



CubicFarm Systems Corp.
Condensed Interim Consolidated Financial Statements
For The Three Months Ended September 30, 2019 and 2018
(Unaudited)

NOTICE OF NO AUDITOR REVIEW

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating as such.

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

Financial Statements

Condensed Interim Consolidated Statement of Financial Position.....	1
Condensed Interim Consolidated Statement of Loss and Other Comprehensive Loss.....	2
Condensed Interim Consolidated Statement of Changes in Equity	3
Condensed Interim Consolidated Statement of Cash Flows.....	4
Notes to the Condensed Interim Consolidated Financial Statements.....	5 to 16

CubicFarm Systems Corp.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

	Notes	September 30, 2019	June 30, 2019
		\$	\$
Assets			
Current			
Cash & Cash Equivalent		5,593,968	9,900,987
Restricted Cash	6	310,000	310,000
Trade & Other Receivables	7	461,106	969,920
Inventory	8	900,804	225,635
Prepaid expenses & Deposits	9	3,233,952	1,699,048
		10,499,830	13,105,590
Non-current			
Property, Plant and Equipment	10	3,111,547	3,132,936
Promissory note, associate	11	287,016	269,132
Investment in Associate	11	488,317	546,541
Intangible Assets	12	1,026,974	1,048,295
Right-of-Use Asset	5	783,064	-
		5,696,918	4,996,904
Total assets		16,196,748	18,102,494
Liabilities			
Current			
Trade & Other Payables	13	566,469	1,259,761
Customer Deposits	14	2,280,305	2,280,305
Lease Payable	5	81,841	-
Warranty Provision		251,769	388,649
		3,180,384	3,928,715
Non-current			
Lease Payable	5	702,609	-
Total liabilities		3,882,993	3,928,715
Equity			
Share Capital	18	22,932,279	22,740,341
Equity Reserves		1,635,295	1,411,110
(Deficit)/Surplus		(12,253,819)	(9,977,672)
Total equity		12,313,755	14,173,779
Total liabilities and equity		16,196,748	18,102,494
Commitments	17		

Approved on behalf of the Board

Director

Director

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

CubicFarm Systems Corp.
Condensed Interim Consolidated Statements of Loss and Other Comprehensive Loss

(Unaudited)
(Expressed in Canadian dollars)

	Notes	For the three months ended	
		September 30, 2019	September 30, 2018
		\$	\$
Sales			
Systems		240,701	-
Cost of sales			
Systems		120,701	(4,498)
Gross margin		120,000	4,498
Operating and General Admin expenses	15	1,693,489	286,213
Selling expenses		23,050	27,229
Research & Development		356,746	171,212
Share based compensation	19	137,125	-
		2,210,410	484,654
Loss before other income (expense)		(2,090,410)	(480,156)
Other income (expense)			
Finance income		41,388	-
Finance expense		(13)	(195)
Accretion of lease liability	5	(368)	-
Foreign exchange gain(loss)		(7,318)	11,574
Loss on investment in associate		(40,340)	-
Public listing		(33,466)	-
Bad Debt expense		(145,620)	-
		(185,737)	11,379
Net loss and comprehensive loss for the period		(2,276,147)	(468,777)
Earnings (loss) per share			
Basic		\$ (0.03)	\$ (0.01)
Diluted		\$ (0.03)	\$ (0.01)

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

CubicFarm Systems Corp.
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
(Expressed in Canadian dollars)

	<i>Common Share capital</i>	<i>Preferred Share capital</i>	<i>Equity Reserves</i>	<i>Deficit</i>	<i>Total equity</i>
Balance, June 30, 2018	\$ 2,098,134	\$ 3,524,804	\$ 213,109	\$ (2,347,048)	\$ 3,488,999
Net loss for the period	-	-	-	(468,777)	(468,777)
Share-based payments	-	-	-	-	-
Conversion of Preferred Shares	3,524,804	(3,524,804)	-	-	-
Balance, September 30, 2018	\$ 5,622,938	\$ -	\$ 213,109	\$ (2,815,825)	\$ 3,020,222
Net loss for the period	-	-	-	(7,161,847)	(7,161,847)
Issuance of shares to settle accounts payable	2,402,740	-	-	-	2,402,740
Issuance of shares, net of share issuance costs	14,714,663	-	(386,667)	-	14,327,996
Share-based payments	-	-	1,584,668	-	1,584,668
Balance, June 30, 2019	\$ 22,740,341	\$ -	\$ 1,411,110	\$ (9,977,672)	\$ 14,173,779
Net loss for the period	-	-	-	(2,276,147)	(2,276,147)
Exercise of stock options	42,134	-	(19,524)	-	22,610
Issuance of shares, net of share issuance costs	149,804	-	-	-	149,804
Share-based payments	-	-	243,709	-	243,709
Balance, September 30, 2019	\$ 22,932,279	\$ -	\$ 1,635,295	\$ (12,253,819)	\$ 12,313,755

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

CubicFarm Systems Corp.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

	For the three months ended	
	September 30, 2019	September 30, 2018
	\$	\$
Cash provided by (used for) the following activities		
Operating activities		
Net loss for the period	(2,276,147)	(468,777)
Depreciation - Property, plant and equipment	108,263	18,128
Depreciation - Right-of-use asset	22,296	-
Accretion of lease liability	368	-
Amortization	21,322	-
Provision for bad debt and bad debt written off	145,620	-
Share-based payments	243,709	-
Loss on investment in associate	40,340	-
Interest income	(41,388)	-
	(1,735,617)	(450,649)
Changes in working capital accounts		
Trade and other receivables	413,194	(19,309)
Inventories	(675,169)	(2,780,956)
Prepaid expenses and deposits	(1,534,904)	429,244
Trade and other payables	(693,292)	263,180
Customer deposits	-	1,676,467
Warranty provision	(136,880)	-
	(2,627,051)	(431,374)
Investing activities		
Purchases of property, plant, and equipment	(86,874)	(22,585)
Promissory note, associate	(50,000)	(398,323)
Interest Income	41,388	-
	(95,486)	(420,908)
Financing activities		
Issuance of shares	149,804	-
Exercise of stock options	22,610	-
Lease payments	(21,279)	-
Proceeds from Short term Loan	-	96,211
	151,135	96,211
Increase (decrease) in cash and cash equivalents	(4,307,019)	(1,206,720)
Cash and cash equivalents, beginning of period	9,900,987	2,509,946
Cash and cash equivalents, end of period	5,593,968	1,303,226

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



CubicFarm Systems Corp.
Condensed Interim Notes to Consolidated Financial Statements
For The Three Months Ended September 30, 2019 and 2018
(Unaudited)

NOTICE OF NO AUDITOR REVIEW

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating as such.

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

CubicFarm Systems Corp.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2019

(Unaudited)(Expressed in Canadian dollars, unless otherwise stated.)

1. Reporting entity

CubicFarm Systems Corp. (the "Company") was incorporated under the Business Corporations Act of British Columbia on October 8, 2015. The Company is domiciled in Canada and its principal address is 9449-202 Street, Unit 117, Langley, BC, V1M 4A6.

The Company listed its common shares of the Company on the TSXV as a Tier 1 in July 2019. The Company's common shares trade on the TSXV in Canada under the symbol "CUB".

The Company is a start-up agriculture technology and vertical farming company. The Company, through its subsidiaries, develops and employs a modular growing system with patented technology (the "System") to provide high-quality, predictable crop yields for farms around the world. In addition, the Company leverages its technology by creating joint ventures with partner farms and by operating its own facility in Pitt Meadows, British Columbia.

2. Statement of compliance

The interim condensed consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") applicable to the preparation of interim financial statements. The interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended June 30, 2019, which have been prepared in accordance with IFRS. The accounting policies adopted are consistent with those of the previous financial year except as described in Note 5 below.

The Board of Directors approved these interim condensed consolidated financial statements on November 28, 2019.

3. Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds there from, and to continue to obtain borrowings or issue equity from third parties sufficient to meet current and future obligations. These interim condensed consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the company were unable to continue its operations.

4. Basis of preparation***Basis of measurement***

These interim condensed consolidated financial statements are presented in Canadian dollars. They are prepared on a historical cost basis, with the exception of Promissory note, associate, which is measured at fair value (Note 11).

Significant accounting judgements, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to select accounting policies and make estimates and judgments that may have a significant impact on the financial statements and accompanying notes. Estimates are continuously evaluated and are based on management's experience and expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from these estimates.

CubicFarm Systems Corp.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2019

(Unaudited)(Expressed in Canadian dollars, unless otherwise stated.)

4. Basis of preparation (continued)

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements for the year ended June 30, 2019, except for the judgments and assumptions applied by the Company for the adoption of IFRS 16, as described in Note 5 below.

5. Adoption of new and amended accounting standards**IFRS 16 Leases**

IFRS 16 Leases sets out the principles for recognition, measurement, presentation, and disclosure of leases. It eliminates the classification of leases as either operating or finance leases required by IAS 17 and introduces a single lessee accounting model.

The Company leases its office space, the farming facility in Pitt Meadows, British Columbia, and one vehicle. The office space and vehicle leases both have a term of one year. The farming facility is leased for five years, with an option to renew for a further five years. Until June 30, 2019, all leases of the Company were classified as operating leases and payments made were charged directly to profit or loss.

From July 1, 2019, leases are recognized as a right-to-use asset with a corresponding liability at the date at which the leased asset is available for use. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a term of 12 months or less.

The Company adopted IFRS 16 retrospectively from July 1, 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. Therefore, the adjustments arising from the new leasing rules were recognized in the opening balance sheet on July 1, 2019.

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard.

- Account for leases with a remaining term of less than 12 months as of July 1, 2019 as short-term leases;
- Application of a single discount rate to a portfolio of leases with similar characteristics;
- Account for lease payments as an expense and not recognize a right-to-use asset if the underlying asset is of low dollar value (\$5000 or lower); and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to its farming facility. The Company applied the practical expedient to the office space and vehicle lease, as they are for a period less than 12-months. The term of the lease of the farming facility is five years with an option to renew. The management of the Company expects that the facility will be used until 2028.

The liability pertaining to the lease of the farming facility was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 6.99%. The associated right-of-use asset

CubicFarm Systems Corp.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2019

(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

5. Adoption of new and amended accounting standards (continued)

was measured at the value of the lease liability. As a result, on July 1, 2019, the Company recognized total lease liabilities and right-of-use assets of \$805,360.

Here is the reconciliation of lease commitments as reported at June 30, 2019 to the lease liabilities recorded at July 1, 2019

Particulars	\$
Operating lease commitment as at June 30, 2019	123,727
Discounted using company's incremental borrowing rate at initial recognition	112,136
Less: Short term leases recognized on a straight-line basis as expense	(78,256)
Add: Additional estimated variable payments under IFRS 16	715,240
Add: Change in estimate for additional period (5 years)	56,240
Balance as at June 1, 2019	805,360
Of Which	
Current Lease payment	81,841
Non-current Lease payment	723,872
	805,360

A continuity of the Company's lease liability and the right-of-use asset for the farming facility is as follows:

Lease liability	September 30, 2019
	\$
Balance as at July 1, 2019	-
Adoption of IFRS 16	805,360
Payments	(21,278)
Accretion expense	368
	784,450
Less: Current portion	(81,841)
Long-term	702,609
Right-of-Use Asset	September 30, 2019
	\$
Balance as at July 1, 2019	-
Adoption of IFRS 16	805,360
Depreciation	(22,296)
	783,064

The lessor of the farming facility is a related party to the Company.

CubicFarm Systems Corp.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2019

(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

5. Adoption of new and amended accounting standards (continued)**IFRS 28 Interest in Associates and Joint Ventures**

Amendments were made to IAS 28, clarifying that IFRS 9, Financial Instruments requirements, including its impairment requirements, apply to long-term interests. The expected credit loss impairment requirements in IFRS 9 are applied first to long-term interests, followed by the adjustments to their carrying amount required by IAS 28, i.e. the adjustments resulting from the allocation of losses of the investees. This is followed by the determination of whether there are indicators of impairment which require an impairment test to be applied to the entire remaining carrying amount of the investment in the associate or joint venture.

The Company adopted these amendments on July 1, 2019. The Company has 50% investment in Swiss Leaf Farms Ltd. ("Swiss Farm") (Note 12), which is accounted for under the equity method. The Company has also provided loans to Swiss Farm. The promissory note receivable from Swiss Farm is measured at fair value and for additional loans to Swiss Farm, the Company has applied the impairment requirements of IFRS 9 and written off the related balances (Note 17). As at July 1, 2019 and September 30, 2019, the management of the Company determined that the balance remaining for the investment in associates was not impaired. As a result, the adoption of the amendments to IAS 28 did not have any impact on the consolidated financial statements of the Company.

6. Restricted Cash

Restricted cash pertains to the amount in GIC for the guarantee of Letter of Credit. The guarantee will expire on Nov 30, 2019 upon which it will be converted to cash and cash equivalent.

7. Accounts receivable

As is typical in the agriculture sector, the Company may offer extended terms on its accounts receivable to match the cash flow cycle of its customer. The following table sets forth details of the age of trade accounts receivable that are not overdue, as well as an analysis of overdue amounts.

	September 30, 2019	June 30, 2019
	\$	\$
Trade accounts receivable (net)	227,667	362,588
Note receivable	278,015	205,874
Interest receivable	18,527	12,352
Less: Provision for loss on Short term receivable (Note Receivable & Interest Receivable)	(296,545)	(218,226)
Goods and services tax receivable	233,439	231,881
Other Receivable	-	375,451
	461,106	969,920

In January 2019, the Company accepted a short-term promissory note in the amount of \$205,874 from its associate (Note 11) in exchange of the same amount of accounts receivable from associate. The note is payable in full on February 1, 2020 and bears an interest rate of 1% per month. The company has fully provided for the short-term receivable from associate and related interest receivable on it considering the inability of the associate to pay off by the due date of loan. On September 25, 2019, the company loaned \$50,000 to Swiss Leaf and accepted another short-term promissory note. This promissory note does not earn any interest. The Company has fully provided for this additional promissory note also.

The trade accounts receivable balance is net of provision for bad debt. Out of trade accounts receivable 45% is receivable from one customer however company does not feel it needs to separately provide for this amount. Other Receivable consists of reimbursement of expenses by customers. The amount of \$116,850 was provided for allowance for bad debt related to related party and \$1,297 for other customers.

CubicFarm Systems Corp.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2019

(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

8. Inventory

	September 30, 2019	June 30, 2019
	\$	\$
Systems – in progress	815,773	140,604
Seeds and other supplies	47,720	47,720
Packaging and other	37,311	37,311
	900,804	225,635

System – in progress is the container in hand available for sale by the Company. The net realizable value of inventory as on September 30, 2019 and June 30, 2019 are higher than the cost so the Company has reported the inventory at cost in the financial statement.

9. Prepaid expenses

	September 30, 2019	June 30, 2019
	\$	\$
Deposits for Systems inventory (i)	3,131,326	1,648,288
Prepaid expenses and deposits, other	102,626	50,760
	3,233,952	1,699,048

- (i) Current practice of the Company is to put down deposit for the containers. Such containers are shipped upon the deposit being paid in full. There are no critical terms and this deposit does not expire.

10. Property, plant, and equipment

	Production Equipment	Other Production Equipment	Leasehold Improvement	Furniture and fixtures	Other equipment	Construction In Progress	Computer Equipment	Total
Cost	\$	\$	\$	\$	\$	\$	\$	\$
Balance June 30, 2019	1,534,779	599,483	165,980	23,529	302,595	677,780	104,351	3,408,497
Additions	-	-	-	5,805	30,591	29,846	20,633	86,875
Balance September 30, 2019	1,534,779	599,483	165,980	29,334	333,186	707,626	124,984	3,495,372
Accumulated depreciation								
Balance June 30, 2019	71,096	109,390	16,598	2,353	60,486	-	15,638	275,561
Depreciation	31,712	49,957	8,299	1,223	9,653	-	7,420	108,264
Balance September 30, 2019	102,808	159,347	24,897	3,576	70,139	-	23,058	383,825
Net book value, September 30, 2019	1,431,971	440,136	141,083	25,758	263,047	707,626	101,926	3,111,547
Net book value, June 30, 2019	1,463,683	490,093	149,382	21,176	242,109	677,780	88,713	3,132,936

CubicFarm Systems Corp.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2019

(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

11. Investment in associate

The Company owns 50% of the shares of Swiss Leaf Farms Ltd. Swiss Leaf is a farming operation in Alberta committed to growing fresh, clean, pesticide free produce.

The Company contributed \$848,323 in total, which consisted of \$120 in share capital and balance in shareholder loan. The shareholders loan is in a form of an unsecured, non-interest-bearing promissory note, repayable in full on February 1, 2024. The fair value of the promissory note at September 30, 2019 was determined to be \$287,016 (June 30, 2019 - \$269,132). The rate of 25% is considered as the discounting rate as the promissory note is related to the unsecured loan and 25% is considered a required rate of return any venture capital investor will want on their investment. Allowance of \$10,600 has also been provided for the promissory note.

The investment in associate has been accounted for by the equity method and as such was initially recognized at cost. The carrying amount was then adjusted to recognize the Company's share of the net income in Swiss Leaf subsequent to the acquisition. At September 30, 2019, the investment in Swiss Leaf has a carrying amount of \$488,317 (June 30, 2019 - \$546,541).

12. Intangible assets

	Patent	Development Assets	Total
Cost	\$	\$	\$
30-Jun-18	50,000	1,136,810	1,186,810
Additions	-	-	-
Disposals	-	-	-
30-Jun-19	50,000	1,136,810	1,186,810
Accumulated depreciation			
30-Jun-18	6,645	131,870	138,515
Amortization	859	20,463	21,321
Disposals	-	-	-
30-Sep-19	7,504	152,333	159,836
Net book value, September 30, 2019	42,496	984,477	1,026,974
Net book value, June 30, 2019	43,355	1,004,940	1,048,295

13. Trade and other payables

Trade and other payables consist of:

	September 30, 2019	June 30, 2019
	\$	\$
Trade Payable	460,525	769,596
WCB Payable	19,274	10,838
PST Payable	10,114	10,002
Accrued Expenses	76,556	469,325
Total	566,469	1,259,761

CubicFarm Systems Corp.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2019

(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

14. Customer deposits

Customer deposits consist of funds paid by customers for Systems based on the sales agreement. The customer may cancel the order prior to shipping of the equipment, subject to the following restocking fees. If the customer cancels the order before the manufacturing of the equipment has commenced, the customer shall pay a restocking fee equal to ten percent (10%) of the purchase price. If the customer cancels the order thereafter but prior to shipping of the equipment, the customer shall pay a restocking fee equal to twenty percent (20%) of the purchase price. The order shall not be cancellable after shipping of the equipment.

There is no external restriction on the use of these deposits.

	September 30, 2019	June 30, 2019
	\$	\$
Balance – Opening	2,280,305	883,692
Additions	-	4,129,699
Recognized into revenue	-	(2,733,086)
Balance – Ending	2,280,305	2,280,305

15. Operating & general admin expenses

	Three Months Ended Sept 30, 2019	Three Months Ended Sept 30, 2018
	\$	\$
Depreciation	108,263	7,432
Depreciation Lease	22,296	-
Amortization	21,322	-
Consulting	370,278	57,582
Insurance	7,818	53
Operational Supplies	5,511	3,817
Salary, Wages and benefits	629,071	131,812
Travel & Accommodation	56,278	26,305
Repair and Maintenance	16,821	3,149
Office & general	98,611	18,811
Professional fees	117,663	14,926
Marketing & advertising	68,797	22,326
Travel & investor relations	41,784	-
Regulator Fees	8,132	-
Business Development	120,844	-
	1,693,489	286,213

CubicFarm Systems Corp.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2019

(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

16. Related party transactions

All transactions with related parties have occurred in the normal course of operations. All amounts are unsecured, non-interest bearing and have no specific terms of settlement, unless otherwise noted.

Transactions with entities with significant influence over the Company

During the period ended September 30, 2019, the Company paid rent to Bevo Farms (Note 5) that has significant influence over the Company, in the amount of \$21,278 (2018 - \$11,500). Accounts receivable from Bevo is \$967 & Accounts Payable is \$8,269 (2018 - \$160,036 and \$145,413, respectively).

Key management compensation

Key management of the Company are members of the board of directors and officers of the company. The company paid and/or accrued the following compensation to key management during the reporting periods:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018
	\$	\$
Wages and consulting fees	393,750	88,000
Share-based compensation	94,819	-
Total	488,569	88,000

Company has made 50% investment in Swiss Leaf (Note 11). As at September 30, 2019, Accounts Receivable from Swiss Leaf was \$11,925 and \$0 is payable to Swiss Leaf (June 30, 2019 - \$3,001 and \$6,994, respectively).

On January 28, 2019 the Company completed a private placement with a strategic investor, Pursuant to the Investment Agreement, Nu Skin has the pre-emptive right to participate in future equity financings of the Company to maintain its pro rata ownership of the Company up to a maximum 12.9% ownership interest. This right is available to Nu Skin for as long as it owns not less than 8% of the Company's shares. As at September 30, 2019, common shares transactions with Nu Skin have been as follows, for its total ownership interest in the Company on non-diluted basis of 12.88%:

Date	# of common shares	Share price	Gross proceeds
January 28, 2019	9,953,913	1.00463	10,000,000
May 8, 2019	767,503	1.00463	771,056
August 16, 2019	158,171	0.9471	149,804
	10,879,587		10,920,860

As at September 30, 2019, accounts and other receivable from Nu Skin was \$8,336 (June 30, 2019 - \$487,254).

In January 2019, the Company accepted a short-term promissory note in the amount of \$205,874 from its associate (Note 11) in exchange of the same amount of accounts receivable from associate. The note is payable in full on February 1, 2020 and bears an interest rate of 1% per month. The company has fully provided for the short-term receivable from associate and related interest receivable on it considering the inability of the associate to pay off by the due date of loan. On September 25, 2019, the company loaned \$50,000 to Swiss Leaf and accepted another short-term promissory note. This promissory note does not earn any interest. The Company has fully provided for this additional promissory note also.

CubicFarm Systems Corp.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2019

(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

17. Commitments

As at September 30, 2019, the Company had committed to purchase systems totalling \$82,769 (June 30, 2019 - \$458,716).

18. Share capital

As at September 30, 2019, the Company had 84,456,885 common shares outstanding (June 30, 2019 – 84,179,714). Common shares have no par value, carry one vote per share and carry a right to dividends. The Company is authorized to issue unlimited number of its common shares and preferred shares.

	Number of shares	Share capital
Common shares		\$
Balance – June 30, 2018	60,103,186	2,098,134
Private placements	13,462,691	13,525,038
Cash share issuance costs	-	(43,343)
Options exercised	2,300,000	447,500
Preferred shares converted to common shares	7,175,448	5,927,544
Shares issued for services	1,138,389	1,000,000
Non-cash share issuance costs	-	(601,199)
Transfer from equity reserves	-	386,667
Balance – June 30, 2019	84,179,714	22,740,341
Private placements (i)	158,171	149,804
Options exercised	119,000	22,610
Transfer from equity reserves	-	19,524
Balance – September 30, 2019	84,456,885	22,932,279

(i) 158,171 shares purchased by Nuskin @ 0.9471

19. Stock options

The Company has an ownership-based compensation plan (“Option Plan”) for key management personnel and employees of the Company. The compensation plan as approved by the shareholders provides the key management personnel and employees with the option to purchase ordinary shares at an exercise price as listed below.

Each share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of the options granted is calculated in accordance with the various employee and contractor arrangements. The formula rewards key management personnel and certain contractors to the extent of the Company’s and individual/contractor achievement against qualitative and/or quantitative criteria from including some of the following financial and customer service measures:

- Improvement in share price
- Improvement in EBITDA
- Shipment of Cubic Systems
- Meeting sales targets
- Years of service with the Company.

CubicFarm Systems Corp.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2019

(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

19. Stock options (continued)

All options are to be settled by physical delivery of shares.

Share purchase options continuity schedule:

	Number of share purchase options	Weighted average exercise price
		\$
Balance, June 30, 2018	20,300,766	0.19
Granted	13,265,000	0.85
Exercised	(2,300,000)	0.19
Surrendered	(1,380,000)	0.83
Forfeited	(230,000)	0.83
Balance, June 30, 2019	29,655,766	0.45
Exercised	(119,000)	0.19
Balance, September 30, 2019	29,536,766	0.45

During the period ended September 30, 2019, the weighted average price of share when options was exercised was \$0.85 (June 30, 2019 - \$1.00463).

Share purchase options outstanding at September 30, 2019:

Grant date - Expiry date	Options Outstanding (#)	Contractual life of options - years	Exercise price \$	Options Exercisable (#)
May 3, 2017-April 1 2027	14,130,096	10	0.19	5,434,624
November 1, 2017 - January 30, 2023	230,000	5	0.19	92,000
November 1, 2017 - January 30, 2023	282,670	5	0.19	55,200
November 1, 2017 - January 30, 2023	1,560,000	5	0.19	870,000
November 1, 2017 - January 30, 2023	184,000	5	0.19	-
November 1, 2017 - January 30, 2023	230,000	5	0.19	23,000
November 1, 2017 - January 30, 2023	115,000	5	0.19	23,000
November 1, 2017 - January 30, 2023	92,000	5	0.19	23,000
November 1, 2017 - January 30, 2023	115,000	5	0.19	57,500
November 1, 2017 - January 30, 2023	184,000	5	0.19	92,000
November 1, 2017 - January 30, 2023	184,000	5	0.19	46,000
March 20, 2018 - March 30, 2023	115,000	5	0.19	23,000
March 20, 2018 - March 30, 2023	230,000	5	0.19	230,000
March 20, 2018 - March 30, 2023	230,000	5	0.19	230,000
July 15, 2018 – July 15, 2023	10,120,000	5	0.83	1,030,400
October 15, 2018 – December 15, 2019	46,000	1	0.83	46,000
October 15, 2018 – December 15, 2020	46,000	2	0.83	-
October 15, 2018 – December 15, 2021	46,000	3	0.83	-
October 15, 2018 – December 15, 2022	46,000	4	0.83	-
October 15, 2018 – December 15, 2023	46,000	5	0.83	-
June 18, 2019 –September 15, 2020	300,000	1	1.00	-
June 18, 2019 –September 17, 2020	100,000	1	1.00	25,000
June 18, 2019 – December 15, 2023	905,000	5	1.00	226,667
Total share purchase options	29,536,766			8,527,391

CubicFarm Systems Corp.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2019

(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

19. Stock options (continued)

The fair value of the share purchase options granted during the year ended June 30, 2019 was calculated using the Black-Scholes option valuation model at the grant date, with the following weighted average assumptions: share price volatility – 75% for all options granted in FY 2018-19, Risk free interest rate – 2.03% (for options granted on 15 July 2018) & 1.33% other options granted in the year, expected dividend yield - \$nil, expected forfeiture rate – 20% for employee and -25% for board of directors.

The share-based compensation for the period ended September 30, 2019 was \$243,709 (September 30, 2018 - \$nil). Total compensation amount of \$106,584 (September 30, 2018 - \$nil) related to stock options granted to vendors is included within Operating & G&A expenses, whereas the compensation related to the stock options granted to employees and directors of the Company amounting to \$137,125 (September 30, 2018 - \$nil) is recognized as share-based compensation in the Company's statement of loss and comprehensive loss.

20. Capital management

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustment to it considering changes to economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The company monitors capital based on the net equity. Net equity is calculated as total assets less total liabilities.

During the year, the company's strategy, which was unchanged from the prior year, was to maintain net equity as a positive amount. The net equity at September 30, 2019 and June 30, 2019 were as follows:

	September 30, 2019	June 30, 2019
Total Assets	16,196,748	18,102,494
Total Liabilities	<u>(3,882,993)</u>	<u>(3,928,715)</u>
Net Equity	12,313,775	14,173,779

21. Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, trade payables, customers deposits, demand loan and amounts due from an associate. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The following summarizes fair value hierarchy under which the Company's financial instruments are valued:

- Level 1 – fair values based on unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – fair values based on inputs that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – fair values based on inputs for the asset or liability that are not based on observable market data.

As at September 30, 2019, the Company did not have any financial instruments measured at fair value, except for long-term note receivable from an associate (note 11), categorized within Level 2 of the fair value hierarchy.

CubicFarm Systems Corp.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2019

(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

21. Financial Instruments and Other Instruments (continued)

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at September 30, 2019 the primary risks were as follows:

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 any obligations. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. As at September 30, 2019, one customer accounted for 45% of the trade accounts receivable (94% of which is current as at September 30, 2019). The Company believes there is no unusual exposure associated with the collection of these receivables. The Company performs regular credit assessments on its customers and provides allowances for potentially uncollectible accounts receivable.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts which earn interest at variable rates, but it does not believe it is currently subject to any significant interest rate risk.

Liquidity risk

At this stage the Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short-term borrowing. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. Accounts payable and accrued liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As at September 30, 2019, the following items are denominated in US dollars:

	September 30, 2019	June 30, 2019
	\$	\$
Cash	334,418	455,646
Accounts receivable	49,482	492,431
Accounts payable	(101,604)	(43,205)
Customer deposits	(585,600)	(585,600)
Net exposure	(303,304)	319,151

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As the only foreign currency the company transacts in is USD and it is not subject to significant variance; the company has not made any special arrangements to reduce the related currency risk. Net exposure is negative as on September 30, 2019 as compared to June 30, 2019.

A 10% increase or decrease in the US dollar exchange rate would not have a material impact on the Company's net loss. Management is continuing efforts to increase sales and attract additional equity and capital investors to continue R&D activities, and, from the other side, implement effective cost control measures to maintain adequate levels of working capital.



Management's Discussion and Analysis

For The Quarter Ended September 30, 2019

Dated: November 28, 2019

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of the operations of CubicFarm Systems Corp., (the "Company" or "CubicFarms") constitutes management's review of the factors affecting the Company's financial and operating performance as at and for the three months ended September 30, 2019. This MD&A is prepared by management and should be read in conjunction with the interim condensed consolidated financial statements for three months ended September 30, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements. All dollar amounts herein are expressed in Canadian dollars unless stated otherwise.

The effective date of this MD&A is on November 28, 2019.

In this discussion, unless otherwise indicated, a reference to the business and operations of the Company includes the business and operations of CubicFarm Systems Corp. and its wholly owned subsidiaries: CubicFarm Manufacturing Corp., CubicFarm Innovation Corp., CubicFarm Services Corp., CubicFarm Produce (Canada) Corp., and CubicFarm Capital Corp.

Additional information, including news releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available under the Company's profile at www.sedar.com

Forward-Looking Statements

Certain statements contained in the following MD&A constitute forward-looking statements. These statements are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "plans", "forecasts", "budgets", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or management, are intended to identify forward-looking statements. Such forward-looking statements include, but are not limited to statements related to future sales of machines (in particular under the heading "Forward-Looking Guidance", statements regarding the Company's ability to close sales in the current sales pipeline, continue generating revenues, scale its operations, available funds and use and principal purpose of available funds, and its ability to raise sufficient financing, if and when necessary, to continue its operations. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors including, but not limited to, financial, operational, environmental and political risks, general equity and market conditions. The outcome of these factors may cause the actual results and performance of the Company to be materially different from any plans or results expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements. The Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, however, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward looking information will not be updated unless required by law or securities regulations. For a comprehensive list of the risks and uncertainties applicable to the Company, refer to Item 21 of the Company's application for the listing of its common shares on the TSX Venture Exchange ("TSXV") available at www.sedar.com.

About the Company and Nature of Business

The Company was incorporated under the Business Corporations Act of British Columbia on October 8, 2015. The Company is domiciled in Canada and its principal address is 9449-202 Street, Unit 117, Langley, BC, V1M 4A6.

The Company listed its common shares of the Company on the TSXV as a Tier 1 in July 2019. The Company's common shares trade on the TSXV in Canada under the symbol "CUB".

The Company is an agriculture technology and vertical farming company and through its wholly owned subsidiaries, develops, employs and sells modular growing systems with patented technology (the "System") to provide high-quality, predictable crop yields for farms around the world. In addition, the Company leverages its technology by creating joint ventures with partner farms and by operating its own facility in Pitt Meadows, British Columbia.

CubicFarms' System addresses the two most difficult challenges in the vertical farming industry - high electricity and labor costs - using unique undulating path technology.

The System is a low-cost solution that enables farmers to grow high value crops, year-round, in close proximity to consumers, even in areas with limited access to water and arable land. The System uses less water, labour and land than traditional farming. The Company believes that the System grows better crops with higher yields at lower cost, delivering better profit margins and profits for farmers. Through this proprietary technology and its time-tested industry expertise, the Company helps its partner farms develop a sustainable local competitive advantage while providing consumers with fresh locally grown vegetables and other products.

Corporate and Operational Highlights in fiscal 2020

On July 9, 2019 the Company's common shares commenced trading on the TSX Venture Exchange as a Tier One issue under the symbol "CUB"

On July 11, 2019 the Company announced that the Company signed an agreement for a large scale commercial CubicFarm system in the Calgary, AB area and received \$412,764 in June 2019 from the customer as a deposit. The agreement and deposit cover the Calgary region where this customer will be the exclusive CubicFarm licensee. The system's plan includes 20 CubicFarms patented growing machines, 2 patented germination machines, along with Cubic's proprietary supporting irrigation system. The total sales agreement is valued at approximately USD\$3.2 million and the Company expects to complete the installation of the system by the end of March 2020.

On September 24, 2019, the Company appointed Rodrigo Santana as its interim CFO. Supported by the rest of the CubicFarms finance team, Rodrigo will continue his role as Chief Operating Officer. Rodrigo is very experienced in the dual role of COO and CFO where he held both positions in his previous employment at Sacré-Davey Engineering.

On October 8, 2019, the Company announced that it finalized an agreement for the sale of a large-scale CubicFarm system in Montana, USA and received the initial deposit of \$332,356 in October 2019 from the customer. This was the Company's second large-scale farm in the US, in the State of Montana. The system's plan includes 18 CubicFarms patented growing machines, 2 patented germination machines, along with Cubic's proprietary supporting irrigation system. The total sales agreement is approximately USD\$3 million, this represents the second-largest sale agreement to date and the Company expects to complete the installation of the system by the end of March 2020.

On October 28, 2019, the Company announced that ZenCube, its vertical-farming machine for growing hemp and cannabis, is fully operational at a showcase and R&D facility in Langley, Canada.

On November 6, 2019, the Company announced that it has entered into a global Reseller Agreement (the "Reseller Agreement") with Groviv, a leader in the science and technology of controlled-environment agriculture ("CEA"). Groviv, a division of Nu Skin Enterprises - a minority investor in CubicFarms - will lead global sales for CubicFarms and has appointed Joe Huston, its Vice President of Business Development to direct the effort. Mr. Huston has extensive retail sales and distribution experience, working with brands such as Walmart, Kroger and Costco.

Financial Results

Three months ended September 30, 2019 and 2018

Revenue for the three months ended September 30, 2019 was \$240,701. The Company did not record any revenues during the three months ended September 30, 2018. The company had a 50% gross margin during the three months ended September 30, 2019.

Total operating and general administrative expenses significantly increased during the three months ended September 30, 2019 – \$1,693,489 compared to \$286,213 for the same period in the previous year. This is in line

with the Company's continued expansion of its business and building up its team. Of the total for 2019, salaries and consulting fees were \$629,071 and \$370,278 respectively.

Selling expenses, which include commissions and freight, were \$23,050 compared to \$27,229 for the three months ended September 30, 2018.

During the three months ended September 30, 2019, the Company incurred research expenses in the amount of \$356,746 in connection with the further automation of its Systems, growth of new crops in the Systems and further transformation of these crops through juicing. These costs include salaries, materials, parts and consumables related to research activities. Research costs for the three months in the previous year were \$171,212.

Net loss and comprehensive loss for the three months ended September 30, 2019 were \$2,276,147, compared to \$468,777 for the three months ended September 30, 2018.

Selected Summary of Quarterly Results

The following table sets out selected unaudited quarterly financial information of the Company and is derived from unaudited interim consolidated financial statements prepared by management. The Company's interim consolidated financial statements are prepared in accordance with IFRS applicable to interim financial statements and are expressed in Canadian dollars.

Period	Revenues	Income (loss) for the period \$	Basic and fully diluted income (loss) per share \$
1 st Quarter 2020	240,701	(2,276,147)	(0.03)
4 th Quarter 2019	24,110	(3,153,030)	(0.04)
3 rd Quarter 2019	1,461,226	(1,669,517)	(0.02)
2 nd Quarter 2019	3,870,694	(2,339,301)	(0.04)
1 st Quarter 2019	Nil	(468,777)	(0.01)
4 th Quarter 2018	Nil	(433,864)	(0.01)
3 rd Quarter 2018	Nil	(358,109)	(0.01)
2 nd Quarter 2018	Nil	(308,542)	(0.01)

The Company is still in its early stage of operations and expects its financial results to fluctuate from period to period in the near term. The Company has two main sources of Revenue: Revenue from sales of machines and other revenue coming from sale of seeds, nutrients/fertilizers, substrate and subscription. Revenue from machines depends on the completion of the sales and delivery process which consists of signing agreement, prepayment, manufacture of machines, customer's site preparation, shipping and installation which usually takes three to four months. Higher Revenue reported in Q2 and Q3 2019 due to completion of the installation for the customers, whereas Q4 2019 and Q1 2020 no machines were installed, and the revenue is from other sources mentioned above.

Liquidity and Capital Resources

The Company's source of financing to date has been equity financings and sales of Systems and produce.

As at September 30, 2019, the Company had cash and cash equivalents of \$5,593,968 (June 30, 2019 - \$9,900,987) and working capital of \$7,319,446 (June 30, 2019 - \$9,176,875). Current liabilities that are to be settled in cash as at September 30, 2019 include trade and other payables, customer deposits and warranty provision.

During the period ended September 30, 2019, the Company used \$4,362,668 in cash for operating activities and \$95,486 in cash for investing activities. The Company received an aggregate net cash of \$151,135 from its financing activities.

As at September 30, 2019, the Company has commitments in the amount of \$82,769 for purchase orders in respect to Systems inventory.

Management expects that the Company's existing cash and cash equivalents balance will be adequate to meet the Company's expansion of facilities and operational activities for the next twelve months. However, the Company may seek additional financings through issuance of equity to support further expansion, joint-venture partnerships and research and development activities.

Forward-Looking Guidance

Systems

The Company has entered into sales discussions with a number of companies in Canada and internationally and has developed significant sales leads for the purchase of additional machines. It also expects to expand sales with at least one current customer in the coming year. The Company's sales pipeline currently includes individuals and companies in Canada, Ireland, the United States, Africa, Puerto Rico, Europe, the Middle East, and China. There can be no assurances that any of these pipeline opportunities will lead to sales of Systems or identification of partner farms.

Sales and deposits

The Company does not book revenue until it has delivered and fully installed Systems at customer sites, and subsequently completing all invoicing. There are factors beyond the Company's control, such as the customer's ability to secure permitting, complete site preparations, as well as weather and transportation delays. As such, the Company expects it would need to complete an additional year of sales and installation activities to result in smoother sales cycles.

The Company provides the following guidance with respect to deposits, and an estimate on timing of project completion:

- Number of machines under deposit: 69;
- Estimated quarter when the installation will be completed: Q4 2020 (fiscal year) for 69 machines.

The Company has set sales targets corresponding to:

- Approximate number of machines under deposit by the end of June 2020 (fiscal year end) – 220;
- Approximate number of machines under deposit by the end of December 2020 – additional 240.

In summary, the Company has a target to sell approximately 460 machines under the sales contracts by the end of December 2020 with a total value of approximately CDN\$86 million. This is an increase from the 150-200 machines stated in the Company's Forward-Looking Guidance section of its year-end financial statements filed on November 14, 2019, to account for the growing customer demand that the Company has been experiencing as well as sales leads generated this quarter, and the 200 machines it expects to sell by December 2020 through its Reseller Agreement with Groviv.

The Company considers an order to have taken place when a binding equipment purchase agreement is signed and a first deposit has been provided. This forward-looking order volume estimate is based on the Company's current sales pipeline and internal estimates of machine demand and is subject to a number of risks and uncertainties. See "Forward-Looking Statements".



Crops

CubicFarms growing machines can grow a wide variety of crops. Each new crop that is optimized presents an opportunity for a new sales vertical. To facilitate research and development on new verticals, the Company is ramping up cultivation at the Pitt Meadows facility. This will allow the Company to actively pursue new vertical business lines in the nutraceutical and cosmeceutical space, as well as testing for the animal feed space.

Additionally, growing styles that accommodate different methods of automation and harvesting are also being tested.

One specific area of focus at present is fine tuning the optimal conditions for growing high gross margin crops, and additionally optimizing for automated harvesting and processing to then transform these same crops into high quality ingredients for nutraceuticals and cosmeceuticals through juicing, powdering, and/or extraction. In the next twelve months, the Company expects to develop standard operating procedures for growing and transforming into ingredients for at least five high gross margin crops and expects to secure supply contracts for the products with at least one strategic customer.

The Company is also exploring opportunities in the animal feed space to utilize the by-product of growing high gross margin crops.

Lastly the Company has entered the food sector markets for which is expected to increase the sales of leafy green from our vertical farming systems.

Transactions with Related Parties

All transactions with related parties have occurred in the normal course of operations. All amounts are unsecured, noninterest bearing and have no specific terms of settlement, unless otherwise noted.

Transactions with entities with significant influence over the Company

During the period ended September 30, 2019, the Company paid rent to Bevo Farms (Note 5), in the amount of \$21,278 (2018 - \$11,500). Accounts receivable from Bevo is \$967 & Accounts Payable is \$8,269 (2018 - \$160,036 and \$145,413, respectively).

The Company has made 50% investment in Swiss Leaf Farms Ltd. Details of the investment is provided in Note 11 of the Company's condensed interim consolidated financial statements. As at September 30, 2019, the accounts receivable with Swiss Leaf was \$11,925 and \$0 is payable to Swiss Leaf (June 30, 2019 - \$3,001 and \$6,994 respectively).

Key management compensation

Key management of the Company are members of the board of directors and officers of the company. The company paid and/or accrued the following compensation to key management during the reporting periods:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018
	\$	\$
Wages and consulting fees	393,750	88,000
Share-based compensation	94,819	-
Total	488,569	88,000

On January 28, 2019 the Company completed a private placement with a strategic investor, Pursuant to the Investment Agreement, Nu Skin has the pre-emptive right to participate in future equity financings of the Company to maintain its pro rata ownership of the Company up to a maximum 12.9% ownership interest. This right is available to Nu Skin for as long as it owns not less than 8% of the Company's shares. As at September 30, 2019, common shares transactions with Nu Skin have been as follows, for its total ownership interest in the Company on non-diluted basis of 12.88%:

Date	# of common shares	Share price	Gross proceeds
January 28, 2019	9,953,913	1.00463	10,000,000
May 8, 2019	767,503	1.00463	771,056
August 16, 2019	158,171	0.9471	149,804
	10,879,587		10,920,860

As at September 30, 2019, accounts and other receivable from Nu Skin was \$8,336 (June 30, 2019 - \$487,254).

Outstanding Share Data

As at November 28, 2019, the Company had 84,456,885 outstanding common shares. The Company also had 29,536,766 share purchase options outstanding at weighted average exercise price of \$0.45.

Off Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed. The Company is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Adoption of New Accounting Standards

IFRS 16 Leases

IFRS 16 Leases sets out the principles for recognition, measurement, presentation, and disclosure of leases. It eliminates the classification of leases as either operating or finance leases required by IAS 17 and introduces a single lessee accounting model.

The Company leases its office space, the farming facility in Pitt Meadows, British Columbia, and one vehicle. The office space and vehicle leases both have a term of one year. The farming facility is leased for five years, with an option to renew for a further five years. Until June 30, 2019, all leases of the Company were classified as operating leases and payments made were charged directly to profit or loss.

From July 1, 2019, leases are recognized as a right-to-use asset with a corresponding liability at the date at which the leased asset is available for use. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a term of 12 months or less.

The Company adopted IFRS 16 retrospectively from July 1, 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. Therefore, the adjustments arising from the new leasing rules were recognized in the opening balance sheet on July 1, 2019.

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard.

- Account for leases with a remaining term of less than 12 months as of July 1, 2019 as short-term leases;
- Application of a single discount rate to a portfolio of leases with similar characteristics;
- Account for lease payments as an expense and not recognize a right-to-use asset if the underlying asset is of low dollar value; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to its farming facility. The Company applied the practical expedient to the office space and vehicle lease, as they are for a period less than 12-months. The term of the lease of the farming facility is five years with an option to renew. The management of the Company expects that the facility will be used until 2028.

The liability pertaining to the lease of the farming facility was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 6.99%. The associated right-of-use asset was measured at the value of the lease liability. As a result, on July 1, 2019, the Company recognized total lease liabilities and right-of-use assets of \$805,360.

Here is the reconciliation of lease commitments as reported at June 30, 2019 to the lease liabilities recorded at July 1, 2019

Particulars	\$
Operating lease commitment as at June 30, 2019	123,727
Discounted using company's incremental borrowing rate at initial recognition	112,136
Less: Short term leases recognized on a straight-line basis as expense	(78,256)
Add: Additional estimated variable payments under IFRS 16	715,240
Add: Change in estimate for additional period (5 years)	56,240
Balance as at June 1, 2019	805,360
Of Which	
Current Lease payment	81,841
Non-current Lease payment	723,872
	805,360

A continuity of the Company's lease liability and the right-of-use asset for the farming facility is as follows:

Lease liability	September 30, 2019
	\$
Balance as at July 1, 2019	-
Adoption of IFRS 16	805,360
Payments	(21,278)
Accretion expense	368
	784,450
Less: Current portion	(81,841)
Long-term	702,609

Right-of-Use Asset	September 30, 2019
	\$
Balance as at July 1, 2019	-
Adoption of IFRS 16	805,360
Depreciation	(22,296)
	783,064

The lessor of the farming facility is a related party to the Company.

IFRS 28 Interest in Associates and Joint Ventures

Amendments were made to IAS 28, clarifying that IFRS 9, Financial Instruments requirements, including its impairment requirements, apply to long-term interests. The expected credit loss impairment requirements in IFRS 9 are applied first to long-term interests, followed by the adjustments to their carrying amount required by IAS 28, i.e. the adjustments resulting from the allocation of losses of the investees. This is followed by the determination of whether there are indicators of impairment which require an impairment test to be applied to the entire remaining carrying amount of the investment in the associate or joint venture.

The Company adopted these amendments on July 1, 2019. The Company has 50% investment in Swiss Leaf Farms Ltd. ("Swiss Farm") (Note 11), which is accounted for under the equity method. The Company has also provided loans to Swiss Farm. The promissory note receivable from Swiss Farm is measured at fair value and for additional loans to Swiss Farm, the Company has applied the impairment requirements of IFRS 9 and written off the related balances (Note 16). As at July 1, 2019 and September 30, 2019, the management of the Company determined that the balance remaining for the investment in associates was not impaired. As a result, the adoption of the amendments to IAS 28 did not have any impact on the consolidated financial statements of the Company.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, trade payables, customers deposits, demand loan and amounts due from an associate. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The following summarizes fair value hierarchy under which the Company's financial instruments are valued:

Level 1 – fair values based on unadjusted quoted prices in active markets for identical assets or liabilities;
 Level 2 – fair values based on inputs that are observable for the asset or liability, either directly or indirectly; and
 Level 3 – fair values based on inputs for the asset or liability that are not based on observable market data.

As at September 30, 2019, the Company did not have any financial instruments measured at fair value, except for long-term note receivable from an associate (note 11), categorized within Level 2 of the fair value hierarchy.

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at September 30, 2019 the primary risks were as follows:

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 any obligations. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. As at September 30, 2019, one customer accounted for 45% of the trade accounts receivable (94% of which is current as at September 30, 2019). The Company believes there is no unusual exposure associated with the collection of these receivables. The Company performs regular credit assessments on its customers and provides allowances for potentially uncollectible accounts receivable.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts which earn interest at variable rates, but it does not believe it is currently subject to any significant interest rate risk.

Liquidity risk

At this stage the Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short-term borrowing. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. Accounts payable and accrued liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As at September 30, 2019, the following items are denominated in US dollars:

	September 30, 2019	June 30, 2019
	\$	\$
Cash	334,418	455,646
Accounts receivable	49,482	492,431
Accounts payable	(101,604)	(43,205)
Customer deposits	(585,600)	(585,600)
Net exposure	(303,304)	319,151

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As the only foreign currency the company transacts in is USD and it is not subject to significant variance; the company has not made any special arrangements to reduce the related currency risk. Net exposure is negative as on September 30, 2019 as compared to June 30, 2019.

A 10% increase or decrease in the US dollar exchange rate would not have a material impact on the Company's net loss.

Management is continuing efforts to increase sales and attract additional equity and capital investors to continue R&D activities, and, from the other side, implement effective cost control measures to maintain adequate levels of working capital.

Additional Information & Approval

Additional information relating to the Company is on SEDAR at www.sedar.com.

The Board has approved the disclosure contained in this MD&A as of November 28, 2019.