DEVERON CORP.

BUSINESS ACQUISITION REPORT

FORM 51-102F4

Item 1. Identity of Company

1.1 Name and Address of Company

Deveron Corp. (the "**Company**" or "**Deveron**")
82 Richmond Street East, Suite 200
Toronto, Ontario, Canada
M5C 1P1

1.2 Executive Officer

David MacMillan, President and Chief Executive Officer, is an executive officer of the Company who is knowledgeable about the significant acquisition and this Report, and can be contacted by telephone at 416-367-4571**.**

Item 2. Details of Acquisition

2.1 Nature of Business Acquired

The Company completed its previously announced acquisition of a 67% equity interest (the "**Acquisition**") in A&L Canada Laboratories East, Inc. ("**A&L**") pursuant to the terms of the share purchase agreement dated May 2, 2022 as amended on May 10, 2022 (the "**Share Purchase Agreement**"). Pursuant to the Share Purchase Agreement, the Company has an option to purchase the remaining 33% of A&L following the three year anniversary of the closing of the Acquisition, and an obligation to purchase the remaining 33% following the five year anniversary of the closing of the Acquisition. A&L will operate as a subsidiary of the Company.

A&L is one of the largest soil and tissue laboratories in Canada. Based in London, Ontario, A&L operates a 54,500 square foot laboratory with significant growth capacity and 106 employees, including a large R&D group that has produced patented, crop specific yield and disease solutions.

2.2 Date of Acquisition

The Company completed the Acquisition on May 20, 2022.

2.3 Consideration

Under the terms of the Acquisition, the total consideration paid to the vendor shareholders was comprised of: (a) $37.8 million in cash; (b) $4.9 million in promissory notes of the Company; and (c) 13,688,182 common shares ("**Common Shares**") in the capital of the Company at a deemed issue price of $0.55 per Common Share.

2.4 Effect on Financial Position

Following completion of the Acquisition, A&L became a 67%-owned subsidiary of the Company. Since the closing date of the Acquisition, A&L has operated as a separate business unit from the Company. The Company intends to continue to operate A&L to

generate cash flow for the purposes of, among other things, servicing the $28.3 million credit facility provided by Toronto-Dominion Bank to partially fund the Acquisition.

Except as otherwise publicly disclosed and in the ordinary course of business and other than in respect of changes that occurred as a result of the Acquisition, the Company does not have any current plans or proposals for material changes in its business affairs or the affairs of A&L which may have a significant effect on the results of operations and financial position of the Company.

2.5 Prior Valuations

To the knowledge of the Company there has not been any valuation opinions obtained within the last 12 months by A&L or the Company required by securities legislation or a Canadian exchange or market to support the consideration paid by the Company or any of its subsidiaries in connection with the Acquisition.

2.6 Parties to the Transaction

The Acquisition was not with an "informed person" (as such term is defined in Section 1.1 of National Instrument 51-102 – *Continuous Disclosure Obligations*), associate or affiliate of the Company.

2.7 Date of Report

August 3, 2022.

Item 3. Financial Statements

Pursuant to Part 8 of NI 51-102, the following financial statements are attached as schedules to the Business Acquisition Report and form part of this Business Acquisition Report:

a. Schedule A: Unaudited interim consolidated financial statements of A&L as at and for the six-month periods ended December 31, 2021 and 2020.
b. Schedule B: Audited consolidated financial statements of A&L as at and for the years ended June 30, 2021 and 2020.

Schedule A

Unaudited interim consolidated financial statements of A&L as at and for the six-month periods ended December 31, 2021 and 2020

(please see attached)

A & L Canada Laboratories East, Inc.

Consolidated Financial Statements

December 31, 2021

A & L Canada Laboratories East, Inc.

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A & L Canada Laboratories East, Inc.
Consolidated Balance Sheet
As at December 31, 2021

	December 31 2021 (Unaudited)	*June 30 2021*
Assets		
Current		
Cash and cash equivalents	**4,182,952**	2,247,136
Accounts receivable *(Note 4)*	**3,229,430**	2,782,851
Income taxes recoverable	**-**	86,968
Prepaid expenses	**202,885**	50,454
Research and development investment tax credit receivable	**956,678**	252,863
	8,575,145	5,420,272
Property, plant and equipment *(Note 5)*	**9,307,822**	8,825,450
Investment in a jointly controlled enterprise *(Note 6)*	**100**	100
Advances to related parties *(Note 7)*	**294,491**	275,097
Investment in significantly influenced entities *(Note 8)*	**1,657,917**	1,573,362
	19,835,475	16,094,281

Continued on next page

A & L Canada Laboratories East, Inc.
Consolidated Balance Sheet
As at December 31, 2021

	December 31 2021 (Unaudited)	*June 30 2021*
Liabilities		
Current		
Accounts payable and accrued liabilities *(Note 10)*	**1,283,917**	1,016,029
Bonus payable	**-**	358,442
HST payable	**87,964**	79,500
Deferred revenue and customer deposits	**-**	18,190
Income taxes payable	**394,868**	-
Current portion of long-term debt *(Note 11)*	**2,248,021**	2,469,981
Current portion of capital lease obligations *(Note 12)*	**317,165**	319,470
Future income taxes payable	**207,000**	207,000
	4,542,135	4,468,612
Long-term debt *(Note 11)*	**1,002,344**	1,035,496
Capital lease obligations *(Note 12)*	**893,203**	1,048,977
Future income taxes payable	**310,300**	310,300
	6,747,983	6,863,385
Subsequent events *(Note 17)*		
Commitments *(Note 18)*		
Significant event *(Note 19)*		
Shareholders' Equity		
Share capital *(Note 13)*	**640,142**	640,142
Retained earnings (deficit)	**12,819,508**	8,869,844
Non-controlling interest in subsidiary	**(372,157)**	(279,090)
	13,087,493	9,230,896
	19,835,475	16,094,281

Approved on behalf of the Board

Director

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

A & L Canada Laboratories East, Inc.
Consolidated Statement of Earnings
For the period ended December 31, 2021

	6 Months Ended December 31 2021 (Unaudited)	*6 Months Ended December 31 2020 (Unaudited)*
Sales	**16,047,293**	13,580,501
Cost of sales *(Schedule 1)*	**3,842,250**	3,034,944
Gross profit	**12,205,043**	10,545,557
Operating expenses *(Schedule 2)*	**2,625,162**	2,124,908
Administrative salaries and contracts *(Schedule 3)*	**2,085,976**	2,132,431
Occupancy expenses *(Schedule 4)*	**139,820**	149,492
Lease costs *(Schedule 5)*	**34,927**	17,483
Maintenance and repairs *(Schedule 6)*	**296,930**	548,063
	5,182,815	4,972,377
Earnings from operations	**7,022,228**	5,573,180
Other income		
Interest income	**75**	5,346
Earnings from investment in significantly influenced entity *(Note 18)*	**84,555**	-
	84,630	5,346
Earnings before income tax	**7,106,858**	5,578,526
Provision for income taxes		
Current	**1,778,020**	1,478,309
Future	**-**	-
	1,778,020	1,478,309
Net earnings	**5,328,838**	4,100,217
Net earnings (loss) attributable to:		
Parent	**5,421,905**	4,143,045
Non-controlling interest	**(93,067)**	(42,828)
	5,328,838	4,100,217

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

A & L Canada Laboratories East, Inc.
Consolidated Statement of Changes in Equity
For the period ended December 31, 2021

	Share capital	*Retained earnings*	*Non-controlling interest*	*Total shareholders' equity*
Balance July 1, 2020	**640,142**	**9,129,672**	**(216,738)**	**9,553,076**
Net income (loss) for the year	**-**	**4,143,045**	**(42,828)**	**4,100,217**
Dividends paid	**-**	**(2,199,600)**	**-**	**(3,671,840)**
Capital dividends paid	**-**	**(2,749,500)**	**-**	**(2,749,500)**
Balance December 31, 2020	**640,142**	**8,323,617**	**(259,566)**	**7,231,953**
Net income (loss) for the year	**-**	**2,018,467**	**(19,524)**	**1,998,943**
Dividends paid	**-**	**(1,472,240)**	**-**	**-**
Refundable dividend taxes paid	**-**	**(843,180)**	**-**	**(843,180)**
Refundable dividend taxes recovered	**-**	**843,180**	**-**	**843,180**
Balance June 30, 2021	**640,142**	**8,869,844**	**(279,090)**	**9,230,896**
Net income (loss)	**-**	**5,421,905**	**(93,067)**	**5,328,838**
Dividends paid	**-**	**(1,472,241)**	**-**	**(1,472,241)**
Balance December 31, 2021	**640,142**	**12,819,508**	**(372,157)**	**13,087,493**

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

A & L Canada Laboratories East, Inc.
Consolidated Statement of Cash Flows
For the period ended December 31, 2021

	6 Months Ended December 31 2021 (Unaudited)	*6 Months Ended December 31 2020 (Unaudited)*
Cash provided by (used for) the following activities		
Operating activities		
Net earnings	**5,328,838**	4,100,217
Amortization	**437,248**	409,131
Earnings from investment in significantly influenced entities	**(84,555)**	-
	5,681,531	4,509,348
Change in working capital accounts		
Accounts receivable	**(446,579)**	(1,194,892)
Research and development investment tax credit receivable	**(703,815)**	(100,151)
HST payable	**8,464**	(2,005)
Income taxes payable/recoverable	**481,836**	(220,190)
Prepaid expenses and deposits	**(152,431)**	(56,557)
Accounts payable and accrued liabilities	**267,892**	(197,797)
Bonus payable	**(358,442)**	(228,008)
Deferred revenue	**(18,190)**	-
	4,760,266	2,509,808
Financing activities		
Repayments of long-term debt	**(255,113)**	(155,022)
Repayments of capital lease obligations	**(158,079)**	(128,856)
Advancements to related parties	**(19,394)**	(60,121)
Dividends	**(1,472,241)**	(2,199,600)
Capital dividends	**-**	(2,749,500)
	(1,904,827)	(5,293,099)
Investing activities		
Change in marketable securities	**-**	58,687
Purchases of property, plant and equipment	**(919,623)**	(434,836)
	(919,623)	(276,149)
Increase (decrease) in cash	**1,935,816**	(3,059,440)
Cash, beginning of period	**2,247,136**	5,118,125
Cash, end of period	**4,182,952**	2,058,685

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

1. Incorporation and operations

A & L Canada Laboratories East, Inc., and its subsidiaries (A & L Canada Laboratories Inc. - 100%, A & L Biological Inc - 83%, A & L US Holdings Inc. - 100%, and A&L Biologicals Soil and Plant Technologies Inc - 50% (together the "Group") is a privately owned company which was incorporated under the laws of the Province of Ontario on December 21, 1984. The Group operates a laboratory which analyses samples of soils, plants, fertilizer and other natural resources. The Group's major customers include farmers, fertilizer dealers and engineering companies.

2. Significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian accounting standards for private enterprises set out in Part II of the CPA Canada Handbook - Accounting, as issued by the Accounting Standards Board in Canada and include the following significant accounting policies:

Basis of consolidation

The Group consolidates all controlled subsidiaries. As such, assets, liabilities, revenues and expenses of all subsidiaries have been consolidated and all inter company transactions and balances have been eliminated. A & L Biological Inc. is owned 83%, therefore, the non-controlling interest of this subsidiary has been disclosed separately in retained earnings.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and cash on hand, net of cheques issued and outstanding at the reporting date.

Investment in significantly influenced entity

The Group's investment in Woods End Laboratories LLC is accounted for using the equity method. Accordingly, the investment is recorded at acquisition cost and is increased for the Group’s proportionate share of post acquisition earnings and decreased by post acquisition losses and dividends received.

All transactions with the significantly influenced entity are disclosed as related party transactions.

Investment in a jointly controlled enterprise

Investments in jointly controlled enterprises are accounted for using the cost method, less any provisions for permanent impairment.

All transactions with jointly controlled enterprises are disclosed as related party transactions.

Revenue recognition

Services
The Group records revenue when testing reports are completed and ultimate collection is reasonably assured.

Research projects
Revenue from long term contracts is recognized as being earned over the life of the project. At year end, each project is evaluated as to its degree of completion based on the total cost of the project and the amount of costs that have been incurred. This estimate is applied to the total expected revenue. The revenue is recorded when there is persuasive evidence that a contract exists, the total contract price has been fixed and ultimate collection is reasonably assured.

Government assistance

Government assistance, including investment tax credits, related to current expenses and revenues, is included in the determination of net earnings for the period when there is reasonable assurance of collection.

2. Significant accounting policies *(Continued from previous page)*

Income taxes

The Group accounts for income taxes using the future income taxes method. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost. Amortization is provided using the declining balance method at rates intended to amortize the cost of assets over their estimated useful lives.

	Method	***Rate***
Buildings	declining balance	4 %
Paving	declining balance	8 %
Laboratory equipment	declining balance	10-20 %
Computer equipment	declining balance	30-45 %
Computer software	declining balance	10-30 %
Motor vehicles	declining balance	30 %
Office equipment	declining balance	20 %
Assets under capital lease	declining balance	20 %

Property, plant and equipment acquired during the period but not placed into use during this time are not amortized in the period of acquisition.

Long-lived assets

Long-lived assets consist of property, plant and equipment. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Group performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted future cash flows from its use and disposal. If the carrying amount is not recoverable, impairment is then measured as the amount by which the asset's carrying amount exceeds its fair value. Fair value is measured using prices for similar items. Any impairment is included in net earnings (loss) for the period.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they became known. Accounts specifically affected by estimates in these financial statements are the allowance for doubtful accounts. Actual results could differ from those estimates.

Foreign currency translation

Monetary assets and liabilities are translated at the rate of exchange in effect at year end. Items appearing in the consolidated statement of earnings are translated at the monthly average rate of the month in which the transaction occurred. Exchange gains and losses are included in earnings.

2. Significant accounting policies *(Continued from previous page)*

Financial instruments

The Group initially recognizes its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument. Amounts due to and from related parties are measured at the exchange amount, being the amount agreed upon by the related parties.

The Group subsequently measures its financial assets and financial liabilities at amortized cost, except for derivatives and equity securities quoted in an active market, which are subsequently measured at fair value. Changes in fair value are recognized in net earnings.

Financial assets measured at amortized cost include cash and cash equivalents, accounts receivable, investments and advances to related parties.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, government remittances payable, and bonuses payable.

Financial asset impairment:

The Group assesses impairment of all its financial assets measured at cost or amortized cost. The Group groups assets for impairment testing when there are numerous assets affected by the same factors. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. When there is an indication of impairment, the Group determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the period. If so, the Group reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets; and the amount expected to be realized by exercising any rights to collateral held against those assets. Any impairment, which is not considered temporary, is included in current period net earnings.

The Group reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in net earnings in the period the reversal occurs.

Research and development costs

The Group incurs costs on activities that relate to the research and development of new and existing products. Costs are expensed as they are incurred. Investment tax credits related to the expenditures are accrued as an offset to research and development expense when there is reasonable assurance that the credits will be realized. Investment tax credits are recoverable from the Government of Canada under the Scientific Research and Experimental Development Incentive Programs and are subject to government approval. Investment tax credits of $400,000 (2020 - $325,000) was included in operations for the period.

3. Income taxes

As at December 31, 2021, the Group had the following losses and deductions available to reduce future years' income for tax purposes. These losses expire as follows:

		December 31 2021 (Unaudited)	*June 30 2021*
Non-capital loss carryforwards available until:			
	2031	**83,355**	83,355
	2032	**45,193**	45,193
	2033	**78,771**	78,771
	2034	**215,981**	215,981
	2035	**174,607**	174,607
	2037	**257,960**	257,960
	2038	**27,216**	27,216
	2040	**2,736**	2,736
	2041	**218,866**	218,866
		1,104,685	1,104,685
Research and development investment tax credit carryforwards available until:			
	2037	**108,811**	108,650
	2038	**66,738**	66,738
	2039	**25,438**	25,438
	2040	**24,023**	24,023
	2041	**27,853**	27,853
		252,863	252,863
		1,357,548	1,357,548

4. Accounts receivable

	December 31 2021 (Unaudited)	*June 30 2021*
Trade receivables	**3,292,298**	2,787,615
Accounts receivable from employees	**1,100**	2,500
Other receivables	**-**	56,704
	3,293,398	2,846,819
Allowance for doubtful accounts	**(63,968)**	(63,968)
	3,229,430	2,782,851

5. Property, plant and equipment

			December 31 2021 (Unaudited)	*June 30 2021*
	Cost	***Accumulated amortization***	***Net book value***	*Net book value*
Land	**354,032**	**-**	**354,032**	354,032
Buildings	**5,272,886**	**1,278,276**	**3,994,610**	3,789,883
Automotive	**851,710**	**461,810**	**389,900**	289,082
Computer equipment	**261,681**	**255,850**	**5,831**	423
Computer software	**219,467**	**149,580**	**69,887**	68,952
Equipment	**5,964,636**	**2,660,850**	**3,303,786**	3,002,618
Office equipment	**257,750**	**216,865**	**40,885**	45,429
Paving and landscaping	**50,891**	**29,069**	**21,822**	22,732
	13,233,053	**5,052,300**	**8,180,753**	7,573,151
Equipment under capital lease	**1,888,761**	**761,692**	**1,127,069**	1,252,299
	15,121,814	**5,813,992**	**9,307,822**	8,825,450

During the period, property, plant and equipment were acquired at an aggregate cost of $919,623 (2020 - $616,380), of which $Nil (2020 - $210,767) was acquired by means of capital leases and $919,623 (2020 - $405,613) was acquired in cash.

6. Investment in a jointly controlled enterprise

The investments of the Group are reflected at cost as follows:

	December 31 2021 (Unaudited)	*June 30 2021*
Aero Insights Inc. - 50% ownership	**100**	100

7. Advances to related parties

	December 31 2021 (Unaudited)	*June 30 2021*
Aero Insights Inc. - subsidiary - 50%	**228,632**	228,632
Alink Computer Solutions Inc. - related by common ownership	**65,859**	46,465
	294,491	275,097

Advances from related parties are non-interest bearing, due on demand, and are secured by a general security agreement covering all Group assets.

8. Investment in significantly influenced entity

The Group holds the following significantly influenced investments:

		December 31 2021 (Unaudited)	*June 30 2021*
	% Ownership		
Woods End Laboratories LLC	**49.0%**	**1,657,917**	1,573,362

In the prior year, the Group acquired a 49% interest in the assets of Woods End Laboratories LLC for $1,102,500 USD. The Group recognized their portion of the subsidiary's net income, as such, $94,458 was added to the carrying value of the investment for the year ended June 30, 2021 and $84,555 for the six months ending December 31, 2021.

9. Bank indebtedness

The Group has one revolving line of credit in the amount of $2,000,000 with Royal Bank of Canada. The line of credit bears interest at prime plus 1.00% per annum and is due on demand.

The Group's credit facilities are secured by a general security agreement covering all Group assets and a guarantee and postponement of claim in the amount of $1,000,000 signed by the parent company, A & L Canada Laboratories East, Inc. as well as a guarantee and postponement of claim in the amount of $2,050,000 signed by the parent corporation, A & L Canada Laboratories East, Inc., supported by:

i. a general security agreement covering all personal property of A & L Canada Laboratories East, Inc.;
ii. a collateral mortgage of $3,550,000 on land and improvements located at 2136-2140 Jetstream Road, London, Ontario;
iii. a collateral mortgage of $875,000 on land and improvements located at 2135 Jetstream Road, London, Ontario;
iv. a collateral mortgage of $700,000 on land and improvements located at 680 Industrial Road, London, Ontario.

10. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include $71,650 (2021 - $69,135) due to Alink Computer Solutions Inc.

Accounts payable and accrued liabilities include $1,899 (2021 - $28,929) in government remittances payable.

11. Long-term debt

	December 31 2021 (Unaudited)	*June 30 2021*
Term loan bearing interest at 4.66% per annum, due August 3, 2022, repayable $2,066 principal plus interest monthly	**191,706**	204,173
Term loan bearing interest at Prime + 1.25% per annum, due May 30, 2022, repayable $6,042 principal plus interest monthly	**972,682**	1,008,934
Term loan bearing interest at 3.75% per annum, due October 1, 2024, repayable $2,905 combined principal and interest monthly	**451,178**	460,022
Term loan bearing interest at Prime + 1.30% per annum, due July 30, 2022, repayable $1,917 principal plus interest monthly	**425,494**	436,996
Term loan bearing interest at Prime + 0.50% per annum, due March 30, 2022, repayable $31,008 principal plus interest monthly	**1,209,305**	1,395,352
	3,250,365	3,505,477
Less: current portion of long-term debt	**2,248,021**	2,469,981
	1,002,344	1,035,496

Principal repayments on long-term debt in each of the next four years, assuming long-term debt subject to refinancing is renewed and all term debt is subject to contractual terms of repayment, are estimated as follows:

2022	2,248,021
2023	588,722
2024	16,334
2025	397,288
	3,250,365

The Group has provided the following security:

- general security agreement covering all personal property of A & L Canada Laboratories East, Inc.
- chattel mortgage on 2007 Chevrolet Silverado and financed equipment;
- collateral mortgage of $700,000 on land and improvements at 680 Industrial Road, London, Ontario;
- collateral mortgage of $875,000 on land and improvements at 2135 Jetstream Road,London, Ontario ;
- collateral mortgage of $3,550,000 on land and improvements at 2136-2140 Jetstream Road, London, Ontario;
- assignment of rents arising from land and improvements at 2136-2140 Jetstream Road, London, Ontario;
- guarantee and postponement of claim of $6,210,000 signed by A & L Canada Laboratories lnc.;
- guarantee and postponement of claim of $1,488,375 signed by Gregory G. Patterson and Nevin McDougal

The carrying value of the pledged real property and financed equipment is $5,395,000.

The Group has obtained a new facility totaling $2,500,000. At December 31, 2021, this facility was not drawn upon.

The Group must maintain certain financial covenants for the above noted debt. At December 31, 2021 the Group was in compliance with the covenants.

12. Capital lease obligations

	December 31 2021 (Unaudited)	*June 30 2021*
Obligations under a capital lease for laboratory equipment with interest at rates ranging from 3.54% to 4.89%, maturing between May 2021 and June 2025	**1,210,368**	1,368,447
Less: current portion	**317,165**	319,470
	893,203	1,048,977

Future minimum lease payments related to the obligation under capital lease are as follows:

2022	185,021
2023	352,223
2024	352,223
2025	390,200
2026	27,056
	1,306,723
Less: interest	(96,355)
	1,210,368

The carrying value of the assets under capital lease is $1,127,069 (June 30, 2021 - $ 1,252,299).

13. Share capital

Authorized, unlimited number

Class A-H common shares

Non-voting Class AA-LL common shares

Non-voting Class B special shares, non-cumulative, redeemable and retractable at their fair market value of consideration received at the time of issue

13. Share capital *(Continued from previous page)*

		December 31 2021 (Unaudited)	*June 30 2021*
Issued			
Common shares			
600,000	Class A voting	**82,641**	82,641
422,000	Class B voting	**58,107**	58,107
100,000	Class C voting	**423,510**	423,510
100,000	Class D voting	**13,772**	13,772
100,000	Class E voting	**13,772**	13,772
328,000	Class F voting	**45,172**	45,172
17,933	Class G voting	**2,470**	2,470
1,000	Class AA non-voting	**138**	138
1,115	Class BB non-voting	**153**	153
1,000	Class CC non-voting	**138**	138
1,952	Class DD non-voting	**269**	269
		640,142	640,142

14. Related party transactions

During the period, the Group provided for the related parties payroll; charge backs and to Alink Computer Solutions lnc. were $360,067 (2020 - $372,823).

During the period, the Group paid $474,833 (2020 –$408,535) for services from Alink Computer Solutions lnc.

These transactions were conducted in the normal course of business and were accounted for at the exchange amount. The exchange amount is the amount of consideration established and agreed to by the related parties.

15. Financial instruments

The Group, as part of its operations, carries a number of financial instruments. It is management's opinion that the Group is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

Credit concentration

The Group's financial instruments that are exposed to concentration of credit risk consist primarily of accounts receivable. The Group believes that its accounts receivable credit risk is limited because it has a broad range of customers and 89% (2021 - 89%) of accounts receivable are less than 60 days old. The Group has evaluation and monitoring processes in place and writes off accounts when they are determined to be uncollectable. There has been no change in this risk exposure from 2021.

Foreign currency risk

The Group is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Group purchases supplies and makes sales denominated in US dollars. During the period, the Group made $469,446 CAD (2020 - $317,604) of purchases and $106,414 CAD (2020 $148,808) of sales in US dollars converted into Canadian dollars.

15. Financial instruments *(Continued from previous page)*

Foreign currency risk continued

As of December 31, 2021, cash of $73,230 (2021 - $12,909), accounts receivable of $37,089 (2020 $77,298) and accounts payable of $55,347 (2020 $24,870) are in U.S. dollar amounts converted into Canadian dollars. The settlement of these amounts is in the short-term, accordingly, the exposure to fluctuations is generally less then 60 days. The Group does not hedge the risk related to fluctuations in the exchange rate between the U.S. and Canadian dollar. As the Canadian dollar has remained constant during the period, the risk exposure has remained unchanged for sales and purchases. There has been no change in this risk exposure from 2021.

Interest rate risk

Components of the Group's indebtedness bears interest at a floating rate which exposes the Group to interest rate risk. Should the base rate of interest increase in the future, the Group's required interest payments will also increase. There has been no change in this risk exposure from 2021.

Liquidity risk

Liquidity risk is the risk the Group may not be able to meet its obligations. The Group monitors its cash balances and cash flows generated from operations to meet its requirements. As at December 31, 2021, the most significant financial liabilities are accounts payable and accrued liabilities, bonuses payable, and income tax payable. There has been no change in this risk exposure during 2021.

16. Pension plan

The Group has an optional deferred profit-sharing plan (DPSP) for its employees. Employees can opt in and contribute to their registered retirement savings plan (RRSP) and the Group will match their contribution. The maximum the Group will contribute is 2% of full time employees' wages. The cash payments made by the Group to this plan were $70,017 (2020 - $64,548).

17. Commitments

The Group has entered into various lease agreements with estimated minimum annual payments as follows:

2022	34,207
2023	24,670
2024	10,331
	110,409

18. Significant event

During the fiscal period, the Group’s operations have been affected by the COVID-19 pandemic through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Group as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

A & L Canada Laboratories East, Inc.
Schedule 1 - Consolidated Schedule of Cost of Sales
For the period ended December 31, 2021

	6 Months Ended December 31 2021 (Unaudited)	*6 Months Ended December 31 2020 (Unaudited)*
Cost of sales		
Laboratory salaries and employee benefits	**1,645,893**	1,287,821
Laboratory and sampling supplies	**1,237,077**	994,812
Courier and shipping costs	**703,187**	548,685
Credit card fees	**95,450**	76,958
Outside services	**113,248**	71,079
Sales commissions	**47,394**	55,589
	3,842,250	3,034,944

A & L Canada Laboratories East, Inc.
Schedule 2 - Consolidated Schedule of Operating Expenses
For the period ended December 31, 2021

	6 Months Ended December 31 2021 (Unaudited)	*6 Months Ended December 31 2020 (Unaudited)*
Operating expenses		
Amortization	**437,248**	409,131
Software development	**418,475**	332,035
Salaries, wages and benefits	**442,419**	378,662
Professional fees	**230,265**	200,275
Office supplies	**301,242**	125,840
Advertising and promotion	**152,792**	82,465
Insurance	**133,799**	127,320
Office and computer services	**139,215**	69,841
Research and development	**57,300**	-
Interest on long-term debt	**59,232**	70,309
Bad debts	**(976)**	108,195
Travel	**87,622**	93,658
Telephone	**27,441**	17,273
Interest and bank charges	**14,984**	15,990
Accreditation fees	**2,045**	11,884
Professional development	**55,172**	34,222
Sub-contracts	**36,627**	43,241
Repairs and maintenance	**3,777**	2,649
Rental	**12,133**	418
Rent	**14,350**	1,500
	2,625,162	2,124,908

A & L Canada Laboratories East, Inc.

Schedule 3 - Consolidated Schedule of Administrative Salaries and Contracts

For the period ended December 31, 2021

	6 Months Ended December 31 2021 (Unaudited)	*6 Months Ended December 31 2020 (Unaudited)*
Administrative salaries and contracts		
Management	**589,485**	697,750
Eastern Canada	**621,616**	514,758
Employee benefits	**477,256**	363,301
Office	**176,030**	364,185
Western Canada	**156,788**	127,636
Contract labour	**64,800**	64,800
	2,085,976	2,132,431

A & L Canada Laboratories East, Inc.
Schedule 4 - Consolidated Schedule of Occupancy Expenses
For the period ended December 31, 2021

	6 Months Ended December 31 2021 (Unaudited)	*6 Months Ended December 31 2020 (Unaudited)*
Occupancy expenses		
Hydro	**96,690**	90,417
Property taxes	**35,760**	55,172
Natural gas	**5,664**	2,942
Water treatment	**1,706**	-
	139,820	149,492

A & L Canada Laboratories East, Inc.
Schedule 5 - Consolidated Schedule of Lease Costs
For the period ended December 31, 2021

	6 Months Ended December 31 2021 (Unaudited)	*6 Months Ended December 31 2020 (Unaudited)*
Lease costs		
Laboratory equipment	**30,127**	12,682
Office equipment	**4,799**	4,801
	34,927	17,483

A & L Canada Laboratories East, Inc.
Schedule 6 - Consolidated Schedule of Maintenance and Repairs
For the period ended December 31, 2021

	6 Months Ended December 31 2021 (Unaudited)	*6 Months Ended December 31 2020 (Unaudited)*
Maintenance and repairs		
Buildings and grounds	**106,745**	372,681
Laboratory equipment	**121,515**	123,943
Waste disposal	**43,957**	30,741
Vehicles	**24,583**	20,698
	296,930	548,063

Schedule B

Audited consolidated financial statements of A&L as at and for the years ended June 30, 2021 and 2020

(please see attached)

A & L Canada Laboratories East, Inc.
Consolidated Financial Statements
June 30, 2021

A & L Canada Laboratories East, Inc.

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Independent Auditor's Report

To the Shareholders of A & L Canada Laboratories East, Inc.:

Opinion

We have audited the consolidated financial statements of A & L Canada Laboratories East, Inc. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at June 30, 2021, and the consolidated statements of earnings, 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 consolidated financial position of the Group as at June 30, 2021, and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

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 the Group 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.

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 Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 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 the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

MNP LLP

London, Ontario

Chartered Professional Accountants

March 24, 2022

Licensed Public Accountants

MNP

A & L Canada Laboratories East, Inc.
Consolidated Balance Sheet
As at June 30, 2021

	2021	*2020*
Assets		
Current		
Cash and cash equivalents *(Note 4)*	**2,247,136**	5,118,125
Marketable securities *(Note 5)*	**-**	158,687
Accounts receivable *(Note 6)*	**2,782,851**	2,670,075
Income taxes recoverable	**86,968**	-
Prepaid expenses	**50,454**	38,099
Research and development investment tax credit receivable	**252,863**	224,849
	5,420,272	8,209,835
Property, plant and equipment *(Note 7)*	**8,825,450**	7,594,145
Investment in a jointly controlled enterprise *(Note 8)*	**100**	100
Advances to related parties *(Note 9)*	**275,097**	278,865
Investment in significantly influenced entities *(Note 10)*	**1,573,362**	-
	16,094,281	16,082,945

Continued on next page

A & L Canada Laboratories East, Inc.
Consolidated Balance Sheet
As at June 30, 2021

	2021	*2020*
Liabilities		
Current		
Accounts payable and accrued liabilities *(Note 12)*	**1,016,029**	954,771
Bonus payable	**358,442**	228,008
HST payable	**79,500**	62,570
Income taxes payable	**-**	1,170,620
Deferred revenue and customer deposits	**18,190**	-
Current portion of long-term debt *(Note 13)*	**2,469,981**	1,358,422
Current portion of capital lease obligations *(Note 14)*	**319,470**	254,484
Future income taxes payable	**207,000**	167,500
	4,468,612	4,196,375
Long-term debt *(Note 13)*	**1,035,496**	1,121,703
Capital lease obligations *(Note 14)*	**1,048,977**	1,026,491
Future income taxes payable	**310,300**	185,300
	6,863,385	6,529,869
Subsequent events *(Note 19)*		
Commitments *(Note 20)*		
Significant event *(Note 21)*		
Shareholders' Equity		
Share capital *(Note 15)*	**640,142**	640,142
Retained earnings	**8,869,844**	9,129,672
Non-controlling interest in subsidiary	**(279,090)**	(216,738)
	9,230,896	9,553,076
	16,094,281	16,082,945

Approved on behalf of the Board

Director

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

A & L Canada Laboratories East, Inc.
Consolidated Statement of Earnings
For the year ended June 30, 2021

	2021	*2020*
Sales	**24,245,609**	22,666,879
Cost of sales *(Schedule 1)*	**5,470,968**	3,954,931
Gross profit	**18,774,641**	18,711,948
Operating expenses *(Schedule 2)*	**4,074,306**	4,072,668
Administrative salaries and contracts *(Schedule 3)*	**4,217,027**	4,337,962
Occupancy expenses *(Schedule 4)*	**261,680**	193,799
Lease costs *(Schedule 5)*	**137,465**	111,727
Maintenance and repairs *(Schedule 6)*	**1,071,636**	763,861
	9,762,114	9,480,017
Earnings from operations	**9,012,527**	9,231,931
Other income (expense)		
Grant revenue	**7,500**	-
Foreign exchange gain (loss)	**4,975**	(30,590)
Interest income	**3,801**	33,319
Dividend income	**-**	31,999
Earnings from investment in significantly influenced entity *(Note 10)*	**94,458**	-
Loss on disposal of assets	**(3,906)**	(5,834)
	106,828	28,894
Earnings before income tax	**9,119,355**	9,260,825
Provision for income taxes		
Current	**2,855,695**	2,395,843
Future	**164,500**	132,800
	3,020,195	2,528,643
Net earnings	**6,099,160**	6,732,182
Net earnings attributable to:		
Parent	**6,161,512**	6,784,948
Non-controlling interest	**(62,352)**	(52,766)
	6,099,160	6,732,182

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

A & L Canada Laboratories East, Inc.
Consolidated Statement of Changes in Equity
For the year ended June 30, 2021

	Share capital	*Retained earnings*	*Non-controlling interest*	*Total shareholders' equity*
Balance July 1, 2019	**290,587**	**7,000,449**	**(163,972)**	**7,127,064**
Net income (loss) for the year	**-**	**6,784,948**	**(52,766)**	**6,732,182**
Issue of share capital	**640,142**	**-**	**-**	**640,142**
Share redemptions	**(290,587)**	**(4,655,725)**	**-**	**(4,946,312)**
Balance June 30, 2020	**640,142**	**9,129,672**	**(216,738)**	**9,553,076**
Net income (loss)	**-**	**6,161,512**	**(62,352)**	**6,099,160**
Dividends paid	**-**	**(3,671,840)**	**-**	**(3,671,840)**
Capital dividends paid	**-**	**(2,749,500)**	**-**	**(2,749,500)**
Refundable dividend taxes paid	**-**	**(843,180)**	**-**	**(843,180)**
Refundable dividend taxes recovered	**-**	**843,180**	**-**	**843,180**
Balance June 30, 2021	**640,142**	**8,869,844**	**(279,090)**	**9,230,896**

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

A & L Canada Laboratories East, Inc.
Consolidated Statement of Cash Flows
For the year ended June 30, 2021

	2021	*2020*
Cash provided by (used for) the following activities		
Operating activities		
Net earnings	**6,099,160**	6,732,182
Amortization	**818,266**	616,230
Future income taxes	**164,500**	132,800
Loss on disposal of property, plant and equipment	**3,906**	5,834
Earnings from investment in significantly influence entities	**(94,458)**	-
	6,991,374	7,487,046
Change in working capital accounts		
Accounts receivable	**(112,776)**	86,054
HST payable	**16,930**	(79,463)
Income taxes payable	**(1,285,602)**	1,148,169
Prepaid expenses and deposits	**(12,355)**	17,112
Accounts payable and accrued liabilities	**61,255**	29,530
Bonus payable	**130,434**	(54,492)
Deferred revenue	**18,190**	-
	5,807,450	8,633,956
Financing activities		
Advances of long-term debt	**1,488,375**	1,000,000
Repayments of long-term debt	**(463,023)**	(285,744)
Issue of common shares	**-**	474,034
Repayments of capital lease obligations	**(285,082)**	(130,104)
Repayment from related parties	**726,899**	434,296
Advances to related parties	**(723,130)**	(578,857)
Refundable dividend taxes paid on dividend income received	**(843,180)**	-
Refundable dividend taxes recoverable on payment of dividends in the year	**843,180**	-
Dividends	**(3,671,840)**	-
Capital dividends	**(2,749,500)**	-
Share redemptions	**-**	(4,616,133)
	(5,677,301)	(3,702,508)
Investing activities		
Change in marketable securities	**158,687**	(2,152)
Purchases of property, plant and equipment	**(1,690,570)**	(2,309,060)
Purchase of investments	**(1,478,904)**	-
Proceeds on disposal of investments	**-**	100
Proceeds on disposal of property, plant and equipment	**9,649**	8,200
	(3,001,138)	(2,302,912)
Increase (decrease) in cash	**(2,870,989)**	2,628,536
Cash, beginning of year	**5,118,125**	2,489,589
Cash, end of year	**2,247,136**	5,118,125

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

1. Incorporation and operations

A & L Canada Laboratories East, Inc., and its subsidiaries (A & L Canada Laboratories Inc. - 100%, A & L Biological Inc - 83%, and A & L US Holdings Inc. - 100%, (together the "Group") is a privately owned company which was incorporated under the laws of the Province of Ontario on December 21, 1984. The Group operates a laboratory which analyses samples of soils, plants, fertilizer and other natural resources. The Group's major customers include farmers, fertilizer dealers and engineering companies.

2. Significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian accounting standards for private enterprises set out in Part II of the CPA Canada Handbook - Accounting, as issued by the Accounting Standards Board in Canada and include the following significant accounting policies:

Basis of consolidation

The Group consolidates all controlled subsidiaries. As such, assets, liabilities, revenues and expenses of all subsidiaries have been consolidated and all inter company transactions and balances have been eliminated. A & L Biological Inc. is owned 83%, therefore, the Non Controlling Interest of this subsidiary has been disclosed separately in retained earnings.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and cash on hand, net of cheques issued and outstanding at the reporting date.

Investment in significantly influenced entity

The Group's investment in Woods End Laboratories LLC is accounted for using the equity method. Accordingly, the investment is recorded at acquisition cost and is increased for the Group’s proportionate share of post acquisition earnings and decreased by post acquisition losses and dividends received.

All transactions with the significantly influenced entity are disclosed as related party transactions.

Investment in a jointly controlled enterprise

Investments in jointly controlled enterprises are accounted for using the cost method, less any provisions for permanent impairment.

All transactions with jointly controlled enterprises are disclosed as related party transactions.

Revenue recognition

Services
The Group records revenue when testing reports are completed and ultimate collection is reasonably assured.

Research projects
Revenue from long term contracts is recognized as being earned over the life of the project. At year end, each project is evaluated as to its degree of completion based on the total cost of the project and the amount of costs that have been incurred. This estimate is applied to the total expected revenue. The revenue is recorded when there is persuasive evidence that a contract exists, the total contract price has been fixed and ultimate collection is reasonably assured.

Government assistance

Government assistance, including investment tax credits, related to current expenses and revenues, is included in the determination of net earnings for the period when there is reasonable assurance of collection.

2. Significant accounting policies *(Continued from previous page)*

Income taxes

The Group accounts for income taxes using the future income taxes method. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost. Amortization is provided using the declining balance method at rates intended to amortize the cost of assets over their estimated useful lives.

	Method	***Rate***
Buildings	declining balance	4 %
Paving	declining balance	8 %
Laboratory equipment	declining balance	10-20 %
Computer equipment	declining balance	30-45 %
Computer software	declining balance	10-30 %
Motor vehicles	declining balance	30 %
Office equipment	declining balance	20 %
Assets under capital lease	declining balance	20 %

Property, plant and equipment acquired during the year but not placed into use during this time are not amortized in the year of acquisition.

Long-lived assets

Long-lived assets consist of property, plant and equipment. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Group performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted future cash flows from its use and disposal. If the carrying amount is not recoverable, impairment is then measured as the amount by which the asset's carrying amount exceeds its fair value. Fair value is measured using prices for similar items. Any impairment is included in net earnings for the year.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the year. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they became known. Accounts specifically affected by estimates in these financial statements are the allowance for doubtful accounts. Actual results could differ from those estimates.

Foreign currency translation

Monetary assets and liabilities are translated at the rate of exchange in effect at year end. Items appearing in the consolidated statement of earnings are translated at the monthly average rate of the month in which the transaction occurred. Exchange gains and losses are included in earnings.

2. Significant accounting policies *(Continued from previous page)*

Financial instruments

The Group initially recognizes its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument. Amounts due to and from related parties are measured at the exchange amount, being the amount agreed upon by the related parties.

The Group subsequently measures its financial assets and financial liabilities at amortized cost, except for derivatives and equity securities quoted in an active market, which are subsequently measured at fair value. Changes in fair value are recognized in net earnings.

Financial assets measured at amortized cost include cash and cash equivalents, accounts receivable, investments and advances to related parties.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, government remittances payable, and bonuses payable.

Financial asset impairment:

The Group assesses impairment of all its financial assets measured at cost or amortized cost. The Group groups assets for impairment testing when there are numerous assets affected by the same factors. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. When there is an indication of impairment, the Group determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, the Group reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets; and the amount expected to be realized by exercising any rights to collateral held against those assets. Any impairment, which is not considered temporary, is included in current year net earnings.

The Group reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in net earnings in the year the reversal occurs.

Research and development costs

The Group incurs costs on activities that relate to the research and development of new and existing products. Costs are expensed as they are incurred. Investment tax credits related to the expenditures are accrued as an offset to research and development expense when there is reasonable assurance that the credits will be realized. Investment tax credits are recoverable from the Government of Canada under the Scientific Research and Experimental Development Incentive Programs and are subject to government approval. Investment tax credits of $1,026,003 (2020 - $826,825) was included in operations for the year.

3. Income taxes

As at June 30, 2021, the Group had the following losses and deductions available to reduce future years' income for tax purposes. These losses expire as follows:

		2021	*2020*
Non-capital loss carryforwards available until:			
	2031	**83,355**	83,355
	2032	**45,193**	45,193
	2033	**78,771**	78,771
	2034	**215,981**	215,981
	2035	**174,607**	174,607
	2037	**257,960**	257,960
	2038	**27,216**	27,216
	2040	**2,736**	3,397
	2041	**218,866**	-
		1,104,685	886,480
Research and development investment tax credit carryforwards available until:			
	2037	**108,811**	108,650
	2038	**66,738**	66,738
	2039	**25,438**	25,438
	2040	**24,023**	24,023
	2041	**27,853**	-
		252,863	224,849
		1,357,548	1,111,329

4. Cash and cash equivalents

	2021	*2020*
Cash on hand	**2,247,136**	3,618,125
Cashable GICs with interest rate of 1.00% per annum matured July 2020 and March 2021	**-**	1,500,000
	2,247,136	5,118,125

5. Marketable securities

	2021	*2020*
Money market funds	**-**	158,687

6. Accounts receivable

	2021	*2020*
Trade receivables	**2,787,615**	2,699,140
Accounts receivable from employees	**2,500**	10,935
Other receivables	**56,704**	-
	2,846,819	2,710,075
Allowance for doubtful accounts	**(63,968)**	(40,000)
	2,782,851	2,670,075

7. Property, plant and equipment

	Cost	***Accumulated amortization***	***2021 Net book value***	*2020 Net book value*
Land	**354,032**	**-**	**354,032**	354,032
Buildings	**4,989,528**	**1,199,645**	**3,789,883**	3,830,243
Automotive	**695,839**	**406,757**	**289,082**	277,245
Computer equipment	**255,731**	**255,308**	**423**	771
Computer software	**207,894**	**138,942**	**68,952**	73,116
Equipment	**5,501,766**	**2,499,148**	**3,002,618**	1,770,257
Office equipment	**257,751**	**212,322**	**45,429**	42,871
Paving and landscaping	**50,891**	**28,159**	**22,732**	24,708
	12,313,432	**4,740,281**	**7,573,151**	6,373,243
Equipment under capital lease	**1,888,761**	**636,462**	**1,252,299**	1,220,902
	14,202,193	**5,376,743**	**8,825,450**	7,594,145

During the year, property, plant and equipment were acquired at an aggregate cost of $2,063,124 (2020 - $3,212,900), of which $372,554 (2020 - $903,840) was acquired by means of capital leases and $1,690,570 (2020 - $2,309,060) was acquired in cash. In the year, there were non-cash additions included in equipment under capital lease totaling $372,554 (2020 - $Nil).

8. Investment in a jointly controlled enterprise

The investments of the Group are reflected at cost as follows:

	2021	*2020*
Aero Insights Inc. - 50% ownership	**100**	100

9. Advances to related parties

	2021	*2020*
Aero Insights Inc. - subsidiary - 50%	**228,632**	228,632
Alink Computer Solutions Inc. - related by common ownership	**46,465**	50,233
	275,097	278,865

Advances from related parties are non-interest bearing, due on demand, and are secured by a general security agreement covering all Group assets.

10. Investment in significantly influenced entity

The Group holds the following significantly influenced investments:

		2021	*2020*
	% Ownership		
Woods End Laboratories LLC	**49.0 %**	**1,573,362**	-

During the year, the Group acquired a 49% interest in the assets of Woods End Laboratories LLC for $1,102,500 USD. The Group recognized their portion of the subsidiary's net income, as such, $94,458 was added to the carrying value of the investment during the year.

11. Bank indebtedness

The Group has one revolving line of credit in the amount of $2,000,000 with Royal Bank of Canada. The line of credit bears interest at prime plus 1.00% per annum and is due on demand.

The Group's credit facilities are secured by a general security agreement covering all Group assets and a guarantee and postponement of claim in the amount of $1,000,000 signed by the parent company, A & L Canada Laboratories East, Inc. as well as a guarantee and postponement of claim in the amount of $2,050,000 signed by the parent corporation, A & L Canada Laboratories East, Inc., supported by:

i. a general security agreement covering all personal property of A & L Canada Laboratories East, Inc.;
ii. a collateral mortgage of $3,550,000 on land and improvements located at 2136-2140 Jetstream Road, London, Ontario;
iii. a collateral mortgage of $875,000 on land and improvements located at 2135 Jetstream Road, London, Ontario;
iv. a collateral mortgage of $700,000 on land and improvements located at 680 Industrial Road, London, Ontario.

12. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include $69,135 (2020 - $68,094) due to Alink Computer Solutions lnc.

Accounts payable and accrued liabilities include $28,929 (2020 - $93,201) in government remittances payable.

13. Long-term debt

	2021	*2020*
Term loan bearing interest at 4.66% per annum, due August 3, 2022, repayable $2,066 principal plus interest monthly	**204,173**	229,108
Term loan bearing interest at 1.99% per annum, due on demand, repayable $1,111 combined principal and interest monthly, repaid during the year	**-**	31,412
Term loan bearing interest at Prime + 1.25% per annum, due May 30, 2022, repayable $6,042 principal plus interest monthly	**1,008,934**	1,081,438
Term loan bearing interest at Prime + 1.05% per annum, repayable $2,835 principal plus interest monthly, repaid during the year	**-**	56,600
Term loan bearing interest at Prime + 1.05% per annum, repayable $875 principal plus interest monthly, repaid during the year	**-**	8,750
Term loan bearing interest at Prime + 1.05% per annum, repayable $994 principal plus interest monthly, repaid during the year	**-**	26,436
Term loan bearing interest at Prime + 1.10% per annum, repayable $1,559 principal plus interest monthly, repaid during the year	**-**	48,490
Term loan bearing interest at Prime + 1.00% per annum, repayable $833 principal plus interest monthly, repaid during the year	**-**	48,333
Term loan bearing interest at 3.75% per annum, due October 1, 2024, repayable $2,905 combined principal and interest monthly	**460,022**	477,289
Term loan bearing interest at Prime + 1.30% per annum, due July 30, 2022, repayable $1,917 principal plus interest monthly	**436,996**	460,000
Term loan bearing interest at 0.00% per annum, repayable $876 principal monthly, repaid during the year	**-**	12,269
Term loan bearing interest at Prime + 0.50% per annum, due March 30, 2022, repayable $31,008 principal plus interest monthly	**1,395,352**	-
	3,505,477	2,480,125
Less: current portion of long-term debt	**2,469,981**	1,358,422
	1,035,496	1,121,703

Principal repayments on long-term debt in each of the next four years, assuming long-term debt subject to refinancing is renewed and all term debt is subject to contractual terms of repayment, are estimated as follows:

2022	2,469,981
2023	612,266
2024	19,298
2025	403,932
	3,505,477

13. Long-term debt *(Continued from previous page)*

The Group has provided the following security:

- general security agreement covering all personal property of A & L Canada Laboratories East, lnc.
- chattel mortgage on 2007 Chevrolet Silverado and financed equipment;
- collateral mortgage of $700,000 on land and improvements at 680 Industrial Road, London, Ontario;
- collateral mortgage of $875,000 on land and improvements at 2135 Jetstream Road,London, Ontario ;
- collateral mortgage of $3,550,000 on land and improvements at 2136-2140 Jetstream Road, London, Ontario;
- assignment of rents arising from land and improvements at 2136-2140 Jetstream Road, London, Ontario;
- guarantee and postponement of claim of $6,210,000 signed by A & L Canada Laboratories lnc.;
- guarantee and postponement of claim of $1,488,375 signed by Gregory G. Patterson and Nevin McDougal

The carrying value of the pledged real property and financed equipment is $5,395,000.

14. Capital lease obligations

	2021	*2020*
Obligations under a capital lease for laboratory equipment with interest at rates ranging from 3.54% to 4.89%, maturing between May 2021 and June 2025	**1,368,447**	1,280,975
Less: current portion	**319,470**	254,484
	1,048,977	1,026,491

Future minimum lease payments related to the obligation under capital lease are as follows:

2022	370,042
2023	352,223
2024	352,223
2025	390,200
2026	27,056
	1,491,744
Less: interest	(123,297)
	1,368,447

The carrying value of the assets under capital lease is $1,252,299 (2020 - $1,220,902).

15. Share capital

Authorized, unlimited number

Class A-H common shares

Non-voting Class AA-LL common shares

Non-voting Class B special shares, non-cumulative, redeemable and retractable at their fair market value of consideration received at the time of issue

15. Share capital *(Continued from previous page)*

		2021	*2020*
Issued			
Common shares			
600,000	Class A voting	**82,641**	82,631
422,000	Class B voting	**58,107**	58,117
100,000	Class C voting	**423,510**	423,510
100,000	Class D voting	**13,772**	13,772
100,000	Class E voting	**13,772**	13,772
328,000	Class F voting	**45,172**	45,172
17,933	Class G voting (2020 - 23,000)	**2,470**	3,168
1,000	Class AA non-voting	**138**	-
1,115	Class BB non-voting	**153**	-
1,000	Class CC non-voting	**138**	-
1,952	Class DD non-voting	**269**	-
		640,142	640,142

In November 2019, the Company redeemed 253 Common shares for $9,478.68 per share for a total consideration of $2,398,106.

In January 2020, the Company issued 50 Common shares for $9,478.68 per share for a total consideration of $473,934.

In February 2020, the Company redeemed 234 Common shares for $9,478.68 per share for a total consideration of $2,218,011.

In June 2020, the Company reorganized all share capital by way of an exchange of shares where Common shares were exchanged for newly authorized and issued Class A-G common shares. No consideration was given or received in this reorganization.

In December 2020, the Company cancelled authorized and unissued common shares and special shares of the Company.

In December 2020, the Company reorganized share capital by way of an exchange of shares where 5,067 Class G common shares were exchanged for newly authorized and issued Class AA-DD non-voting common shares. No consideration was given or received in this reorganization.

16. Related party transactions

During the year, the Group provided for the related parties payroll; charge backs and to Alink Computer Solutions Inc. were $620,718 (2020 - $498,854).

During the year, the Group paid $819,012 (2020 - $598,442) for services from Alink Computer Solutions Inc.

These transactions were conducted in the normal course of business and were accounted for at the exchange amount. The exchange amount is the amount of consideration established and agreed to by the related parties.

17. Financial instruments

The Group, as part of its operations, carries a number of financial instruments. It is management's opinion that the Group is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

17. Financial instruments *(Continued from previous page)*

Credit concentration

The Group's financial instruments that are exposed to concentration of credit risk consist primarily of accounts receivable. The Group believes that its accounts receivable credit risk is limited because it has a broad range of customers and 89% (2020 - 84%) of accounts receivable are less than 60 days old. The Group has evaluation and monitoring processes in place and writes off accounts when they are determined to be uncollectable. There has been no change in this risk exposure from 2020.

Foreign currency risk

The Group is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Group purchases supplies and makes sales denominated in US dollars. During the year the Group made $817,698 CAD (2020 - $419,939) of purchases and $140,886 CAD (2020 - $117,601) of sales in US dollars converted into Canadian dollars.

As of June 30, 2021, cash of $12,909 (2020 - $13,293), accounts receivable of $1,321 (2020 - $20,143) and accounts payable of $45,471 (2020 - $20,391) are in U.S. dollar amounts converted into Canadian dollars. The settlement of these amounts is in the short-term, accordingly, the exposure to fluctuations is generally less then 60 days. The Group does not hedge the risk related to fluctuations in the exchange rate between the U.S. and Canadian dollar. As the Canadian dollar has remained constant during the year, the risk exposure has remained unchanged for sales and purchases. There has been no change in this risk exposure from 2020.

Interest rate risk

Components of the Group's indebtedness bears interest at a floating rate which exposes the Group to interest rate risk. Should the base rate of interest increase in the future, the Group's required interest payments will also increase. There has been no change in this risk exposure from 2020.

Liquidity risk

Liquidity risk is the risk the Group may not be able to meet its obligations. The Group monitors its cash balances and cash flows generated from operations to meet its requirements. As at June 30, 2021, the most significant financial liabilities are accounts payable and accrued liabilities, bonuses payable, and income tax payable. There has been no change in this risk exposure from 2020.

18. Pension plan

The Group has an optional deferred profit-sharing plan (DPSP) for its employees. Employees can opt in and contribute to their registered retirement savings plan (RRSP) and the Group will match their contribution. The maximum the Group will contribute is 2% of full time employees' wages. The cash payments made by the Group to this plan were $113,646 (2020 - $85,816).

19. Subsequent events

Subsequent to year-end, one of the Group's larger cannabis customers decided to use one of the Group's competitors as their primary service. During the year, that customer represented about 25% of the Group's cannabis sales and it likely would drop to less than 10% going forward. The Group is working on building other large cannabis customers to make up the difference, but this will be a significant impact to growth.

20. Commitments

The Group has entered into various lease agreements with estimated minimum annual payments as follows:

2022	75,408
2023	24,670
2024	10,331
	110,409

21. Significant event

During the fiscal year, the Group's operations have been affected by the COVID-19 pandemic through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Group as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

A & L Canada Laboratories East, Inc.
Schedule 1 - Consolidated Schedule of Cost of Sales
For the year ended June 30, 2021

	2021	*2020*
Cost of sales		
Laboratory salaries and employee benefits	**2,332,016**	1,553,984
Laboratory and sampling supplies	**2,107,261**	1,404,996
Courier and shipping costs	**731,162**	658,738
Credit card fees	**125,531**	92,388
Outside services	**94,631**	75,912
Sales commissions	**80,367**	168,913
	5,470,968	3,954,931

A & L Canada Laboratories East, Inc.
Schedule 2 - Consolidated Schedule of Operating Expenses
For the year ended June 30, 2021

	2021	*2020*
Operating expenses		
Amortization	**818,266**	616,230
Software development	**630,762**	414,017
Salaries, wages and benefits	**422,952**	223,020
Professional fees	**418,492**	342,333
Office supplies	**285,374**	352,582
Advertising and promotion	**284,187**	406,643
Insurance	**259,504**	199,088
Office and computer services	**258,829**	246,406
Research and development	**118,012**	103,928
Interest on long-term debt	**99,834**	89,699
Supplies	**86,733**	39,928
Bad debts	**83,299**	581,261
Travel	**77,225**	214,927
Telephone	**67,152**	97,454
Interest and bank charges	**39,608**	31,399
Accreditation fees	**29,896**	32,551
Professional development	**24,145**	35,836
Property taxes	**19,695**	14,905
Sub-contracts	**16,200**	11,174
Dues and subscriptions	**15,822**	9,073
Repairs and maintenance	**9,741**	834
Rental	**4,978**	2,990
Rent	**3,600**	6,390
	4,074,306	4,072,668

A & L Canada Laboratories East, Inc.

Schedule 3 - Consolidated Schedule of Administrative Salaries and Contracts

For the year ended June 30, 2021

	2021	*2020*
Administrative salaries and contracts		
Management	**1,352,971**	1,481,426
Eastern Canada	**965,547**	964,090
Employee benefits	**890,217**	731,153
Office	**594,851**	754,510
Western Canada	**283,841**	286,183
Contract labour	**129,600**	120,600
	4,217,027	4,337,962

A & L Canada Laboratories East, Inc.
Schedule 4 - Consolidated Schedule of Occupancy Expenses
For the year ended June 30, 2021

	2021	*2020*
Occupancy expenses		
Hydro	**149,832**	130,493
Property taxes	**96,816**	45,493
Natural gas	**13,375**	13,173
Water treatment	**1,657**	4,640
	261,680	193,799

A & L Canada Laboratories East, Inc.
Schedule 5 - Consolidated Schedule of Lease Costs
For the year ended June 30, 2021

	2021	*2020*
Lease costs		
Laboratory equipment	**127,864**	105,500
Office equipment	**9,601**	6,227
	137,465	111,727

A & L Canada Laboratories East, Inc.
Schedule 6 - Consolidated Schedule of Maintenance and Repairs
For the year ended June 30, 2021

	2021	*2020*
Maintenance and repairs		
Buildings and grounds	**613,911**	343,167
Laboratory equipment	**356,878**	326,703
Waste disposal	**63,319**	46,700
Vehicles	**36,582**	44,662
Office equipment	**946**	2,629
	1,071,636	763,861