SPROUT AI INC. **(Formerly 1262803 B.C. Ltd.)**
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FIFTEEN MONTHS ENDED JANUARY 31, 2022 AND THE YEAR ENDED OCTOBER 31, 2020
(Expressed in United States Dollars)

INDEX

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sprout AI Inc.

Opinion

We have audited the consolidated financial statements of Sprout AI Inc. (the "Company"), which comprise the consolidated statement of financial position as at January 31, 2022 and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in shareholder's equity (deficiency) and consolidated statement of cash flows for the fifteen months ended January 31, 2022 and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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 on our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Relating to Going Concern

We draw attention to note 1 in the financial statements, which indicates that the Company has incurred a net loss of $6,462,272 and an accumulated deficit of $8,298,280 for the fifteen months ended January 31, 2022. As stated in note 1, these events or conditions, along with other matter as set forth in note 1 indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our conclusion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report. We have nothing to report in this regard.

Other Matter

These financial statements of Sprout AI Inc. for the year ended October 31, 2020 were audited by another firm of Chartered Professional Accountants who expressed an opinion without reservation on those financial statements dated May 26, 2021.

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

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

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

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 judgement 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.

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- 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entities to express and 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.

The engagement partner on the audit resulting in this Independent Auditor's Report is John F. Cleveland-Iliffe.

Segal GCSE LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
September 28, 2022

SPROUT AI INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JANUARY 31, 2022 AND OCTOBER 31, 2020
(Expressed in United States Dollars)

	January 31, 2022	October 31, 2020
ASSETS		
Current		
Cash	$ 341,752	$ 50
Accounts receivable and other, note 5	43,055	-
Inventory, note 7	167,453	-
Prepaid expenses, note 6	282,321	-
Due from related parties, note 12	50,499	-
	885,080	50
Long term		
Right-of-use assets, note 8	927,504	1,149,333
Property and equipment, note 9	368,429	373,092
Intangible assets, note 10	475,921	-
	1,771,854	1,522,425
	$ 2,656,934	$ 1,522,475
LIABILITIES		
Current		
Accounts payable and accrued liabilities, note 11	$ 328,619	$ 68,382
Deferred revenue, notes 14 and 21	507,157	-
Due to related parties, note 12	2,252,896	2,018,003
Lease liabilities - current, notes 13 and 21	161,651	129,729
	3,250,323	2,216,114
Long term debt		
Lease liabilities - non-current, notes 13 and 21	942,949	1,132,369
	4,193,272	3,348,483
Contingencies and commitments, note 15		
SHAREHOLDERS' DEFICIENCY		
Share capital, note 16	6,009,390	10,000
Capital stock reserve, note 17	752,552	-
Deficit	(8,298,280)	(1,836,008)
	(1,536,338)	(1,826,008)
	$ 2,656,934	$ 1,522,475

Approved on behalf of the Board:

Tom Andrews
________________________ Director

Toni Rino
________________________ Director

See accompanying notes to the consolidated financial statements

SPROUT AI INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)
FOR THE FIFTEEN MONTHS ENDED JANUARY 31, 2022
AND THE YEAR ENDED OCTOBER 31, 2020
(Expressed in United States Dollars)

	Number of Shares	Share Capital (Note 16)	Capital Stock Reserve (Note 17)	Deficit	Total
Balance, October 31, 2019	100	$ 10,000	$ -	$ (1,067,485)	$ (1,057,485)
Net loss and comprehensive loss	-	-	-	(768,523)	(768,523)
Balance, October 31, 2020	100	10,000	-	(1,836,008)	(1,826,008)
Reverse acquisition transaction					
Common shares acquired from legal subsidiary	(100)	-	-	-	-
Equity of Sprout AI Inc.	28,000,100	536,391	1,560,306	(97,296)	1,999,401
Elimination of equity of Sprout AI Inc.	-	(536,391)	(1,560,306)	97,296	(1,999,401)
Issuance of common shares pursuant to reverse takeover ("RTO")	50,000,000	3,953,502	-	-	3,953,502
Warrants assumed pursuant to RTO	-	-	1,661,130	-	1,661,130
Issuance of performance-based warrants pursuant to RTO	-	-	752,552	-	752,552
Common shares issued on exercise of special warrants	11,764,706	1,661,130	(1,661,130)	-	-
Common shares issued on closing of private placements	500,000	20,233	-	-	20,233
Common shares issued on closing of private placement	700,000	364,525	-	-	364,525
Net loss and comprehensive loss	-	-	-	(6,462,272)	(6,462,272)
Balance, January 31, 2022	90,964,806	$ 6,009,390	$ 752,552	$ (8,298,280)	$ (1,536,338)

SPROUT AI INC.

CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS
FOR THE FIFTEEN MONTHS ENDED JANUARY 31, 2022
AND THE YEAR ENDED OCTOBER 31, 2020
(Expressed in United States Dollars)

	January 31, 2022	**October 31, 2020** (Note 25)
Revenue		
Other revenues, notes 18 and 21	$ 112,635	$ -
Expenses		
Listing expenses, note 4	4,263,243	-
Professional fees, note 21	784,957	254,107
Payroll expenses	345,209	-
Interest expense on lease liabilities, notes 13 and 21	235,422	210,317
Advertising and promotion	156,772	-
General and administrative	154,097	19,302
Foreign exchange loss	122,579	-
Licensing fees, note 21	55,768	-
Dues and subscriptions	36,216	-
Insurance	14,646	-
Interest and bank charges	5,251	-
Depreciation	400,747	284,797
	6,574,907	768,523
Net loss and comprehensive loss for the period	$ (6,462,272)	$ (768,523)
Weighted average number of shares outstanding, note 20	71,661,230	50,000,000
Loss per share - basic and diluted, note 20	$ (0.09)	$ (0.02)

SPROUT AI INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FIFTEEN MONTHS ENDED JANUARY 31, 2022
AND THE YEAR ENDED OCTOBER 31, 2020
(Expressed in United States Dollars)

	January 31, 2022	October 31, 2020
Cash flows from operating activities		
Net loss and comprehensive loss	$ (6,462,272)	$ (768,523)
Adjustments for:		
Depreciation	400,747	284,797
Interest expense on lease liability	235,422	-
Listing expense	4,263,243	-
Foreign exchange due to RTO	131,152	-
Working capital acquired through RTO	390,580	-
	(1,041,128)	(483,726)
Changes in non-cash working capital balances		
Increase in accounts receivable	(3,452)	-
Increase in inventory	(167,453)	-
Increase in prepaid expenses	(282,321)	-
Increase in due from related parties	(50,499)	-
Increase in accounts payable and accrued liabilities	260,237	59,487
Increase in deferred revenue	507,157	-
Increase in due to related parties	234,893	534,715
Cash flows provided from (used in) operating activities	(542,566)	110,476
Cash flows from investing activities		
Purchase of property and equipment	(204,817)	-
Purchase of intangible assets	(475,921)	-
Cash acquired on reverse acquisition	1,582,210	-
	901,472	-
Cash flows from financing activities		
Payment of lease liabilities	(401,962)	(110,426)
Proceeds from issuance of common shares	384,758	-
	(17,204)	(110,426)
Net increase in cash	341,702	50
Cash, beginning of period	50	-
Cash, end of period	$ 341,752	$ 50

1. NATURE OF OPERATIONS AND GOING CONCERN

Sprout AI Inc. (Formerly, 1262803 B.C. Ltd.) (the "Company") was incorporated on August 25, 2020, under the Business Corporations Act in British Columbia. On June 1, 2021, the Company changed its name from "12682803 B.C. Ltd." to Sprout AI Inc. On July 5, 2021, the shares of the Company began trading on the Canadian Securities Exchange ("CSE") under the symbol of SPRT and subsequently changed to BYFM on November 5, 2021. On January 14, 2022, the shares of the Company began trading on United States OTC stock market under the symbol BYFMF. The Company's head office is located at 789 West Pender Street, Suite 810, Vancouver, BC, V6C 1H2. The Company is engaged in vertical farming technology and is in the business of planning, design, manufacturing and /or assembling sustainable and scalable AI-controlled vertical cultivation equipment (the "habitat") for indoor vertical farming.

Sprout AI S.A. ("Sprout") is a limited company incorporated on November 19, 2018 in the Republic of Panama through Public Deed No. 30280. The registered office of Sprout is located at The International Business Park Unit 5B, Building 3860, Panama Pacifico, Republic of Panama. Sprout was registered in the Panama Pacifico Special Economic Area according to the Administrative Resolution No. 339-19 on October 7, 2019.

On December 8, 2020 (and as completed on June 1, 2021), the Company entered into a Securities Exchange Agreement (the "Definitive Agreement") with the shareholder of Sprout (Note 4). Pursuant to the Definite Agreement, the Company acquired all the outstanding securities of Sprout in consideration collectively (the "Transaction") for the following:

1. 50,000,000 common shares of the Company;
2. 10,000,000 performance-based share purchase warrants (the "PB Warrants") of the Company. Each warrant will entitle the holder to purchase an additional common share of the Company at an exercise price of $0.17 CAD for a period of three years. These warrants vest as follows:
   a. One third vesting upon the Company realizing $3,000,000 CAD in total revenue;
   b. One third vesting upon the Company realizing $6,000,000 CAD in total revenue; and
   c. One third vesting upon the Company realizing $9,000,000 CAD in total revenue.

The transaction constitutes a reverse takeover ("RTO") of the Company with Sprout being the acquirer for accounting purposes. Accordingly, these consolidated financial statements are a continuation of Sprout, with the net assets (liabilities) of the Company being consolidated from June 1, 2021, as well as the Company's operating results from that date onward. The comparative figures are those of Sprout.

These consolidated financial statements are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. As at January 31, 2022, the Company had a deficit of $8,298,280 (October 31, 2020 - $1,836,008 deficit) and a net loss of $6,462,672 (October 31, 2020 - $768,523 loss) and anticipates that losses will be incurred in future periods. If the Company is to continue as a going concern and meet its corporate objectives, it will require additional financing through debt or equity issuances or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be available on terms advantageous to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments relating 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.

1. NATURE OF OPERATIONS AND GOING CONCERN (Continued...)

Since March 2020, several measures have been implemented in Panama and the rest of the world in response to the increased impact from novel coronavirus (COVID-19). The Company and Sprout AI continue to operate their business at this time. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on business operations cannot be reasonably estimated at this time. The impact of COVID-19 on the Company's business, results of operations, financial position and cash flows in future periods cannot be determined at this time.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies detailed below have been applied consistently by the Company to all periods presented in these consolidated financial statements

Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Reporting Interpretation Committee ("IFRIC") for the period presented.

These consolidated financial statements have been prepared on an historical cost basis, except for certain financial instruments which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Sprout's reverse takeover of the Company accordingly includes in the consolidated financial statements a continuation of Sprout. All prior period comparative amounts are those of Sprout and include the results of the Company from the date of acquisition on June 1, 2021.

Unless otherwise noted, all amounts on the consolidated financial statements are presented in United States dollars ("USD"), which is the functional currency of Sprout. The functional currencies of the Company and Sprout AI Australia PTY are Canadian Dollars ("CAD") and Australian Dollars ("AUD"), respectively. The presentation currency of these consolidated financial statements is USD.

During the period, the Company changed its year end to January 31, 2022, as approved by the CSE. As a result, the Company reported consolidated financial statements for a fifteenth month period from November 1, 2020 to January 31, 2022 with comparative figures of 12 months ended October 31, 2020 of the continuing entity.

These consolidated financial statements were authorized for issue by the Board of Directors on September 28, 2022.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Sprout AI S.A. (legal acquiree) and Sprout AI Australia PTY.

Subsidiary	Place of Incorporation	Functional Currency	Year End Date
Sprout AI S.A.	Panama	USD	January 31
Sprout AI Australia PTY	Australia	AUD	June 30

A subsidiary is an entity controlled by the Company and is included in the consolidated financial statements from the date that control commences until the date the control ceases. The accounting policies of a subsidiary are changed where necessary to align them with policies adopted by the Company.

These consolidated financial statements account for the Company as a controlled entity requiring consolidation since the date of the RTO (notes 1 and 4), effective June 1, 2021.

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in the preparation of these consolidated financial statements.

Business combination

A business combination is a transaction in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the excess of the total consideration paid over the fair value of the net-identifiable assets acquired. Acquisition costs incurred are expensed to profit or loss. Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions.

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

Business combination (Continued...)

In determining the fair value of all identifiable assets acquired and liabilities assumed, the most significant estimates generally relate to contingent consideration and intangible assets. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved, which is used as the basis for estimating fair value. Identified intangible assets are fair valued using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

Cash

Cash includes cash held at the bank.

Inventory

Inventory is valued at the lower of cost and net realizable value using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. When the circumstances that previously caused inventories to be written down below cost no longer exist, or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed. Raw materials consumed in producing inventory are transferred to work-in-progress along with corresponding production costs incurred. Upon completion of production, work-in-progress is transferred to finished goods until the item is sold. Raw materials consumed in the development of prototypes are transferred to intellectual property when it is determined future economic benefit exists and those prototypes meet the recognition criteria as an intangible asset, otherwise they are charged to operations as development expense.

Property and equipment

Recognition and measurement

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions. Property and equipment are subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land, which is not depreciated. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

Property and equipment (Continued...)

Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statement of loss as incurred.

Major maintenance and repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of loss during the financial period in which they are incurred.

Gains and losses

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within the consolidated statement of loss.

Depreciation

Depreciation is recognized in the consolidated statement of loss and is provided for over the asset's estimated useful life:

Equipment	3-5 years straight line
Leasehold improvements	5 years straight line
Right-of-use – Leased building	8 years straight line
Right-of-use – Leased office equipment	3 years straight line

Depreciation methods, estimated useful lives and residual values are reviewed at each year-end and adjusted if appropriate. The effect of any changes in estimate is accounted for on a prospective basis.

Leases

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.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

Leases (Continued...)

Leases, except for those leases that are short-term or convey the right to control the use of low value assets, are recognized as right-of-use ("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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

Intangible assets

Intangible assets, which are not acquired as part of a business combination, are recognized at cost, net of accumulated amortization and accumulated impairment losses, if any. The internally generated intangible assets are recognized at development cost if they meet the criteria for capitalization. Intangibles acquired, if any, as part of a business combination are initially measured at their fair value on the acquisition date. Intangible assets are amortized on a straight-line basis over the estimated useful lives as follows:

Patents	Useful life pending
Trademark	Indefinite life
Product development costs	5 years straight line

The estimated useful lives, amortization method, and residual value of each asset are evaluated annually or more frequently if required, and are adjusted, if appropriate.

Impairment of long-lived assets

Long-lived assets, including property and equipment and intangible assets subject to amortization, are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets are grouped together to form a cash generating unit ("CGU") which is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets. An impairment loss is recognized when the carrying value exceeds its recoverable amount and is recognized in the consolidated statement of operations. Impairment losses recognized in respect of CGUs or CGU groups are allocated, first to reduce the carrying amount of any goodwill allocated to the CGU or CGU group, and then to reduce the net carrying amount of the other assets in the CGU or CGU group on a pro rata basis. The recoverable amount is the greater of its value in use and its fair value less costs to sell. The value in use is the estimated future cash flows that is discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets or CGU. Impairment losses related to long-lived assets recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no previous impairment loss had been recognized.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

Revenue recognition

Revenue is recognized in accordance with the five-step model under *IFRS 15 - Revenue from Contracts with Customers* when the goods or services promised are transferred to the customer. The model separates the following steps: identification of a contract with customers, identification of individual performance obligations, determination of transaction price, allocation of the transaction price to the individual performance obligations and the determination in timing of revenue recognition. Revenue is recognized either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised goods or services to its customers based on information or payment received from relevant counterparties. The Company recognizes revenue related to products and services at the point when the products have been delivered, the customer takes control, and assumes risk of loss, and the collection of consideration is probable. Product sales represent revenue from the sale of products and shipping fees charged to customers.

Deferred revenue (contract liabilities) represents funds collected in advance for inventory sales which have not been delivered to the Company's customers.

Other income includes service revenue for management, consulting, and software development services provided to related entities. Such revenue is recognized on accrual basis.

Research and development costs

Expenditures on research activities are recognized as an expense in the period in which they are incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following relevant criteria have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Company reassesses whether it has met the relevant criteria for deferral and amortization at each reporting date. Development costs deferred are not amortized until completion of the related development project. Amortization begins once the underlying development project is available for use.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. To compute diluted earnings (loss) per share, adjustments are made to common shares outstanding. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would be outstanding if, at the beginning of the period or at time of issuance, if later, all options and warrants were exercised. The proceeds from exercise would be used to notionally purchase the Company's common shares at their average market price during the period. If this computation is anti-dilutive, diluted earnings (loss) per share would be the same as basic earnings (loss) per share.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it is probable that a future tax asset will be recovered, it does not recognize the asset.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Sprout AI S.A. is domiciled in Panama and has tax exempt status where it is not subject to corporate income tax on any of its domestic and foreign sales. This tax exempt status expires in 2027 and can be further extended under current tax legislation.

Sprout AI Inc. and Sprout AI Australia PTY are subject to the income tax legislation of their respective jurisdictions of domicile.

Provision

The Company recognizes a provision, if a result of a prior event, the Company has a current obligation requiring the outflow of resources to settle. Provisions are recorded at management's best estimate of the most probable outcome of any future settlement.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

Foreign currency translation

All amounts on the consolidated financial statements are presented in United States dollars (“USD”), which is the functional currency of Sprout. The functional currencies of the Company and Sprout AI Australia PTY are Canadian Dollars ("CAD") and Australian Dollars ("AUD"), respectively. The presentation currency of these consolidated financial statements is USD.

Monetary items denominated in foreign currencies are translated into United States Dollars at exchange rates in effect at each financial position reporting date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

Financial instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit or loss (“FVTPL”), at fair value through other comprehensive loss (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classifications under IFRS 9:

Financial assets	**Classification**
Cash	FVTPL
Accounts receivable and other	Amortized cost
Due from related parties	Amortized cost

Financial liabilities	**Classification**
Accounts payable	Amortized cost
Due to related parties	Amortized cost
Deferred revenue	Amortized cost

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive loss.

Equity instruments designated as FVTOCI

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument. The Company does not currently hold any equity instruments designated as FVTOCI.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit loss. The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of loss and comprehensive loss.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Offsetting of financial instruments

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

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

Share capital

Share capital represents the amount received in exchange for the issuance of shares. Shares issued for consideration other than cash are recorded at their fair value according to quoted market price on the day the shares are issued.

Proceeds from the exercise of share options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company along with the fair value of the option or warrant at the time of its grant.

The proceeds from the issuance of units are allocated between common shares and share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to share capital based on the fair value of the common shares and any residual value is allocated to share purchase warrants.

Share issuance costs

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as equity. Share issuance costs related to uncompleted share subscriptions are charged to operations.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

Stock-based compensation

Equity instruments awarded to employees are measured and recognized based on the fair value of the equity instruments using the Black-Scholes option model. The compensation cost is recognized as the fair value of the options as at the date granted and is recorded over the period in which the related employee services are rendered, as an expense and an increase to share based payment reserve. Awards for past service are recognized as an expense in the period when granted. When a stock option is exercised, the cash received is credited to share capital, with the share-based payment reserve accumulated being reclassified to equity. Stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable.

Restricted share unit ("RSU") incentive plan

Under the RSU incentive plan, the Company purchases shares of the Company from the open market to distribute to management as compensation. These shares are restricted and reserved in trust for future issuances. The RSUs vesting conditions are set by the Board at the time the RSUs are granted. The RSUs are measured at the fair value at the grant date and reflected as an equity-settled share-based payment. The Company recognizes the compensation cost in profit (loss) over the appropriate vesting periods using the graded vesting method.

Segmented information

Management assesses its business operations on a regular basis for the geographic areas it operates in. Management has determined that it operates as a single operating division.

Accounting standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the Company's January 31, 2022 consolidated financial statements. Management does not expect these standards will have a significant impact on the measurement or presentation of balances or transactions as reported in these consolidated financial statements.

The standards issued, but not yet effective, are described below:

- IFRS 10 and IAS 28 - Consolidated Financial Statements ("IFRS 10") and Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued...)

Accounting standards issued but not yet effective (Continued...)

- IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in January 2020 to (i) clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period; (ii) clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and (iii) make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Earlier adoption is permitted.

- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") was amended in February 2021 to introduce the definition of an accounting estimate and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier adoption is permitted.

- IAS 12 - requires an entity to recognise a deferred tax liability or (subject to specified conditions) a deferred tax asset for all temporary differences, with some exceptions. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

- IAS 16 - Property, Plant and Equipment was amended. The amendments introduce new guidance, such that the proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost. Instead, such proceeds are to be recognized in profit or loss, together with the costs of producing those items. The amendments are effective for annual periods beginning on January 1, 2022.

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management's estimates, assumptions and judgements are based on historical experience and other reasonable factors, including the expectation of future events.

Estimates that could affect the carrying amount of the assets and liabilities in the next financial year, in a material way are outlined below:

Estimating the useful lives of non-financial assets

Management is required to estimate the useful life of both property and equipment, as well as intangible assets and rights-of-use, and analyze them based on factors including, but not limited to, the expected use of the asset. A change in the useful life of either property, plant and equipment, rights-of-use or intangible asset can result in an increase or decrease in the annual depreciation or amortization of the asset.

Fair value of identifiable assets and acquired liabilities in business combinations

The measurement of the fair value of the identifiable assets acquired, and liabilities assumed on the date of acquisition in a business combination is subject to management estimation.

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. Estimates are made as to the fair value of assets and liabilities acquired. The determination of these fair values involves a variety of assumptions. The Company measures all the assets acquired and liabilities assumed at their acquisition date fair values. Acquisition related costs are recognized as expenses in the periods in which the costs are incurred, and the services are received. The excess of the aggregate of the consideration paid to obtain control over the net identifiable assets acquired and the liabilities assumed (net assets) in an asset acquisition, is recognized as a listing expense as of the acquisition date. The fair value of common shares issued as consideration paid based on a concurrent private placement is considered a significant judgment.

Fair value of derivative financial instruments and warrants

The estimated fair value of derivative financial instruments and warrants is determined based on an appropriate valuation model. Fair values are calculated using assumptions including, timing of future cash flows, discount rates, market price of the Company's shares and future events that may be out of the Company's control. The management estimated the fair value of shares and warrants as a consideration paid for the RTO.

Stock-based compensation

Share-based compensation provided to employees of the Company requires management to estimate and make assumptions about the most appropriate inputs into the Black-Scholes model, including expected term, volatility and forfeiture rate. The expected term is determined based on management's estimate of the period of time between grant date and exercise date. Volatility is determined using a comparable peer group until such time as sufficient trading history is available for the Company's own shares.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (Continued...)

Leases

When the Company enters into leases as a lessee and where the interest rate implicit in a lease cannot be readily determined, the Company determines its incremental borrowing rate to measure its lease liability. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. In estimating its incremental borrowing rate, the Company considers the term of the lease, the nature of the leased asset, and its level of indebtedness with reference to market risk-free interest rates.

When the Company enters into leases as a lessee, it determines the lease term as the non-cancellable period of the lease together with periods covered by an option to extend the lease if it reasonably expects to exercise such option. In assessing whether it is reasonably certain to exercise an option to extend a lease, the Company considers: the contractual terms and conditions for the optional periods compared with market rates; whether any significant leasehold improvements have been undertaken; the costs of terminating the lease; the importance of the underlying asset to the Company's operations; and any conditionality associated with exercising the option.

Going concern

Management has applied judgment in the assessment of the Company's ability to continue as a going concern when preparing its consolidated financial statements. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considers a wide range of factors relating to current and expected profitability and potential sources of replacement financing

Reverse takeover

The reverse acquisition of 1262803 B.C. Ltd on June 1, 2021 (refer to Note 1) was accounted under the scope of IFRS 2 Share-based Payment. 1262803 B.C.'s set of activities and assets do not meet the definition of a business, hence the transaction was not a business combination in the scope of IFRS 3 Business Combinations.

(Expressed in United States Dollars)

4. REVERSE TAKEOVER

As described in Note 1, on June 1, 2021, the Company and Sprout completed a Transaction which constituted a RTO.

The Transaction resulted in the shareholder of Sprout obtaining control of the combined entity by obtaining control of the voting rights, governance, and management decision making process, and the resulting power to govern the financial and operating policies of the combined entities.

In accordance with IFRS 3, the substance of the acquisition is a reverse acquisition as the shareholder of Sprout holds the majority of the shares of the Company. The acquisition of the Company does not constitute a business combination as the Company does not meet the definition of a business under IFRS 3. As a result, the acquisition is accounted for in accordance with IFRS 2, with Sprout being the identified as the acquirer and the net assets of the Company deemed acquired. The consideration of the Transaction is measured at fair value of the shares and warrants of the Company that are outstanding immediately before the Transaction. The excess of consideration over the fair value of net assets acquired has been recorded as a listing expense, consistent with IFRS 3.

The table below summarizes the fair value of the assets acquired and the liabilities assumed at the effective acquisition date:

	June 1, 2021
Net assets (liabilities) of Sprout AI Inc. acquired:	
Cash	$ 1,582,210
Loan receivable	548,340
Accounts payable and accrued liabilities	(26,609)
Net assets acquired	$ 2,103,941

	June 1, 2021
Consideration paid on RTO:	
Common shares issued and outstanding to the shareholders of Sprout AI Inc. (i)	$ 3,953,502
Performance base warrants issued to the shareholder of Sprout AI S.A. (ii)	752,552
Special warrants issued and outstanding, note 16	1,661,130
Total consideration paid	$ 6,367,184
Allocation of consideration paid:	
Net assets acquired	$ 2,103,941
Listing expense	4,263,243
	$ 6,367,184

(Expressed in United States Dollars)

4. **REVERSE TAKEOVER** (Continued...)

As part of the RTO, 100 shares of Sprout were acquired by the Company.

i. Based on 28,000,100 of outstanding shares immediately preceding the Transaction, valued at $0.1412 USD ($0.17 CDN) per share on the non-brokered private placement of special warrants.

ii. Upon completion of the Transaction, the Company will issue 10,000,000 performance-based share purchase warrants as described in Note 1.

The PB Warrants have been valued at $752,552 on June 1, 2021 using Black-Scholes option pricing model. The fair value of the contingent consideration was discounted to its present value reflecting the Company's expectation on meeting revenue targets. The following assumptions were used to value the PB Warrants:

Risk-free interest rate	0.29%
Expected life	3 years
Annualized volatility	100%
Share price	$0.1412 USD ($0.17 CAD)
Discount rate	16%

5. **ACCOUNTS RECEIVABLE AND OTHER**

	January 31, 2022	October 31, 2020
Accounts receivable - trade	$ -	$ -
Insurance claim receivable	39,603	-
Other	3,452	-
	$ 43,055	$ -

6. **PREPAID EXPENSES**

	January 31, 2022	October 31, 2020
Stock exchange annual fees	$ 13,084	$ -
Deposits on materials purchases	120,527	-
Prepayment of marketing services	148,710	-
	$ 282,321	$ -

(Expressed in United States Dollars)

7. INVENTORY

The Company's inventory consists of materials inventory. Materials consumed in production of the habitat units are transferred to work-in-progress and then to finished goods upon completion of production.

The cost of inventory recognized as cost of goods sold during the period ended January 31, 2022 was $Nil (2020 - $Nil).

	January 31, 2022	October 31, 2020
Raw materials	$ 163,237	$ -
Work in process	4,216	-
	$ 167,453	$ -

8. RIGHT-OF-USE ASSETS

	Building	Equipment	Total
Cost			
Balance as at November 1, 2019	$ 1,471,146	$ -	$ 1,471,146
Balance as at November 1, 2020	$ 1,471,146	$ -	$ 1,471,146
Additions	-	9,042	9,042
Balance as at January 31, 2022	$ 1,471,146	$ 9,042	$ 1,480,188
Accumulated depreciation			
Balance as at November 1, 2019	$ 137,920	$ -	$ 137,920
Depreciation	183,893	-	183,893
Balance as at November 1, 2020	$ 321,813	$ -	$ 321,813
Depreciation	229,867	1,004	230,871
Balance as at January 31, 2022	$ 551,680	$ 1,004	$ 552,684
Carrying amounts:			
Balance as at January 31, 2022	$ 919,466	$ 8,038	$ 927,504
Balance as at October 31, 2020	$ 1,149,333	$ -	$ 1,149,333

(Expressed in United States Dollars)

8. **RIGHT-OF-USE ASSETS** (Continued...)

Sprout's building is located in Panama Pacifico, Panama and it is comprised of both a two-level open office concept as well as a warehouse designed for large-scale manufacturer, quality assurance, packaging, and shipping of Sprout AI directly to the Panama Canal. The total building occupies 37,500 sq. ft (3,500 sq.m.).

Management regularly assesses the right-of-use asset for impairment indicators and has determined that no impairment is required for the period ended January 31, 2022 (October 31, 2020 - $Nil).

9. **PROPERTY AND EQUIPMENT**

	Equipment	Leasehold Improvements	Total
Cost			
Balance as at November 1, 2019	$ 433,302	$ 106,871	$ 540,173
Balance as at November 1, 2020	$ 433,302	$ 106,871	$ 540,173
Reclassification	106,871	(106,871)	-
Additions	202,773	2,044	204,817
Disposals	(78,312)	-	(78,312)
Balance as at January 31, 2022	$ 664,634	$ 2,044	$ 666,678
Accumulated depreciation			
Balance as at November 1, 2019	$ 62,559	$ 3,619	$ 66,178
Depreciation	86,660	14,243	100,903
Balance as at November 1, 2020	$ 149,219	$ 17,862	$ 167,081
Reclassification	17,862	(17,862)	-
Depreciation	169,763	114	169,877
Disposals	(38,709)	-	(38,709)
Balance as at January 31, 2022	$ 298,135	$ 114	$ 298,249
Carrying amounts:			
Balance as at January 31, 2022	$ 366,499	$ 1,930	$ 368,429
Balance as at October 31, 2020	$ 284,083	$ 89,009	$ 373,092

Management regularly assesses the property and equipment for impairment indicators and has determined that no impairment is required for the period ended January 31, 2022 (October 31, 2020 - $Nil).

(Expressed in United States Dollars)

10. INTANGIBLE ASSETS

	Patent	Trademark	Product Development	Total
Cost				
Balance as at November 1, 2019	$ -	$ -	$ -	$ -
Balance as at November 1, 2020	$ -	$ -	$ -	$ -
Additions	5,000	19,335	451,586	475,921
Balance as at January 31, 2022	$ 5,000	$ 19,335	$ 451,586	$ 475,921
Accumulated depreciation				
Balance as at November 1, 2019	$ -	$ -	$ -	$ -
Depreciation	-	-	-	-
Balance as at November 1, 2020	-	-	-	-
Depreciation	-	-	-	-
Balance as at January 31, 2022	$ -	$ -	$ -	$ -
Carrying amounts:				
Balance as at January 31, 2022	$ 5,000	$ 19,335	$ 451,586	$ 475,921
Balance as at October 31, 2020	$ -	$ -	$ -	$ -

Development costs consist of the cost of developing a prototype for its Sprout AI habitat.

Management regularly assesses intangible assets for impairment indicators and has determined that no impairment is required for the period ended January 31, 2022 (October 31, 2020 - $Nil).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	January 31, 2022	October 31, 2020
Trade accounts payable	$ 139,957	$ 43,382
Accrued liabilities	180,816	25,000
Government remittances payable	7,846	-
	$ 328,619	$ 68,382

(Expressed in United States Dollars)

12. DUE FROM/TO RELATED PARTIES

	January 31, 2022	October 31, 2020
Due from related parties		
TheraCann Australia Benchmark Pty Ltd.	$ 4,966	$ -
One System One Solution, S.A.	25,460	-
TheraCann Canada Benchmark Corporation	412	-
TheraCann Canada Inc.	14,071	-
ETCH BioTrace, S.A.	5,590	-
	$ 50,499	$ -
Due to related parties		
Theracann International Benchmark Corporation	$ 2,252,896	$ 2,018,003

The amounts due from/to related parties are from companies that are owned or controlled by the majority shareholder. The amounts due from/to related parties are unsecured, non-interest bearing and due within 12 months.

13. LEASE LIABILITIES

The Company subleases commercial space and office space from its controlling shareholder. The Company's lease commenced on February 1, 2019 and extends to February 1, 2024. The Company has an option to extend the lease beyond the three-year non-cancellable term for an additional term of three years. The Company has determined that it is reasonably certain to exercise this extension period and has therefore included the future lease payments in the extension term when measuring the lease liability and right-of-use asset. The monthly lease charge is $26,729 which is subject to a variable maintenance charge and a variable 10% late fee. During the period the Company entered into a lease agreement for an office equipment. The monthly lease charge is $259. The Company has recognized the right-of-use assets in respect of these leases (Note 8).

The Company has also recognized a lease liability for those leases, which was initially measured at the present value of the future lease payments, discounted using the Company's incremental borrowing rate of 16.22% and 2% for the leased building and office equipment, respectively. Interest expense on the lease liability is included in the statements of loss and comprehensive loss. The carrying amount of the Company's lease liabilities are as follows:

(Expressed in United States Dollars)

13. **LEASE LIABILITIES** (Continued...)

The following table details the discounted cash flows and contractual maturities of the Company's lease obligations, as at January 31, 2022:

	Leased Building	Leased Equipment	Total
Balance as at October 31, 2019	$ 1,372,523	$ -	$ 1,372,523
Interest	210,317	-	210,317
Lease payments	(320,742)	-	(320,742)
Balance as at October 31, 2020	1,262,098	-	1,262,098
Additions during the period	-	9,042	9,042
Interest	235,366	56	235,422
Lease payments	(400,927)	(1,035)	(401,962)
Balance as at January 31, 2022	$ 1,096,537	$ 8,063	$ 1,104,600
Current portion	$ 158,672	$ 2,979	$ 161,651
Long-term portion	937,865	5,084	942,949
	$ 1,096,537	$ 8,063	$ 1,104,600

The following table sets out the maturity analysis of lease payments, showing the discounted lease payments to be made as at January 31, 2022:

2023	$ 161,651
2024	189,450
2025	221,043
2026	257,284
2027	275,172
Total	$ 1,104,600

(Expressed in United States Dollars)

14. DEFERRED REVENUE

Deferred revenue is comprised of customer deposits which are funds paid by customers in advance for delivery of Sprout AI Habitat Systems based on the sales agreement. All deposits are non-refundable. There are no external restrictions on the use of these deposits.

	January 31, 2022	October 31, 2020
Balance - Beginning of period	$ -	$ -
Additions	507,157	-
Balance - End of period	$ 507,157	$ -

On May 31, 2021, Sprout received from TheraCann International Benchmark Corporation a purchase order for 140 units in connection with company-owned growing habitats. A deposit of $507,157 has been received from TheraCann Australia Benchmark Pty Ltd. for this sale.

15. CONTINGENCIES AND COMMITMENTS

a) The Company is committed to minimum annual rental payments on its premises as following:

2023	$ 320,742
2024	320,742
2025	320,742
2026	320,742
2027	294,014
Total	$ 1,576,982

b) The Company is committed to equipment rental payments as following:

2023	$ 3,108
2024	3,108
2025	2,072
Total	$ 8,288

c) The Company has received statements of claim with respect to allegations of wrongful dismissal by certain employees in the amount of $318,958. In the opinion of the Company's management, the claims are without merit and any settlement will not have a material impact on the financial position, operations or cash flows of the Company. Accordingly, no provision has been recorded in these consolidated financial statements.

(Expressed in United States Dollars)

16. SHARE CAPITAL

Authorized
Unlimited Common shares without par value

	Number of Shares	Share Capital
Balance, October 31, 2019 and 2020	100	$ 10,000
Reverse acquisition transaction		
Common shares acquired from legal subsidiary	(100)	-
Equity of Sprout AI Inc.	28,000,100	536,391
Elimination of equity of Sprout AI Inc.	-	(536,391)
Issuance of common shares pursuant to reverse takeover ("RTO")	50,000,000	3,953,502
Common shares issued on exercise of special warrants	11,764,706	1,661,130
Common shares issued on closing of private placements	500,000	20,233
Common shares issued on closing of private placement	700,000	364,525
Balance, January 31, 2022	90,964,806	$ 6,009,390

The authorized share capital of the Company consists of an unlimited number of common shares without par value. All issued shares are fully paid. On the incorporation date on August 25, 2020, the Company issued 100 shares at nominal value.

Sprout was incorporated on November 19, 2018, with an authorized share capital of $10,000, which is divided into 100 common shares with a par value of $100 each.

On August 31, 2020, the Company closed a non-brokered private placement offering of 9,500,000 units at a price of $0.005 CAD per unit for gross proceeds of $47,500 CAD ($36,072 USD). Each unit consists of one common share and one common share purchase warrant. Each warrant will entitle the holder thereof to purchase one common share, for a period of twelve months at an exercise price of $0.02 CAD per warrant. A value of $Nil was assigned to the warrants.

On September 10, 2020, the Company closed a non-brokered private placement offering of 5,000,000 common shares at a price of $0.05 CAD per common share for gross proceeds of $250,000 CAD ($189,854 USD).

16. **SHARE CAPITAL** (Continued...)

On November 18, 2020, the Company closed a non-brokered private placement offering of 2,000,000 common shares at a price of $0.05 CAD per common share for gross proceeds of $100,000 CAD ($75,942 USD).

On December 2, 2020, the Company closed a non-brokered private placement offering of 2,000,000 common shares at a price of $0.05 CAD per common share for gross proceeds of $100,000 CAD ($77,316 USD).

On February 2, 2021, the Company closed a non-brokered private placement offering consisting of 11,764,706 special warrants of the Company (each, a "Special Warrant") at $0.17 CAD per Special Warrant for gross proceeds of $2,000,000 CAD ($1,560,306 USD). Each Special Warrant entitles the holder thereof to acquire, without payment of any additional consideration and without any action by the holder, one common share (each, a "Special Warrant Share") in the capital of the Company. Also, each Special Warrant will automatically convert into a common share on the earlier of: (i) the first business day following the day on which a receipt for a final prospectus has been issued to the Company by or on behalf of the securities regulatory authorities in a province of Canada or such other jurisdiction(s) as may be determined by the Company and (ii) the 240th day following the issuance of the Special Warrants.

On May 31, 2021, the Company issued 9,500,000 common shares upon exercise of warrants for gross proceeds of $190,000 CAD ($157,207 USD).

On June 1, 2021, Sprout completed the RTO with the Company and 50,000,000 Company common shares were issued with a fair value of $3,953,502 and 10,000,000 PB warrants were issued with an estimated value of $752,552 using the Black-Scholes option pricing model (Note 1 and 3).

On June 3, 2021, the Company issued 11,764,706 common shares upon conversion of the Special Warrants granted on February 2, 2021.

On June 22, 2021, the Company issued 500,000 common shares for gross proceeds of $25,000 CAD ($20,233 USD).

On August 10, 2021, the Company issued 700,000 common shares for gross proceeds of $455,000 CAD ($364,525 USD).

17. **CAPITAL STOCK RESERVE**

The company issued 10,000,000 of PB warrants pursuant to RTO with an estimated fair value of $752,552 (October 31, 2020 - $Nil) using the Black-Scholes option pricing model (notes 1 and 4). The reserve is increased by the fair value on issuance of warrants and is reduced by corresponding amounts when the warrants are exercised.

18. REVENUE

Revenue from external customers is derived as product revenue earned from end users who purchase our goods through the Company's primary distributor, TheraCann International Benchmark Corporation (TIBC). Revenue may also be derived from storage of products on behalf of end users if the end user is not able to pay final balances prior to shipment. TIBC does not mark up the cost of the Company's goods. TIBC receives payment from end user to install, operate, and maintain the Company goods at the end user location. Freight costs of the Company goods are paid either by TIBC or the end user.

The Company recognizes product and storage on a gross basis.

Products are paid by non-refundable deposits. The percentage of deposit will vary depending on size of order, time to delivery order, and shipping constraints. Typically, orders are paid with a deposit to commence order, and the remaining balance due prior to shipment to the customer's chosen destination. Deferred revenue is recorded for the period of time between when the order is placed and when the order has been shipped to the customer's chosen destination. Storage is to be paid monthly and is due on receipt of invoice.

Other revenues are from consulting services and are included in revenues in accordance with their respective agreements.

19. SEGMENTED INFORMATION

The President and Chief Operating Officer regularly assess and make allocation decisions based on contracts and projects in progress in the geographic areas of operations. Based on the fact that operations are ramping up and in the early stages of the Company's existence, management has determined that it operates as a single operating division and no segmented information is warranted.

20. LOSS PER SHARE

The calculation of basic and diluted loss per share for the period ended January 31, 2022 was based on the loss of $6,462,272 (October 31, 2020 - loss of $768,523) and weighted average number of common shares outstanding of 71,661,230 (October 31, 2020 - 50,000,000*). All warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

* - after reflection of RTO shares

21. RELATED PARTY TRANSACTIONS AND BALANCES

a) Transactions with key management personnel

Transactions with key management personnel of the Company include certain members of the Company's executive management team and the Board of Directors which have the responsibilities for strategic planning, oversight and control of the Company. During the period, the total compensation paid to executive management team and Board of Directors amounted to $195,380 (October 31, 2020 - $Nil).

21. **RELATED PARTY TRANSACTIONS AND BALANCES** (Continued...)

b) Other related party transactions

During the period, the Company received other revenue from Theracann International Benchmark Corp. in the amount of $63,613 (October 31, 2020 - $Nil) for management and consulting services provided during 2022.

During the period, the Company received other revenue from One System One solution, S.A. in the amount of $49,022 (October 31, 2020 - $Nil) for software development services provided during 2022.

During the period, the Company received a purchase order from Theracann International Benchmark Corp. A deposit of $507,157 (October 31, 2020 - $Nil) was received and recognized as deferred revenue.

During the period, the Company was charged management services in the amount of $Nil (October 31, 2020 - $164,158) by its parent company, which represents an estimate of parent company resources used in relation to the activities of the Company.

During the period, the Company was charged $320,724 (October 31, 2020 - $320,742) by its parent company, in connection with the Company's premises sublease.

During the period, the Company was charged a software licensing fee in the amount of $52,485 (October 31, 2020 - $Nil) by One System One Solution, S.A., a wholly owned subsidiary of the parent company.

22. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company's financial instruments consist of cash, accounts receivable and other, due from related parties, accounts payable and accrued liabilities and due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to credit, liquidity or market risks arising from these financial instruments.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk on the accounts receivable from its customers and due from related parties. In order to reduce its credit risk, the Company has adopted credit policies which include the analysis of the financial position of its customers and regular review of their credit limits. As at January 31, 2022, 100% of the contracted revenues are from two related companies.

As of January 31, 2022, the Company had $93,554 (October 31, 2020 - $Nil) of financial assets carried at amortized cost which were subject to expected credit loss assessment in accordance with IFRS 9. The Company had determined $Nil (October 31, 2020 - $Nil) for the allowance for expected credit loss as $43,055 (October 31, 2020 - $Nil) of the balance was due and collected within 30 days and $50,499 was due within 12 months. There was no history of default for those debtors.

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipates it will need additional capital in the future to finance ongoing operations, such capital to be derived from the exercise of outstanding warrants and/or the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to fund its operations, although the Company has been successful in the past in financing its activities through the sale of equity securities.

The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and operational success. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

While the Company has been successful in securing parent company loans in the past, there is no assurance that it will be able to do so in the future. All the Company's liabilities, with the exception of the lease liabilities, are due within the next 12 months.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

Foreign currency risk is the risk is the risk to the Company's earnings that arises from volatility in foreign exchange rates. The Company may have contracts with clients to receive fees in currencies other than its measurement currency. This may have an adverse effect on the value of future revenues and assets dominated in currencies other than the United States Dollars, absent any Company specific event. The Company has cash in Canadian dollars in the amount of $125,121 that is subject to foreign currency risk. The Company does not hedge its exposure to foreign currency risk.

Interest rate risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. The Company's cash balance are not subject to significant interest rate risk as balances are current and the parent company loans are short term and non-interest bearing.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest risk or currency risk. The Company is not exposed to any other price risk.

(Expressed in United States Dollars)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued...)

Fair value measurements of financial assets

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, accounts payable and accrued liabilities and due to/from related parties approximate their carrying value due to their short term in nature. The Company's cash is measured at fair value using Level 1 inputs.

23. INCOME TAXES

A reconciliation of income taxes at statutory rates to reported taxes is as follows:

	January 31, 2022	October 31, 2020
Net loss	$ 6,462,272	$ 768,523
Statutory tax rate	26.50 %	26.50 %
Expected income tax recovery at the statutory tax rate	1,712,502	203,659
Increase (decrease) in income tax recovery resulting from:		
Non deductible expenses on unrealized foreign exchange loss	8,029	-
Difference in tax rates in foreign jurisdiction (a)	(363,346)	-
Non deductible expenses on reverse acquisition	(1,157,463)	(203,659)
Non-capital losses unutilized	(199,722)	-
	$ -	$ -

(a) Sprout AI S.A. is domiciled in Panama and has tax exempt status where it is not subject to corporate income tax on any of its domestic and foreign sales. This tax exempt status expire in 2027 but can be further extended under current tax legislation.

(Expressed in United States Dollars)

23. **INCOME TAXES** (Continued...)

(b) Sprout AI Inc. and Sprout AI Australia PTY are subject to the tax legislations of their respective jurisdictions of domicile.

The Company recognizes tax benefits on losses or other deductible amounts generated where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consists of the following amounts:

	January 31, 2022	October 31, 2020
Deferred tax assets		
Non-capital losses	$ 199,722	$ -
Unrecognized deferred tax	$ 199,722	$ -

As at January 31, 2022, the Company has available losses that may be carried forward to apply against future years' income for income tax purposes. The approximate losses expire as follows:

2042	$ 753,668

The potential benefits of these carry forward non-capital losses and deductible temporary differences has not been recognized in these financial statements as it is not considered probable that there will be sufficient future taxable profit to utilize the deferred tax assets.

24. **CAPITAL MANAGEMENT**

The Company manages share capital and capital stock reserve as capital. The objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. There were no changes to the Company's approach to capital management since incorporation. The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital for the development of its business and will need to raise additional capital by obtaining equity financing through private placements or debt financing. The Company may raise additional debt or equity financing in the near future to meet its current obligations.

(Expressed in United States Dollars)

25. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current period. The following is a summary of the reclassification on the consolidated financial statements for the year ended October 31, 2020.

Year ended October 31, 2020	Previously reported	Reclassification	As adjusted
General and administrative	$ 273,409	$ (254,107)	$ 19,302
Professional fees	-	254,107	254,107
	$ 273,409	$ -	$ 273,409

26. SUBSEQUENT EVENTS

The Company's shares are subject to a Cease Trade Order ("CTO") on the Canadian Stock Exchange effective April 6, 2022. The CTO occurred due to consolidated financial statement filings which were past due. Sprout's filing requirements were missed due to mis-interpretations in the year-end period that transpired with the RTO. Sprout AI intends to correct these deficiencies in the near-term and will request removal of the CTO in September 2022.