded as development expense. Raw materials consumed in production of CX-6 SMART Seeders are transferred to work-in-progress and then finished goods upon completion of production. Finished goods inventory is transferred to cost of goods sold when the inventory is sold.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

8. INVENTORY (continued)

	September 30, 2019	June 30, 2019
Raw materials, opening balance	**$ -**	$ **110,165**
Purchases	**-**	**282,832**
Transferred to intellectual property	**-**	**(256,883)**
Consumed in development activities	**-**	**(136,114)**
Raw materials, ending balance	**$ -**	$ -
Inventory, ending balance	**$ -**	$ -

9. INTELLECTUAL PROPERTY

Intellectual property consists of the underlying SMART Seeder technology that encompasses the Company's portfolio of patents, patents pending, patent applications for which there are no conflicting claims and the development costs incurred to translate those patents into products, including the Company's CX-6 SMART Seeder. Costs capitalized to intellectual property include amounts related to acquisition, legal, patent, personnel, materials, components, and travel and development facilities. Recoveries of intellectual property were the proceeds received from the sale of a CX-6 SMART Seeder to a customer.

The intellectual property has a finite life based on the remaining useful life of the patents and patents pending for the underlying technology of the intellectual property. When the Company sold its first CX-6 Smart Seeders in May 2016, it made a judgment that it had entered into commercial production and began amortizing the intellectual property over the remaining life of the patents and patents pending, which was approximately 17 years from that date.

The Company's initial set of patents related to its SMART Seeder technology has advanced to the national phase and it has been issued patent, or is patent pending, in all of the countries submitted. The initial set of claims will be in effect until 2033. In October 2017, the Company received notification from the World Intellectual Property Organization (WIPO) that additional SMART Seeder technology innovation claims from its February 2017 application were assessed as innovative and free from conflicting claims or prior art. The Company has since entered the national phase of the application process by submitting patent applications to the Patent Cooperation Treaty member countries in which it wishes to obtain patent protection. If successful in obtaining the patents, it will provide patent protection for the SMART Seeder technology until 2036.

	Cost	Accumulated Amortization	Impairment	Net Book Value
Balance, June 30, 2018	**$ 10,488,082**	**$ (1,121,858)**	**$ -**	**$ 9,366,224**
Additions (note 16(c))	1,400,069	-	-	1,400,069
Recoveries	(385,000)	-	-	(385,000)
Benefit on Loan	(116,921)	-	-	(116,921)
Amortization	-	(666,537)	-	(666,537)
Balance, June 30, 2019	**11,386,230**	**(1,788,395)**	**-**	**9,597,835**
Additions (note 16(c))	312,379	-	-	312,379
Amortization	-	(180,752)	-	(180,752)
Balance, September 30, 2019	**$ 11,698,609**	**$ (1,969,147)**	**$ -**	**$ 9,729,462**

See Note 13a for discussion regarding the impact of the benefit on loans payable that reduced the cost of certain intellectual property amounts.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

10. PROPERTY AND EQUIPMENT

	Computer Equipment	Computer Software	Shop Equipment	Production Molds	Right of Use Asset	Demonstration Equipment	Other Assets	Total
Cost								
Balance, June 30, 2018	**$ 68,261**	**$ 50,109**	**$ 78,292**	**$ 95,385**	**$ -**	**$ 101,222**	**$ 38,886**	**$ 432,155**
Additions for the year	4,519	16,223	-	-	-	-	-	20,742
Write-off included in research and development expense	-	-	-	(60,236)	-	-	-	(60,236)
Balance, June 30, 2019	**72,780**	**66,332**	**78,292**	**35,149**	**-**	**101,222**	**38,886**	**392,661**
Additions for the period	-	-	-	-	457,465	-	-	457,465
Balance, September 30, 2019	**$ 72,780**	**$ 66,332**	**$ 78,292**	**$ 35,149**	**$ 457,465**	**$ 101,222**	**$ 38,886**	**$ 850,126**
Accumulated Depreciation								
Balance, June 30, 2018	**$ 39,586**	**$ 37,502**	**$ 49,107**	**$ 7,034**	**$ -**	**$ 12,653**	**$ 28,646**	**$ 174,528**
Depreciation for the year	14,799	10,621	8,756	7,975	-	22,142	-	64,293
Write-off included in research and development expense	-	-	-	(7,083)	-	-	6,027	(1,056)
Balance, June 30, 2019	**54,385**	**48,123**	**57,863**	**7,926**	**-**	**34,795**	**34,673**	**237,765**
Depreciation for the period	2,784	3,733	4,307	900	35,190	4,152	3,650	54,716
Balance, September 30, 2019	**$ 57,169**	**$ 51,856**	**$ 62,170**	**$ 8,826**	**$ 35,190**	**$ 38,947**	**$ 38,323**	**$ 292,481**
Carrying Amounts								
At June 30, 2018	**$ 28,675**	**$ 12,607**	**$ 29,185**	**$ 88,351**	**$ -**	**$ 88,569**	**$ 10,240**	**$ 257,627**
At June 30, 2019	**$ 18,395**	**$ 18,209**	**$ 20,429**	**$ 27,223**	**$ -**	**$ 66,427**	**$ 4,213**	**$ 154,896**
At September 30, 2019	**$ 15,611**	**$ 14,476**	**$ 16,122**	**$ 26,323**	**$ 422,275**	**$ 62,275**	**$ 563**	**$ 557,645**

As at September 30, 2019, other ROU assets are included in other categories of property and equipment as follows:

- $10,262 in Computer Software;
- $6,614 in Computer Hardware, and
- $11,303 in Shop Equipment

There was no additions of ROU assets during the period except as disclosed under Note 3.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

11. ACCOUNTS PAYABLE

		September 30, 2019		June 30, 2019
Product credit memo [a]	**$**	**-**	$	1,390,000
Trade payable		**889,106**		1,055,397
Personnel payable		**238,737**		232,581
Other		**1,750**		1,750
	$	**1,129,593**	$	2,679,728

[a] The Company agreed to repurchase demonstration units from its customers rather than attempt to retrofit and resell them. The obligation has been recorded at the committed repurchase price.

12. FINANCE LEASE OBLIGATIONS

The Company leases certain shop equipment, computer equipment, computer software and premises. The finance lease obligations represent the minimum lease payments payable, net of interest as indicated. The Company's finance lease obligation consists of:

		September 30, 2019		June 30, 2019
Equipment finance lease payable in monthly instalments of $844 including implicit interest at 8.28% per annum	**$**	**9,287**	$	11,819
Computer equipment finance lease payable in monthly instalments of $618 including implicit interest at 6.50% per annum		**11,740**		13,594
Computer software finance lease payable in monthly instalments of $431 including implicit interest at 9.05% per annum		**10,355**		11,649
Premises finance lease payable in monthly instalments of $15,000 including interest at the incremental borrowing rate of 16.33% per annum		**540,000**		-
		571,382		37,062
Less: Interest		**(117,228)**		(2,482)
Total Finance Lease Obligation	**$**	**454,154**	$	34,580

Minimum repayments over the next four years are as follows:

2020	$	152,043
2021		193,045
2022		181,294
2023		45,000
	$	571,382

Premises Leases

Effective October 1, 2018, the Company entered into a premises lease for an on-farm testing and development facility in Banshaw, Alberta, which provides direct access to farm land, farm equipment, buildings, storage and on-site housing. The lease is for four years and is $15,000 per month. The facility is a commercial farm that operates approximately 8,000 acres.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

13. LOANS PAYABLE

The loans payable are as follows:

	Notes		September 30, 2019		June 30, 2019
Notes payable	13a	**$**	**2,730,174**	$	1,886,567
Current portion of finance leases payable			**139,536**		34,580
Current portion of AgriInnovation repayable contribution			**178,613**		178,613
Current portion of 2017 Western Innovation Initiative repayable contribution			**79,071**		79,071
Current loans payable			**3,127,394**		2,178,831
Finance leases payable	12		**454,154**		-
Less: Current portion of finance leases payable			**(139,536)**		-
AgriInnovation repayable contribution	13b		**852,551**		864,574
Less: Current portion of AgriInnovation repayable contribution			**(178,613)**		(178,613)
2017 Western Innovation Initiative repayable contribution	13c		**274,440**		284,646
Less: Current portion of 2017 Western Innovation Initiative repayable contribution			**(79,071)**		(79,071)
2019 Western Innovation Initiative repayable contribution			**185,335**		178,457
Non-current loans payable			**1,369,260**		1,069,993
		$	**4,496,654**	$	3,248,824

a) Notes Payable

The notes payable activity is as follows:

		Principal		Accrued Interest		Notes Payable
Balance at June 30, 2018	**$**	**690,000**	**$**	**5,407**	**$**	**695,407**
Advances received		1,050,000		-		1,050,000
Interest accrued		-		185,442		185,442
Repayments		-		(44,282)		(44,282)
Balance at June 30, 2019		**1,740,000**		**146,567**		**1,886,567**
Notes issued		924,000		-		924,000
Interest accrued		-		92,007		92,007
Repayments		(150,000)		(22,400)		(172,400)
Balance at September 30, 2019	**$**	**2,514,000**	**$**	**216,174**	**$**	**2,730,174**

The notes payable at September 30, 2019 consist of eight promissory notes payable:

- On August 1, 2019, the Company restructured accounts payable of $990,000 by issuing a promissory note that matured July 31, 2019, bore an annual rate of interest of 12% payable monthly and was unsecured. In connection with issuing this note, the Company agreed to issue 1,980,000 warrants for a term of six months, exercisable at $0.50 per share. A fair value of $66,000 was allocated to the warrants. The warrants were issued on October 21, 2019.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

13. LOANS PAYABLE (continued)

a) Notes Payable (continued)

- One note payable for $1,000,000 was issued in multiple tranches, has been amended to be due November 30, 2019, is secured by a general security agreement and bears an annual rate of interest of 14% payable monthly. This note was provided by the Company's President.
- One note payable for $200,000 was issued in September 2018, has been amended to be due November 30, 2019, is secured by a general security agreement and bears an annual rate of interest of 14% payable monthly.
- One note payable for $200,000 was issued in April 2019, is due November 12, 2019, is secured by a general security agreement and bears interest of $15,000.
- One note payable for $100,000 was issued in December 2018, has been amended to be due November 30, 2019, is secured by a general security agreement and bears an annual rate of interest of 14% payable monthly.
- Three notes payable issued in March 2018 range from $25,000 to $35,000. All three notes payable have been amended to be due November 30, 2019, are secured by a general security agreement and will bear interest of 14% per annum. One of the promissory notes payable totaling $30,000 was provided by the Company's Chief Financial Officer.

b) AgriInnovation Repayable Contribution

The AgriInnovation repayable contribution activity is as follows:

	Principal	Accumulated Interest Accretion	Contribution Payable
Balance at June 30, 2018	**$ 624,624**	**$ 156,954**	**$ 781,578**
Repayments	(11,428)	(33,002)	(44,430)
Interest accretion	-	127,425	127,425
Balance at June 30, 2019	**613,196**	**251,377**	**864,573**
Repayments	(11,427)	(33,002)	(44,429)
Interest accretion	-	32,407	32,407
Balance at September 30, 2019	**$ 601,769**	**$ 250,782**	**$ 852,551**

On July 18, 2016, the Company entered into a repayable contribution agreement (the "AgriInnovation Agreement") with Her Majesty the Queen in Right of Canada as represented by the Minister of Agriculture and Agri-Food. Under the terms of the AgriInnovation Agreement, the Company can borrow up to $1,825,000 as a 50% reimbursement for spending incurred on pre-approved eligible expenditures. The eligible costs are related to commercializing the Company's CX-6 SMART Seeder and consist of personnel, production and inventory expenditures. The Company could submit claims for reimbursement on eligible amounts it incurs under the AgriInnovation Agreement on or before March 31, 2017 and had until September 30, 2017 to submit its final claim.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

13. LOANS PAYABLE (continued)

b) AgriInnovation Repayable Contribution (continued)

The Company will be obligated to repay all contributions received totaling $1,599,461 in equal monthly payments over 9 years commencing March 31, 2019. Amounts received bear a 0% interest rate and are unsecured. Any repayments that are not made in time will incur interest of prime plus 3% from the period starting the day after the payment was due until such time as the amount is paid.

Based on the amount received by the Company under the Contribution Agreement, the monthly repayment is $14,810 (June 30, 2019 - $14,810).

The Company calculated the fair value of the AgriInnovation loan using a discounted cash flow model with the following assumptions:

Discount rate	**16.45%**
Number of monthly repayments	**108**
Monthly instalment amount	**$14,810**
Monthly instalment start date	**March 31, 2019**

See Note 4 for discussion in determining the discount rate.

c) 2017 Western Innovation Initiative Repayable Contribution

The 2017 Western Innovation Initiative repayable contribution activity is as follows:

	Principal	Accumulated Interest Accretion	Contribution Payable
Balance at June 30, 2018	**$ 228,827**	**$ 32,313**	**$ 261,140**
Repayments	(9,675)	(11,577)	(21,252)
Interest accretion	-	44,758	44,758
Balance at June 30, 2019	**219,152**	**65,494**	**284,646**
Repayments	(9,675)	(11,577)	(21,252)
Interest accretion	-	11,046	11,046
Balance at September 30, 2019	**$ 209,477**	**$ 64,963**	**$ 274,440**

The Company entered into a repayable contribution agreement (the "WINN Agreement") with Her Majesty the Queen in Right of Canada as represented by Western Economic Diversification Canada. Under the terms of the WINN Agreement, the Company can borrow up to $425,000 as a 50% reimbursement for spending incurred on eligible expenditures. The eligible costs are related to preparations of the CX-6 SMART Seeder for production and activities to market and sell the CX-6 SMART Seeder. The Company could submit claims for contribution for amounts it incurs on or before March 31, 2018. During the 2018 fiscal year, the Company received the remaining balance of the available contributions.

The Company will be obligated to repay all contributions received totaling $425,000 in equal monthly payments over 5 years commencing April 1, 2019. Amounts received bear a 0% interest rate and are unsecured. Any repayments that are not made in accordance with the WINN Agreement will incur interest of prime plus 3% from the period starting the day after the payment was due until the amount is paid.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

13. LOANS PAYABLE (continued)

c) 2017 Western Innovation Initiative Repayable Contribution (continued)

Based on the amount received by the Company under the WINN Agreement, the monthly repayment is $7,083 (June 30, 2018 - $7,083).

The Company calculated the fair value of the 2017 Western Innovation loan using a discounted cash flow model with the following assumptions:

Discount rate	**17.36%**
Number of monthly repayments	**60**
Monthly instalment amount	**$7,083**
Monthly instalment start date	**April 1, 2019**

See Note 4 for discussion in determining the discount rate.

d) 2019 Western Innovation Initiative Repayable Contribution

The 2019 Western Innovation Initiative repayable contribution activity is as follows:

		Principal		Accumulated Interest Accretion		Contribution Payable
Balance at June 30, 2018	**$**	**-**	**$**	**-**	**$**	**-**
Contributions		327,558		-		327,558
Benefit on contributions		(159,672)		-		(159,672)
Interest accretion		-		10,571		10,571
Balance at June 30, 2019		**167,886**		**10,571**		**178,457**
Interest accretion		-		6,878		6,878
Balance at September 30, 2019	**$**	**167,886**	**$**	**17,749**	**$**	**185,335**

On October 9, 2018, the Company entered into a second repayable contribution agreement (the "2019 WINN Agreement") with Her Majesty the Queen in Right of Canada as represented by Western Economic Diversification Canada. Under the terms of the 2019 WINN Agreement, the Company can borrow up to $508,000 as a 50% reimbursement for spending incurred on eligible expenditures. The eligible costs are related to preparations of the SMART technology for the US planter market. The Company could submit claims for contribution for amounts it incurs on or before March 31, 2020.

The Company will be obligated to repay all contributions received totaling $327,558 in equal monthly payments over five years commencing April 1, 2021. Amounts received bear a 0% interest rate and are unsecured. Any repayments that are not made in accordance with the 2019 WINN Agreement will incur interest of prime plus 3% from the period starting the day after the payment was due until the amount is paid.

Based on the amount received by the Company under the 2019 WINN Agreement to date, the monthly repayment will be $5,552 (June 30, 2019 - $5,552).

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

13. LOANS PAYABLE (continued)

d) 2019 Western Innovation Initiative Repayable Contribution (continued)

The Company calculated the fair value of the 2019 Western Innovation loan using a discounted cash flow model with the following assumptions:

Discount rate	**16.33%**
Number of monthly repayments	**59**
Monthly instalment amount	**$5,552**
Monthly instalment start date	**April 1, 2021**

See Note 4 for discussion in determining the discount rate.

14. SHARE CAPITAL

a) Authorized

An unlimited number of common shares without par value.

b) Issued

During the three months ended September 30, 2019, the following share capital transactions occurred:

- On September 6, 2019, the Company completed a non-brokered private placement financing of 6,720,000 units of the Company at $0.25 per unit, for total gross proceeds of $1,680,000. Each unit is comprised of one common share of the Company and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to acquire one additional common share of the Company at a price of $0.50 for 12 months from the date of issue. The proceeds were allocated as $1,142,400 to share capital and $537,600 to warrants. The Company extinguished its obligation to issue shares of $280,000 though the completion of the private placement. The Company incurred share issuance costs of $9,150 associated with the financing.

During the year ended June 30, 2019, the Company received share subscriptions of $280,000 related to the private placement the Company completed in September 2019.

15. EQUITY AND RESERVES

a) Nature and Purpose of Equity and Reserves

The reserves recorded in equity on the Company's statement of financial position include "Share-based Payment Reserve" and "Accumulated Deficit".

- *Share-based Payment Reserve* is used to recognize the fair value of derivative equity instruments granted or issued by the Company.
- *Deficit* is used to record the Company's change in deficit from net income or loss and comprehensive income or loss from period to period.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

15. EQUITY AND RESERVES (continued)

b) Share-based Payment Reserve

The share-based payment reserve consists of the following amounts:

	Incentive Options	Warrants	Broker Warrants	Share-based Payment Reserve
Balance, June 30, 2018	**$ 1,820,150**	**$ 234,100**	**$ 95,697**	**$ 2,149,947**
Options granted under stock option plan	22,000	-	-	22,000
Options granted in previous periods under stock option plan	12,472	-	-	12,472
Options forfeited	(65,554)	-	-	(65,554)
Balance, June 30, 2019	**1,789,068**	**234,100**	**95,697**	**2,118,865**
Warrants issued as part of unit equity financing	-	537,600	-	537,600
Warrants issued in connection with a promissory note	-	66,000	-	66,000
Options granted in previous periods under stock option plan	573	-	-	573
Balance, September 30, 2019	**$ 1,789,641**	**$ 837,700**	**$ 95,697**	**$ 2,723,038**

The Company uses the Black-Scholes pricing model to determine the fair value of incentive options granted and compensatory broker warrants issued. This model requires 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 single measure of the fair value of the Company's share options and warrants.

(i) Incentive Share Options

The Company has a share option plan under which directors, officers, consultants and employees of the Company and its subsidiaries are eligible to receive stock options. The aggregate number of shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued shares of the Company at the time of granting the options. The maximum number of common shares optioned to any one optionee shall not exceed 5% of outstanding common shares of the Company. Options granted must not exceed ten years and typically vest on the day of grant or at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant, but shall not be less than the price permitted by the policies of the TSX-V.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

15. EQUITY AND RESERVES (continued)

b) Share-based Payment Reserve (continued)

(i) Incentive Share Options (continued)

The following table summarizes incentive share option activity for the three months ended September 30, 2019 and year ended June 30, 2019:

	Number of Options		Weighted Average Exercise Price		Share-based Payment Reserve
Balance, June 30, 2018	**4,630,100**	**$**	**0.46**	**$**	**1,820,150**
Granted	200,000	$	0.25		34,472
Cancelled	(100,000)	$	0.50		-
Forfeited	(400,000)	$	0.50		(65,554)
Expired	(375,000)	$	0.51		-
Balance, June 30, 2019	**3,955,100**	**$**	**0.44**		**1,789,068**
Granted	-	$	-		573
Expired	(50,000)	$	0.60		-
Balance, September 30, 2019	**3,905,100**	**$**	**0.44**	**$**	**1,789,641**

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted at the grant date using the following assumptions:

	September 30, 2019	June 30, 2019
Risk-free interest rate	**N/A**	1.40%
Expected life of options	**N/A**	5 Years
Annualized volatility	**N/A**	74%
Dividend rate	**N/A**	0.00%

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

15. EQUITY AND RESERVES (continued)

b) Share-based Payment Reserve (continued)

(i) Incentive Share Options (continued)

Options outstanding at September 30, 2019 and June 30, 2019 were as follows:

	September 30, 2019			**June 30, 2019**		
Expiry Date	Number of Options Outstanding		Weighted Average Exercise Price	Number of Options Outstanding		Weighted Average Exercise Price
August 1, 2019	-	$	-	50,000	$	0.60
January 28, 2020	50,000	$	0.58	50,000	$	0.58
May 19, 2020	75,000	$	0.40	75,000	$	0.40
August 20, 2020	30,000	$	0.40	30,000	$	0.40
September 17, 2020	250,000	$	0.50	250,000	$	0.50
October 13, 2020	150,000	$	0.50	150,000	$	0.50
March 21, 2021	29,000	$	0.37	29,000	$	0.37
September 28, 2021	140,000	$	0.35	140,000	$	0.35
December 21, 2021	50,000	$	0.35	50,000	$	0.35
January 25, 2022	25,000	$	0.35	25,000	$	0.35
April 13, 2022	25,000	$	0.35	25,000	$	0.35
September 1, 2022	100,000	$	0.40	100,000	$	0.40
September 5, 2022	633,500	$	0.40	633,500	$	0.40
September 29, 2022	100,000	$	0.40	100,000	$	0.40
November 3, 2022	470,000	$	0.45	470,000	$	0.45
November 20, 2022	686,100	$	0.50	686,100	$	0.50
December 14, 2022	454,000	$	0.50	454,000	$	0.50
January 4, 2023	25,000	$	0.55	25,000	$	0.55
February 9, 2023	75,000	$	0.60	75,000	$	0.60
April 18, 2023	337,500	$	0.44	337,500	$	0.44
June 26, 2024	200,000	$	0.25	200,000	$	0.25
	3,905,100	**$**	**0.44**	**3,955,100**	$	**0.44**
Weighted Average Remaining Contractual Life (years)			**2.83**			3.04
Weighted Average Fair Value of Options Granted		**$**	**Nil**		$	0.11
Weighted Average Share Price During Period		**$**	**0.17**		$	0.36

At September 30, 2019, nil (June 30, 2019 - 25,000) of the incentive stock options had not vested.

(ii) Warrants

The Company has issued share purchase warrants ("warrants") as a component of units issued in private placements and in connection with issuing promissory notes.

- The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. During the three months ended September 30, 2019, the Company issued 3,360,000 warrants in connection with a private placement of units (Note 14b). Proceeds of $537,600 were allocated to the warrants.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

15. EQUITY AND RESERVES (continued)

b) Share-based Payment Reserve (continued)

(ii) Warrants (continued)

- The proceeds for the issuance of loans payable are allocated between loans payable and warrants based on the residual value method. During the three months ended September 30, 2019, the Company committed to issue 1,980,000 warrants in connection with the issuance of a promissory note (Note 13a). Proceeds of $66,000 were allocated to the warrants. The warrants were issued on October 21, 2019.

Under the residual method, the proceeds are allocated first to share capital or loans payable based on the fair value of the common shares or loan issued, and any residual value is allocated to the warrants.

The following table summarizes warrants activity for the three months ended September 30, 2019 and year ended June 30, 2019:

	Number of Warrants		Weighted Average Exercise Price		Share-based Payment Reserve
Balance, June 30, 2018 and 2019	**1,735,000**	**$**	**0.75**	**$**	**234,100**
Issued	3,360,000	$	0.50		603,600
Expired	(1,735,000)	$	0.75		-
Balance, September 30, 2019	**3,360,000**	**$**	**0.50**	**$**	**837,700**

Warrants outstanding at September 30, 2019 and June 30, 2019 are as follows:

	September 30, 2019			**June 30, 2019**		
Expiry Date	Number of Warrants Outstanding		Exercise Price	Number of Warrants Outstanding		Exercise Price
July 4, 2019	**-**		**-**	1,735,000	$	0.75
September 5, 2019	**3,360,000**	**$**	**0.50**	-		-
	3,360,000	**$**	**0.50**	1,735,000	$	0.75
Remaining Contractual Life (years)		**$**	**0.94**		$	0.01
Weighted Average Fair Value of Options Granted		**$**	**0.16**		$	nil

(iii) Broker Warrants

The Company has issued warrants to brokers as part of their compensation for services received for private placements completed by the Company. The Company uses the Black-Scholes option pricing model to determine the fair value of warrants issued to brokers as compensation.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

15. EQUITY AND RESERVES (continued)

b) Share-based Payment Reserve (continued)

(iii) Broker Warrants (continued)

The following table summarizes warrants activity:

	Number of Broker Warrants		Weighted Average Exercise Price		Share-based Payment Reserve
Balance, June 30, 2018	**193,450**	**$**	**0.50**	**$**	**95,697**
Expired	(193,450)	$	0.50		-
Balance, June 30, 2019 and September 30, 2019	**-**	**$**	**-**		**95,697**

16. RELATED PARTY TRANSACTIONS AND BALANCES

a) Key Management Personnel

Compensation to key management, which consists of executives and management directors, for the three months ended September 30, 2019 and 2018 was as follows:

		September 30, 2019		September 30, 2018
Short-term benefits	**$**	**149,800**	$	149,800

Short-term benefits include compensation for four executives as at September 30, 2019 (September 30, 2018 - four).

b) Due to Related Parties

Amounts due to related parties as at September 30, 2019 and June 30, 2019 were as follows:

		September 30, 2019		June 30, 2019
Amounts due to companies controlled by directors and officers of the Company. These amounts are unsecured and due on demand. Amounts totaling $295,547 (June 30, 2019 - $283,351) bear interest at 8% per annum while the balance is non-interest-bearing	**$**	**425,332**	$	401,619
Amount due to a legal firm in which a director of the Company is a senior partner for legal fees. The amount is non-interest-bearing, unsecured and due on demand		**152,219**		136,540
	$	**577,551**		538,159

In addition to the above amounts due to related parties, promissory notes consisting of principal and accrued interest totaling $1,155,420 (June 30, 2019 - $1,119,074) are due to directors and officers of the Company. The terms are discussed in Note 13a.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

16. RELATED PARTY TRANSACTIONS AND BALANCES

c) Related Party Transactions

Transactions with related parties for the three months ended September 30, 2019 and 2018 were as follows:

	September 30, 2019	September 30, 2018
Legal fees from a legal firm in which a director of the Company is a senior partner included in intellectual property and research and development expense	**$ 27,540**	$ 41,097
Consulting fees from a relative of the Chief Executive Officer included within intellectual property	**$ 7,500**	$ 15,000
Interest accrued on balance owed to a company controlled by a director of the Company included within interest expense	**$ 1,945**	$ 17,448
Interest accrued on notes payable to officers of the Company	**$ 36,346**	$ 22,665

17. COMMITMENTS AND CONTINGENCIES

As at September 30, 2019	**June 30, 2020**	**June 30, 2021**	**June 30, 2022**	**June 30, 2023**	**June 30, 2024 and Beyond**	**Total**
Accounts payable	$ 1,129,593	$ -	$ -	$ -	$ -	$ 1,129,593
Due to related parties	577,551	-	-	-	-	577,551
Loans payable	3,144,935	489,074	510,634	374,340	988,424	5,507,407
	$ 4,852,079	**$ 489,074**	**$ 510,634**	**$ 374,340**	**$ 988,424**	**$ 7,214,551**

Production and Development Costs

The Company's manufacturing partner has been conducting production, development and engineering work on behalf of the Company with respect to its CX-6 SMART Seeder. Under the terms of its manufacturing agreement, the Company committed to producing 100 CX-6 SMART Seeders with its manufacturing partner. To date, the Company has produced five CX-6 SMART Seeders. The manufacturer has issued the Company invoices for approximately $955,000 related to the production of CX-6 SMART Seeders and related equipment, which the Company believes are in excess of the agreed price, are invalid due to inadequate manufacturing performance and inability of the manufacturer to meet delivery dates. Furthermore, the Company believes it is entitled to recoveries related to warranty work performed on defects incurred from the products delivered by the manufacturing partner. The Company has assessed the payment of the disputed invoices and recovery of any amounts related to the defects as unlikely and has not recorded an asset or liability related to those amounts.

Complaint

On July 16, 2019, Harvest International Inc. filed a complaint against the Company in the United States District Court for Northern District of Iowa alleging the Company failed to comply with the terms of the Confidentiality Agreement between the parties. The Company disputes this allegation and believes the complaint to be wholly without merit and intends to vigorously defend the claims alleged. No provision related to a loss contingency has been made, as any loss is not determinable or estimable at this time.

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

18. SUPPLEMENTAL CASH FLOW

	Three Months Ended September 30, **2019**	2018
Extinguishment of accounts payable through promissory note issuance	**$ 990,000**	$ -
Allocation of private placement unit to warrants	**$ 537,600**	$ -
Recognition of ROU asset in property and equipment and related liability in loan payable on adoption of IFRS 16	**$ 457,465**	$ -
Extinguishment of accounts payable through unit issuance	**$ 300,000**	$ -
Units issued to extinguish obligation to issue shares	**$ 280,000**	$ -
Interest accrued on promissory notes	**$ 92,007**	$ -
Allocation of promissory note unit to warrants	**$ 66,000**	$ -
Interest accreted on loans payable	**$ 50,331**	$ -
Intellectual property enhancements included in due to related parties	**$ 27,777**	$ 87,376
Interest paid	**$ 22,400**	$ 14,269
Share issuance costs	**$ 9,150**	$ (2,980)
Fair value of options forfeited	**$ -**	$ (65,554)
Intellectual property enhancements included in accounts payable	**$ -**	$ (131,840)

19. COMPARATIVE FIGURES

Certain immaterial 2019 figures related to finance leases have been reclassified from accounts payable to loans payable in the prior period to conform to the current period's presentation pursuant to the adoption of IFRS 16 *Leases*.

20. SUBSEQUENT EVENTS

a) The Company's Board of Directors approved to modify certain of the Company's outstanding stock options as follows:

- to extend the expiry date of 3,260,100 stock options to December 31, 2023; and
- to reduce the exercise price of 3,360,100 stock options to $0.20 subject to TSX-V and shareholder approval.

The reduction of the exercise price of the stock options was voted on and approved by disinterested shareholders at the Company's annual general and special meeting scheduled for November 21, 2019. The Company has not received TSX-V approval for the re-pricing.

b) Effective October 1, 2019, the Company entered into a three-year lease extension at a cost of approximately $5,900 per month. The Company approximates the lease extension will result in the recognition of a lease asset and lease liability of $130,000.