



CubicFarm Systems Corp.
Condensed Consolidated Interim Financial Statements
For The Three Months Ended March 31, 2021 and 2020
(Unaudited)

Financial Statements

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

| | Notes | March 31, 2021 | December 31, 2020 |
|---|-------|---------------------------|--------------------------|
| | | \$ | \$ |
| Assets | | | |
| Current | | | |
| Cash and cash equivalents | | 12,599,755 | 16,206,535 |
| Trade and other receivables | 7 | 2,837,635 | 1,338,265 |
| Inventory | 8 | 3,972,325 | 4,866,641 |
| Prepaid expenses and deposits | | 1,706,614 | 1,356,376 |
| | | 21,116,329 | 23,767,817 |
| Non-current | | | |
| Goodwill | | 1,859,647 | 1,920,826 |
| Property, plant and equipment | 9 | 2,551,138 | 2,256,814 |
| Investment in associates | 10 | 20 | 20 |
| Intangible assets | | 4,896,154 | 5,032,905 |
| Right-of-use assets | | 1,613,464 | 1,758,473 |
| | | 10,920,423 | 10,969,038 |
| Total assets | | 32,036,752 | 34,736,855 |
| Liabilities | | | |
| Current | | | |
| Trade and other payables | | 2,379,789 | 1,465,666 |
| Earn-out payable | 21 | 1,687,708 | 1,165,953 |
| Customer deposits | 11 | 2,663,001 | 4,955,509 |
| Lease liability | | 398,935 | 409,122 |
| Loans payable | 12 | 469,871 | 335,615 |
| Warranty provision | 13 | 230,694 | 191,342 |
| | | 7,829,998 | 8,523,207 |
| Non-current | | | |
| Lease liability | | 1,056,349 | 1,164,197 |
| Restoration provision | | 131,588 | 131,446 |
| Loans payable | 12 | 1,623,293 | 1,699,220 |
| Derivative liability | 21 | 1,036,521 | 1,002,128 |
| Earn-out payable | 21 | - | 477,080 |
| Total liabilities | | 11,677,749 | 12,997,278 |
| Equity | | | |
| Share capital | 16 | 49,141,728 | 49,040,308 |
| Shares issuable | 17 | 1,883,250 | - |
| Equity reserves | | 3,481,391 | 2,959,756 |
| Accumulated other comprehensive loss (Deficit) | | (274,942) (33,872,424) | (65,151) (30,195,336) |
| Total equity | | 20,359,003 | 21,739,577 |
| Total liabilities and equity | | 32,036,752 | 34,736,855 |

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

CubicFarm Systems Corp.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

| | Notes | For the Three months ended | |
|---|-------|----------------------------|--------------------|
| | | March 31, 2021 | March 31, 2020 |
| | | \$ | \$ |
| Revenue | | | |
| Systems | | 3,689,369 | 142,049 |
| Services | | 64,592 | 14,284 |
| Consumables | | 152,849 | 36,356 |
| | | 3,906,810 | 192,689 |
| Cost of sales | | 2,983,281 | 328,233 |
| Gross margin | | 923,529 | (135,544) |
| General and administrative expenses | | 3,228,634 | 2,285,874 |
| Selling expenses | | 629,156 | 198,042 |
| Research and development | | 1,140,419 | 407,097 |
| | | 4,998,209 | 2,891,013 |
| Loss before other income (expense) | | (4,074,680) | (3,026,557) |
| Finance income | | 1,642 | 84,835 |
| Finance expense | | (65,456) | (1,312) |
| Accretion charges | | (34,275) | (815) |
| Net Finance Costs | | (98,089) | 82,708 |
| Other income (expense) | | | |
| Other income | 14 | 665,611 | - |
| Fair value change for earn-out payments | 21 | (64,935) | - |
| Foreign exchange gain (loss) | | (34,836) | 30,454 |
| Change in fair value of derivative liability | 21 | (34,393) | - |
| Loss on investment in associate | | - | (150,635) |
| Public listing | | - | (3,210) |
| Provision for expected credit loss | | (31,797) | (420,913) |
| | | 499,650 | (544,304) |
| Loss before income taxes | | (3,673,119) | (3,488,153) |
| Income taxes | | (3,969) | - |
| Net loss for the period | | (3,677,088) | (3,488,153) |
| Other comprehensive loss | | | |
| Items that may be reclassified to profit or loss: | | | |
| Foreign currency translation gain (loss) | | (209,791) | 28,657 |
| Total Comprehensive loss | | (3,886,879) | (3,459,496) |
| Basic and diluted per share | | \$ (0.03) | \$ (0.04) |
| Weighted average number of shares outstanding | | 137,755,758 | 94,367,689 |

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

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

| | Notes | No of Shares | Share capital | Equity reserves | Accumulated other comprehensive income (loss) | Shares Issuable | Deficit | Total equity |
|--|-------|--------------------|-------------------|------------------|---|------------------|---------------------|-------------------|
| | | # | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2019 | | 84,456,885 | 22,932,279 | 1,836,366 | - | - | (14,244,866) | 10,523,779 |
| Net loss for the period | | - | - | - | - | - | (3,488,153) | (3,488,153) |
| Exercise of stock options | | 23,000 | 8,155 | (3,785) | - | - | - | 4,370 |
| Issuance of share for acquisition of CubicFeed | | 10,000,000 | 2,873,960 | - | - | 270,778 | - | 3,144,738 |
| Foreign currency translation | | - | - | - | 28,657 | - | - | 28,657 |
| Share-based payments | 18 | - | - | 202,762 | - | - | - | 202,762 |
| Balance, March 31, 2020 | | 94,479,885 | 25,814,394 | 2,035,343 | 28,657 | 270,778 | (17,733,019) | 10,416,153 |
| Balance, December 31, 2020 | | 137,704,536 | 49,040,308 | 2,959,756 | (65,151) | - | (30,195,336) | 21,739,577 |
| Net loss for the period | | - | - | - | - | - | (3,677,088) | (3,677,088) |
| Exercise of stock options | 16 | 282,000 | 101,420 | (46,860) | - | - | - | 54,560 |
| Shares issuable | 17 | - | - | - | - | 1,883,250 | - | 1,883,250 |
| Foreign currency translation | | - | - | - | (209,791) | - | - | (209,791) |
| Share-based payments | 18 | - | - | 568,495 | - | - | - | 568,495 |
| Balance, March 31, 2021 | | 137,986,536 | 49,141,728 | 3,481,391 | (274,942) | 1,883,250 | (33,872,424) | 20,359,003 |

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

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

| | For the Three months ended | |
|---|----------------------------|--------------------|
| | March 31, 2021 | March 31, 2020 |
| | \$ | \$ |
| Cash provided by (used for) the following activities | | |
| Operating activities | | |
| Net loss for the period | (3,677,088) | (3,488,153) |
| Depreciation - property, plant and equipment | 153,070 | 126,565 |
| Depreciation - right-of-use asset | 131,029 | 24,330 |
| Amortization | 4,898 | 5,145 |
| Provision for expected credit loss | 31,797 | 420,913 |
| Foreign exchange | 34,836 | (30,454) |
| Finance expense | 65,456 | 1,312 |
| Accretion charges | 34,275 | 815 |
| Finance income | (1,642) | (84,835) |
| Income taxes | 3,969 | - |
| Change in fair value of earnout payable | 21 64,935 | - |
| Share-based payments | 568,496 | 202,762 |
| Loss on investment in associate | - | (150,635) |
| Change in fair value of derivative liability | 21 34,393 | - |
| Funds used in operations | (2,551,576) | (2,972,235) |
| <i>Changes in non-cash working capital:</i> | | |
| Trade and other receivables | (2,121,743) | (1,787,161) |
| Contract assets | 605,279 | - |
| Inventory | 970,620 | (331,132) |
| Prepaid expenses and deposits | (350,238) | (493,103) |
| Trade and other payables | 882,973 | 1,093,454 |
| Customer deposits | (2,326,396) | 3,553,477 |
| Warranty provision | 39,352 | (12,488) |
| Cash used in operating activities | (4,851,729) | (949,188) |
| Interest paid | (64,898) | (1,312) |
| Interest received | 1,642 | 78,659 |
| Tax paid | (3,969) | - |
| Net cash used in operating activities | (4,918,954) | (871,841) |
| Investing activities | | |
| Purchases of property, plant, and equipment | 9 (449,985) | (48,300) |
| Loans to associates | 10 (37,250) | (234,000) |
| Net cash used for investing activities | (487,235) | (282,300) |
| Financing activities | | |
| Shares issuable | 1,883,250 | - |
| Exercise of stock options | 54,560 | 4,370 |
| Lease payments | (128,778) | (23,766) |
| Proceeds from loans payable | 47,155 | - |
| Net cash from financing activities | 1,856,187 | (19,396) |
| Increase (decrease) in cash and cash equivalents | (3,550,002) | (1,173,537) |
| Effect of movements in exchange rates on cash held | (56,778) | 15,406 |
| Cash and cash equivalents, beginning of period | 16,206,535 | 3,803,487 |
| Cash and cash equivalents, end of period | 12,599,755 | 2,645,356 |

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

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020.

(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 19951 80A Avenue, Unit 353, Langley, BC, V2Y 0E2.

The Company listed its common shares on the TSXV as a Tier 1 issuer 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 that develops, employs, and sells modular growing systems with patented and patent-pending technologies (the “System”) to provide high-quality, predictable crop yields for farms around the world. In addition, the Company leverages its technology by operating its own facility in Pitt Meadows, British Columbia. On January 1, 2020, the Company completed the acquisition of all of the issued and outstanding shares of Hydrogreen Inc., (formerly named CubicFeed Systems U.S. Corp.), a manufacturer of fully automated hydroponic growing systems that produce live, green animal feed prioritizing animal health and performance.

The outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. As of March 31, 2021, the Company has not observed any material impairments of its assets or a significant change in the fair value of assets due to the COVID-19 pandemic. Due to the rapid developments and uncertainty surrounding COVID-19 it is not possible to predict the impact it will have on the Company’s business, financial position, and operating results in the future. It is possible that estimates in the Company’s financial statements will change in the near term as a result of COVID-19 and the affect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

2. Going concern

To date, the Company has financed its operations primarily through share issuances. The development of modular growing systems and animal feed system as well as its production process involve significant financial risks, including the ability of the Company to develop and penetrate new markets, obtain additional financing as required, achieve profitable production and the ability for the Company to be able to successfully assert its intellectual property rights and protect against patent infringement.

The Company incurred a total comprehensive loss and used cash in operating activities of \$3,886,879 and \$4,918,954, respectively, for the three months ended March 31, 2021 (three months ended March 31, 2020 - \$3,459,496 and \$871,841), and has accumulated a deficit of \$33,872,424 as at March 31, 2021. As at March 31, 2021, the Company has working capital of \$13,286,331 compared with \$15,244,610 as at December 31, 2020.

The losses and deficits indicate a material uncertainty that may cast significant doubt about the Company’s ability as a going concern. Despite the material uncertainty, these consolidated interim financial statements have been prepared on the basis that the Company will continue as a going concern, as management believes that the Company will be able to raise sufficient capital to meet its obligations as and when they come due. The going concern basis of accounting assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business.

These condensed consolidated interim financial statements do not include any adjustments or disclosures that may result should the Company be unable to continue as a going concern. If the going concern assumptions were not found to be

CubicFarm Systems Corp.

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(Expressed in Canadian dollars, unless otherwise stated.)

**2. Going concern (continued)**

appropriate for these condensed consolidated interim financial statements, adjustments might be necessary to classifications and carrying values of assets and liabilities. Such adjustment could be material.

3. Basis of presentation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (IFRSs). As such, they must be read in conjunction with the annual audited consolidated financial statements for the period ended December 31, 2020 and the notes thereto. However, selected notes are included that are significant to understanding the Company's financial position and performance since the last annual consolidated financial statements for the year ended December 31, 2020. The interim financial statements are presented in Canadian dollars, which is the Company's functional currency. The amounts in the tables are expressed in Canadian dollars and rounded to the nearest dollar, unless otherwise stated.

The Board of Directors approved these condensed consolidated interim financial statements on May 31, 2021.

Prior period reclassification

Certain prior period amounts on the Condensed Consolidated Interim Statements of Loss and Comprehensive Loss have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Basis of measurement

These condensed consolidated interim financial statements have been prepared on a going concern and historical cost basis except as permitted by IFRS and as otherwise indicated within these notes.

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated upon consolidation. The principal subsidiaries of the Company and associates to which it is a party were the same as at December 31, 2020.

4. Significant accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements for the year ended December 31, 2020. The annual consolidated statements are available on SEDAR at www.sedar.com. These policies have been applied throughout the periods reported.

5. Significant estimates, assumptions, and judgments

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those described in the last annual financial statements.

6. Cyclicity of operations

The Company has not established any cyclicity of operations and results may fluctuate from period to period.

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
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 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**7. Trade and other receivables**

| Current: | March 31, 2021 | December 31, 2020 |
|---|-----------------------|--------------------------|
| | \$ | \$ |
| Trade accounts receivable ¹ | 3,173,044 | 880,185 |
| Less: Provision for expected credit loss | (538,997) | (538,212) |
| Note receivable ² | 340,440 | 437,190 |
| Less: Provision for loss on short term receivable (Note receivable & Interest receivable) | (340,440) | (437,190) |
| Sales tax receivable | 203,588 | 193,013 |
| Other receivable ³ | - | 803,279 |
| | 2,837,635 | 1,338,265 |

| Non-Current: | March 31, 2021 | December 31, 2020 |
|--|-----------------------|--------------------------|
| | \$ | \$ |
| Note receivable ² | 552,016 | 418,016 |
| Interest receivable ² | 49,409 | 49,409 |
| Less: Provision for loss on long term receivable (Note receivable & Interest receivable) | (601,425) | (467,425) |
| | - | - |

Aging

The aging of trade receivable at March 31, 2021 and provision for expected credit loss is summarized as follows:

| | March 31, 2021 | December 31, 2020 |
|----------------------------|-----------------------|--------------------------|
| Current or under 60 days | 2,298,346 | 262,696 |
| Past due 61 to 90 days | 116,091 | 3,923 |
| Past due more than 90 days | 758,607 | 613,566 |
| | 3,173,044 | 880,185 |

Continuity for provision for expected credit loss on trade account receivable

| | Three Months Ended March 31, 2021 | Six Months Ended December 31, 2020 |
|--------------------------|--|---|
| Opening | 538,212 | 457,927 |
| Addition during the year | 785 | 80,285 |
| Amount collected | - | - |
| Closing balance | 538,997 | 538,212 |

¹ Related party Trade accounts receivable is Zenabis \$10,017 (December 31, 2020 - \$8,001). Zenabis is related party of the Company as they are affiliated with certain officers and directors that have significant influence over the Company.

² All Notes receivable and Interest receivable is due from related party Swiss Leaf Farms Ltd., which is an associate of the Company.

³ Other receivable consists of government grant receivable and contract assets. As on March 31, 2021 there is no government grant receivable and no contract assets. As on December 31, 2020 a government grant receivable amounted to \$198,000 and contract assets amounted to \$605,279. Contract assets occur when recognized revenue for the customer is higher than the amount the customer has been invoiced.

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**7. Trade and other receivables (continued)**

For the three months ended March 31, 2021, bad debt of \$31,797 was recognized as expected credit losses and recorded under Other income (expense) which was all due from related parties (March 31, 2020 – expected credit loss \$420,913, of which \$182,514 was due from related parties).

8. Inventory

Systems are containers on hand and available for sale by the Company. The net realizable value of inventory as of March 31, 2021 and December 31, 2020 is higher than the cost. Accordingly, the Company has reported the inventory at cost in the Condensed Consolidated Interim Statement of Financial Position. Inventory in the value of \$2,649,011 has been recognized as Cost of sales in the Condensed Consolidated Interim Statement of Loss and Comprehensive Loss (March 31, 2020 - \$145,448).

9. Property, plant and equipment

During the three months ended March 31, 2021, the Company acquired assets with a cost of \$449,985 (March 31, 2020 - \$48,300). There were no disposals during the period. Depreciation for the three months ended March 31, 2021 is \$153,070 (March 31, 2020 - \$126,565).

10. Investment in associates

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

The Company has made the following contributions to Swiss Leaf as follows:

| Period | Amount of Investment |
|---|----------------------|
| Before six months ended December 31, 2020 | 1,488,339 |
| Six months ended December 31, 2020 | 215,190 |
| Three months ended March 31, 2021 | 37,250 |
| Total | 1,740,779 |

The carrying amount of the investment at March 31, 2021 was determined to be \$Nil (December 31, 2020 - \$Nil) due to 100% expected credit loss applied. The Swiss Leaf equipment is currently being upgraded and the Company continues to work with Swiss Leaf on produce research and development.

CubicFarm Systems Corp.

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**11. 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 of 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 of 20% of the purchase price. The order shall not be cancellable after shipping of the equipment.

There are no external restrictions on the use of these deposits.

| | March 31, 2021 | December 31, 2020 |
|-------------------------|------------------|-------------------|
| | \$ | \$ |
| Opening balance | 4,955,509 | 1,709,666 |
| Additions | 780,065 | 3,577,870 |
| Recognized into revenue | (3,072,573) | (332,027) |
| Ending balance | 2,663,001 | 4,955,509 |

Out of the balance of customer deposits, \$1,709,666 is the amount of customer deposits that was received more than twelve months ago.

12. Loans payable

The Company received an interest free loan of \$20,000 for COVID-19 relief from the Bank of Montreal. \$10,000 of the loan is forgiven if repaid by December 31, 2022 and was recognized in other income as of March 31, 2021. If not repaid, the loan may be extended from January 1, 2023 to December 31, 2025. Hydrogreen also has an Agriculture Loan obtained from South Dakota Value Added Finance Authority ("VAFA") for 45% of HydroGreen's Patent cost, which is due five years from the date of the final disbursement of loan proceeds. The loan is interest free if paid before the due date and 12% per annum if not paid when due or if the Company is in default of the terms and conditions of the loan. Currently the Company is in compliance with the loan agreement. The Company granted VAFA a first priority security interest in the feasibility study for the project proposed in the loan application and any accompanying reports, documents or other information.

| | March 31, 2021 | December 31, 2020 |
|---|----------------|-------------------|
| | \$ | \$ |
| Opening balance agriculture interest free loans | 74,638 | 70,258 |
| Foreign exchange adjustment | (921) | 4,380 |
| Ending balance agriculture interest free loans | 73,717 | 74,638 |
| Less: current portion | - | - |
| Non-current portion | 73,717 | 74,638 |

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Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

**12. Loans payable (continued)**

| | March 31, 2021 | December 31, 2020 |
|--|----------------|-------------------|
| | \$ | \$ |
| Opening balance government relief loans | 30,000 | 194,863 |
| Addition during the year | 20,000 | - |
| Loan forgiven transferred to other income -Note 14 | (10,000) | (160,383) |
| Foreign exchange adjustment | - | (4,480) |
| Ending balance government relief loans | 40,000 | 30,000 |
| Less: current portion | - | - |
| Non-current portion | 40,000 | 30,000 |

Business loan

On July 20, 2020, the Company signed an agreement with the Business Development Bank of Canada ("BDC") for a loan up to \$5,000,000. The interest is payable monthly and is currently at a fixed rate of 10% which is set at a base rate of 4.9% plus a variance of 5.1% per year. The variance will be decreased by 1% for the remaining terms once the Company is able to complete two consecutive fiscal quarters with positive consolidated earnings before interest, taxes, depreciation, and amortization ("EBITDA") results. On August 28, 2020, the Company received the first tranche payment of \$2,500,000. The second tranche of \$2,500,000 will be provided by BDC when the stipulated conditions in the agreement are met by the Company. Commencing six months after July 10, 2020, the Company shall pay BDC a non-refundable standby fee calculated at a rate of 6.00% per annum on the portion of the loan which has not been advanced or cancelled. The Principal amount of loan is payable in monthly installments of \$50,000 commencing on July 15, 2021 and continuing up to the maturity date of July 15, 2025 on which one balloon payment of \$2,650,000 is required.

The loan may be prepaid at any time for all or part of the outstanding principal plus all interest and any other fees that are applicable plus the prepayment bonus which consists of an interest differential charge and prepayment indemnity. The prepayment option is considered to be an embedded derivative with a fair value of nil at the date of issuance and at March 31, 2021. In addition to the scheduled payments, principal of the Financing shall be reimbursed by way of annual payments representing 30% of Excess Available Funds as determined at the end of the last fiscal year to the maximum of \$700 thousand for each annual payment (Annual ECFS limit" payable on September 15 each year commencing in September 2021 (ECFS date). For greater certainty, any such annual payment is payable only if Excess Available funds as determined at the end of the last fiscal year, is a positive figure. The loan is secured by general security agreement granting a general and continuing security interest in all present and after acquired personal property without limiting the foregoing, on all present and future assets related to intellectual property including, without limitation, patents, trademarks, domain names, source codes, licenses, and any other forms of intellectual property of the Company. This security interest shall rank in first position with respect to the Intellectual Property but subordinated in rank to any other security granted i) on receivable and inventory ii) previously to financial institutions except intellectual property and iii) on specific assets in connection with the financing of equipment needed by the Company.

There is also a provision for payment of a variable loan bonus equal to 5% of consolidated enterprise value of up to \$33 million and 1% of consolidated enterprise value above \$33 million in the event of maturity or payment of loan or occurrence of any other events stipulated in the loan agreement.

The consolidated enterprise value of the Company is determined as highest of the following:

- i) 5 x Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA") for the last financial year prior to the bonus event;
- ii) 5 x average EBITDA for the last two most recent financial years prior to the bonus event;
- iii) Market valuation on the stock exchange the Company is listed at the time of payout;
- iv) 0.5 x consolidated audited annual gross sales of the Company for the last financial year prior to the bonus event; or;

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(Unaudited)

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**12. Loans payable (continued)**

- v) 0.5 x average consolidated audited annual gross sales of the Company for the last two most recent financial year prior to the bonus event.

The initial fair value of the embedded derivative liability related to the variable bonus was estimated to be \$595,712 and the residual amount of proceeds of \$1,904,288 was allocated to the loan. As of March 31, 2021, the variable loan bonus had a fair value of \$1,036,521 (December 31, 2020 - \$1,002,128) and the Company recognized a \$34,393 loss on the change in fair value of derivative liability. See Note 22 – Subsequent events.

Business loan continuity

| | March 31, 2021 | December 31, 2020 |
|--|-----------------------|--------------------------|
| | \$ | \$ |
| Opening Balance | 1,930,197 | |
| Loan payable – Initial recognition (July 20, 2020) | - | 1,904,288 |
| Accretion | 9,410 | 15,293 |
| Accrued interest | 10,959 | 10,616 |
| Accrued interest paid | (10,616) | - |
| Loan payable - end of period | 1,939,950 | 1,930,197 |
| Less: current | (460,959) | (335,615) |
| Non-current portion | 1,478,991 | 1,594,582 |

Vehicle Loan

The Company obtained a vehicle loan amounting to \$39,570 (US\$31,194) on February 26, 2021 with an annual interest rate of 7.64%. The loan is payable over 48 months commencing April 10, 2021.

| | March 31, 2021 | December 31, 2020 |
|--|-----------------------|--------------------------|
| | \$ | \$ |
| Opening Balance | - | |
| Loan payable – Initial recognition (February 26, 2021) | 39,570 | - |
| Accrued interest | 273 | - |
| Foreign exchange adjustment | (346) | - |
| Loan payable - end of period | 39,497 | - |
| Less: current | (8,912) | - |
| Non-current portion | 30,585 | - |

CubicFarm Systems Corp.Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2021 and 2020.

(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

**12. Loans payable (continued)****Continuity for all the loans**

| | March 31, 2021 | December 31, 2020 |
|---|------------------|-------------------|
| | \$ | \$ |
| Opening Balance | 2,034,835 | 265,121 |
| Addition | 59,570 | 1,904,288 |
| Loan forgiven transferred to other income – Note 14 | (10,000) | (160,383) |
| Accretion | 9,410 | 15,293 |
| Accrued interest | 11,232 | 10,616 |
| Accrued interest paid | (10,616) | - |
| Foreign exchange adjustment | (1,267) | (100) |
| Ending balance | 2,093,164 | 2,034,835 |
| Less: current portion | (469,871) | (335,615) |
| Non-current portion | 1,623,293 | 1,699,220 |

13. Warranty provision

| | March 31, 2021 | December 31, 2020 |
|-----------------|----------------|-------------------|
| | \$ | \$ |
| Opening balance | 191,342 | 251,100 |
| Additions | 64,476 | - |
| Fulfillment | (25,124) | (59,758) |
| Ending balance | 230,694 | 191,342 |

14. Other income

Other income of the Company consists of government grants received by the Company and loan forgiveness of \$10,000 for COVID-19 relief from the Bank of Montreal (March 31, 2020-Nil).

Government grants relate to the Canada Emergency Wage Subsidy amounts from the Canadian government and government relief from United States government related to the decrease in revenue as a result of COVID-19. There are no unfulfilled conditions and contingencies attached to the grants.

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|--------------------------------------|--------------------------------------|--------------------------------------|
| | \$ | \$ |
| Loan forgiveness income - Note 12 | 10,000 | - |
| Government Grants | 655,611 | - |
| Total | 665,611 | - |

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
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 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**15. Related party transactions**

All transactions with related parties have occurred in the normal course of operations at the exchange amount agreed between the parties. All amounts are unsecured, non-interest bearing and have no specific terms of settlement, unless otherwise noted. Related parties include members of the Board of Directors and Key management personnel, as well as close family members and enterprises that are affiliated with these individuals.

Transactions with related party Bevo Farms Ltd., that is affiliated with an officer and director of the Company.

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|-------------------|--------------------------------------|--------------------------------------|
| | \$ | \$ |
| Short term leases | 31,561 | - |
| Lease payments | 5,000 | 2,500 |
| Office expenses | 37,570 | - |
| Lease liability | 63,647 | 72,731 |

Key management compensation

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

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|--------------------------|--------------------------------------|--------------------------------------|
| | \$ | \$ |
| Wages and salaries | 382,083 | 299,537 |
| Consulting fees | 301,183 | 47,500 |
| Share-based compensation | 578,433 | 79,993 |
| Total | 1,261,699 | 427,030 |

All the related party balances:

Zenabis Global Inc. and Bevo Farms Ltd. are related parties of the Company as they are affiliated with certain officers and directors that have significant influence over the Company. Swiss Leaf is a related party as it is an associate of the Company.

| | As at March 31, 2021 | As at December 31, 2020 |
|---------------------------|----------------------|-------------------------|
| | \$ | \$ |
| Accounts receivable: | | |
| Zenabis | 10,017 | 8,001 |
| Total Accounts receivable | 10,017 | 8,001 |
| Accounts payable: | | |
| Bevo Farms | 17,448 | 12,034 |
| Swiss Leaf Farms | 19,582 | 11,360 |
| Total Accounts payable | 37,030 | 23,394 |

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
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**16. Share capital**

The Company has authorized share capital consisting of: (i) an unlimited number of Common Shares without par value or special rights or restrictions attached; (ii) an unlimited number of Class A Preferred Shares without par value and with certain rights and restrictions attached; and (iii) an unlimited number of Class B Preferred Shares without par value and with certain rights and restrictions attached. As of March 31, 2021, the Company has no Class A Preferred Shares or Class B Preferred shares issued and outstanding (December 31, 2020 – Nil).

| | Number of common shares | Impact on share capital |
|----------------------------------|----------------------------|----------------------------|
| | # | \$ |
| Balance June 30, 2020 | 116,315,015 | 31,825,583 |
| Issuance of shares (i) | 19,884,677 | 16,637,045 |
| Holdback shares adjustment(ii) | 926,845 | 356,849 |
| Options exercised (iii) | 577,999 | 121,887 |
| Transfer from equity reserves | - | 98,944 |
| Balance December 31, 2020 | 137,704,536 | 49,040,308 |
| Options exercised (iv) | 282,000 | 54,560 |
| Transfer from equity reserves | - | 46,860 |
| Balance March 31, 2021 | 137,986,536 | 49,141,728 |

- i) Financing arrangement with institutional investors and some key management employees of the Company at average price of \$0.8367 per share. Share issuance costs of \$899,853 were accounted for as a deduction from equity.
- ii) Issue of 926,845 holdback shares to Hydrogreen Inc. acquisition @0.3851 per share.
- iii) Options exercised by option holders at average price of \$0.21 per share.
- iv) Options exercised by option holders at average price of \$0.19 per share.

17. Shares issuable

On March 31, 2021, the Company received proceeds for shares issuable related to a non-brokered private placement. The investor has agreed to purchase 1,464,622 common shares of the Company at a purchase price of \$1.29 per common share for gross proceeds of \$1,889,362. Actual amount received was US\$1,500,000 (CA\$1,883,250). The shares were subsequently issued on April 6, 2021.

18. Stock options

The Company has an ownership-based compensation plan (“Option Plan”) for key management personnel, employees and vendors 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:

CubicFarm Systems Corp.Notes to the Condensed Consolidated Interim Financial Statements
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(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

**18. Stock options (continued)**

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

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 December 31, 2020 | 28,456,100 | 0.43 |
| Granted | 1,500,000 | 0.99 |
| Exercised | (282,000) | 0.19 |
| Balance March 31, 2021 | 29,674,100 | 0.46 |

During the period ended March 31, 2021, the weighted average price of shares when options were exercised was \$0.92 (March 31, 2020 - \$0.41).

Share purchase options outstanding at March 31, 2021:

| 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 | 2,194,670 | 5 | 0.19 | 1,203,600 |
| March 20, 2018 - March 30, 2023 | 268,334 | 5 | 0.19 | 199,334 |
| July 15, 2018 – July 15, 2023 | 7,238,000 | 5 | 0.83 | 1,805,400 |
| June 18, 2019 – December 15, 2023 | 605,000 | 5 | 1 | 385,000 |
| September 03, 2019 - September 02, 2024 | 8,000 | 5 | 0.68 | - |
| November 30, 2019 - December 30, 2024 | 50,000 | 5 | 1 | 50,000 |
| December 02, 2019 - December 01, 2024 | 10,000 | 5 | 0.39 | 3,333 |
| June 17, 2020 - June 18, 2025 | 3,620,000 | 5 | 0.63 | 1,206,667 |
| November 18, 2020 - November 17, 2022 | 50,000 | 2 | 0.78 | - |
| January 31, 2021 – January 20, 2024 | 750,000 | 3 | 0.85 | 125,000 |
| March 3, 2021- March 2, 2024 | 500,000 | 3 | 1.06 | 125,000 |
| March 29, 2021 – March 28, 2026 | 250,000 | 5 | 1.29 | 125,000 |
| Total share purchase options | 29,674,100 | | | 10,662,958 |

CubicFarm Systems Corp.

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**18. Stock options (continued)**

The fair value of the share purchase options granted during the year ended March 31, 2021 was calculated using the Black-Scholes option valuation model at the grant date, with the following weighted average assumptions.

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|------------------------------------|-----------------------------------|-----------------------------------|
| Share price volatility | 171% | 113% |
| Expected dividend yield | \$nil | \$nil |
| Employee forfeiture rate | 20% | 20% |
| Board of Directors forfeiture rate | 25% | 25% |
| Risk free interest rate | 0.26% & 0.40% | 1.47% & 1.49% |

The details of share-based compensation ("SBC") is as follows:

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|-------------------------------|-----------------------------------|-----------------------------------|
| | \$ | \$ |
| SBC for vendors | (25,587) | 106,584 |
| SBC for employees & directors | 594,082 | 96,178 |
| Total SBC | 568,496 | 202,762 |

19. Operating segments

IFRS 8 Operating Segments defines that an operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity).

(b) whose operating results are regularly reviewed by the entity's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

For management purposes, the Company is organized into divisions based on its products and services and these are comprised of two separate reportable segments: Fresh, for leafy greens and other crops, and Feed, for livestock feed. The Fresh division includes the head office function. The entire Fresh division operates in Canada and the entire Feed division operates in the United States.

Three months ended March 31, 2021.

| | Fresh | Feed | Total |
|--------------|-------------|-----------|-------------|
| | \$ | \$ | \$ |
| Revenue | 3,832,639 | 74,171 | 3,906,810 |
| Gross margin | 924,695 | (1,166) | 923,529 |
| Net loss | (2,855,494) | (821,594) | (3,677,088) |
| Total assets | 23,300,451 | 8,736,301 | 32,036,752 |

CubicFarm Systems Corp.

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

**19. Operating segments (Continued)**

Three months ended March 31, 2020.

| | Fresh | Feed | Total |
|--------------|--------------|-------------|--------------|
| | \$ | \$ | \$ |
| Revenue | 50,640 | 142,049 | 192,689 |
| Gross margin | (164,555) | 29,011 | (135,544) |
| Net loss | (3,048,804) | (439,349) | (3,488,153) |
| Total assets | 14,187,220 | 6,103,037 | 20,290,257 |

20. Capital management

The Company's objective when managing capital is to safeguard the Company'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 period, the Company's strategy, which was unchanged from the prior year, was to maintain net equity at a positive amount. The net equity at March 31, 2021 and December 31, 2020 was as follows:

| | March 31, 2021 | December 31, 2020 |
|-------------------|-----------------------|--------------------------|
| | \$ | \$ |
| Total Assets | 32,036,752 | 34,736,855 |
| Total Liabilities | (11,677,749) | (12,997,278) |
| Net Equity | 20,359,003 | 21,739,577 |

See further discussions in note 2.

21. Financial instruments

The Company classifies its fair value measurements with the following fair value hierarchy:

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active market.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs which are supported by little or no market activity.

The carrying value of the Company's cash & cash equivalents, trade and other receivables and trade and other payables approximate fair value due to their immediate and short-term nature.

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

**21. Financial instruments (continued)**

The fair value of the Company's loans payable is the carrying value discounted at the market interest rate.

The earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at March 31, 2021, the discount rate was estimated to be 17% (December 31, 2020 – 17%).

The derivative liability is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expected earnings before interest, taxes, depreciation, and interest ("EBITDA") in 2024. The expected related cash flows were discounted to derive the fair value of the derivative liability. As at March 31, 2021, the discount rate was estimated to be 41% (December 31, 2020 – 47%).

There has been no change between levels during the year.

The fair values of the Company's financial instruments are outlined below:

| As at March 31, 2021 | | | | |
|-----------------------------|--------------|-----------------------|-------------------|----------------|
| | FVTPL | Amortized Cost | Fair Value | |
| Asset (Liability) | | | Level 2 | Level 3 |
| Cash and cash equivalents | - | 12,599,755 | - | - |
| Trade and other receivables | - | 2,837,635 | - | - |
| Trade and other payables | - | (2,379,789) | - | - |
| Earn out payable | (1,687,708) | - | - | (1,687,708) |
| Loans payable | - | (2,093,164) | (2,034,286) | - |
| Derivative liability | (1,036,521) | - | - | (1,036,521) |

| As at December 31, 2020 | | | | |
|--------------------------------|--------------|-----------------------|-------------------|----------------|
| | FVTPL | Amortized Cost | Fair Value | |
| Asset (Liability) | | | Level 2 | Level 3 |
| Cash and cash equivalents | - | 16,206,535 | - | - |
| Trade and other receivables | - | 1,338,265 | - | - |
| Trade and other payables | - | (1,465,666) | - | - |
| Earn out payable | (1,643,033) | - | - | (1,643,033) |
| Loans payable | - | (2,034,835) | (1,990,278) | - |
| Derivative liability | (1,002,128) | - | - | (1,002,128) |

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020.

(Unaudited)

(Expressed in Canadian dollars, unless otherwise stated.)

**21. Financial instruments (continued)****Derivative liability continuity**

| | March 31, 2021 | December 31, 2020 |
|--|------------------|-------------------|
| | \$ | \$ |
| Opening Balance | 1,002,128 | - |
| Derivative liability – Initial recognition (July 20, 2020) | - | 595,712 |
| Change in fair value of derivative liability | 34,393 | 406,416 |
| Ending Balance | 1,036,521 | 1,002,128 |

Earn-out payable continuity

| | March 31, 2021 | December 31 2020 |
|-----------------------------------|------------------|------------------|
| | \$ | \$ |
| Opening balance | 1,643,033 | 1,364,756 |
| Foreign exchange | (20,260) | (89,700) |
| Fair Value change during the year | 64,935 | 367,977 |
| Ending balance | 1,687,708 | 1,643,033 |
| Comprised of: | | |
| Current Earn-out payments | 1,687,708 | 1,165,953 |
| Non-Current Earn-out payments | - | 477,080 |

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 March 31, 2021, the primary risks relating to the use of financial instruments 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. The Company performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at March 31, 2021, one customer accounted for 33% of the trade accounts receivable and the Company has no issues for collection for it. The Company performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible accounts receivable and associates.

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
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**21. Financial instruments (continued)*****Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. 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.

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. See further discussions regarding liquidity in note 2.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's (loss) income or the fair value of its financial instruments. The market risk is analysed further below:

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.

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 March 31, 2021, the following items are denominated in US dollars:

| | March 31, 2021 | December 31, 2020 |
|-----------------------------|-----------------------|--------------------------|
| | \$ | \$ |
| Cash | 3,446,167 | 3,616,464 |
| Trade and other receivables | 1,602,884 | 1,251,269 |
| Trade and other payables | (619,512) | (432,742) |
| Customer deposits | (1,022,418) | (524,941) |
| Earn-out payable | (1,342,114) | (1,290,475) |
| Loans payable | (90,031) | (58,622) |
| Net exposure | 1,974,976 | 2,560,953 |

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. The Company has not made any special arrangements to reduce the related currency risk.

A 10% increase in the US dollar exchange rate would decrease the Company's net loss by approximately \$198,000. A 10% decrease in the exchange rate would increase net loss by the same amount.

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited)

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22. Subsequent event

On April 29, 2021, the Company amended its loan with BDC Capital Inc. The amendment includes cancelling the second \$2,500,000 tranche and adjusting the principal instalments to 47 monthly instalments of \$25,000 commencing July 15, 2021, with a balloon payment of \$1,325,000 payable on June 15, 2025. The variable loan bonus was also replaced with a fixed bonus of \$425,000, consisting of \$225,000 in cash and \$200,000 in common shares.



Management's Discussion and Analysis

For the three months ended March 31, 2021

Dated: May 31, 2021

The following Management's Discussion and Analysis ("MD&A") is prepared as of May 31, 2021, and reports on the operating results and financial condition of CubicFarm Systems Corp., (the "Company" or "CubicFarms") for the three months ended March 31, 2021. This MD&A is prepared by management and should be read in conjunction with the interim condensed consolidated financial statements for the three months ended March 31, 2021, as well as the consolidated financial statements for the transition year ended December 31, 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts herein are expressed in Canadian dollars unless stated otherwise.

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., CubicFarm Capital Corp. CubicFarm Systems U.S. Corp., HydroGreen, Inc., and CubicFarm Systems (Shanghai) Corp.

The Company's most recent annual information form and other documents and information have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are 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 modules (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 19951-80A Avenue, Unit 353, Langley, BC, V2Y 0E2.

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

CubicFarms is a local chain agricultural technology company that provides unique automated on site commercial-scale food and livestock feed technologies. CubicFarms' technologies convert wasteful long supply chain agriculture into local chains to improve independent access to quality food and maximize crop yield all while reducing the environmental cost of food and feed production. These technologies provide independent and efficient fresh produce and livestock feed supply for every city, community, government, and country, 365 days a year.

The Company operates two segments, which are its Fresh Division and Feed Division. The Fresh Division and Feed Division use two distinct technologies that address two distinct markets.

Fresh Division

The Company's Fresh Division operates using the patented CubicFarm™ System, which contains CubicFarms' patented technology for growing leafy greens and other crops. It is a unique modular growing system which is the product of eight years of research by Dutch greenhouse growers, Jack and Leo Benne. Jack and Leo Benne were the majority shareholders of Bevo Agro Inc., one of the largest plant propagation businesses in North America. The CubicFarm System addresses two of the most difficult challenges in the vertical farming industry, being high electricity and labour costs, using unique undulating path technology. CubicFarms leverages its patented technology by operating its own Research and Development ("R&D") facility in Pitt Meadows, British Columbia, selling the CubicFarm System to farmers, licensing its technology, and providing industry-leading vertical farming expertise to its customers.

Production

In May 2017, CubicFarms signed an agreement with Cubic Manufacturing to establish dedicated manufacturing resources in China. Cubic Manufacturing acquires and assembles the main mechanical components of the containers.

In September 2020, CubicFarms signed an agreement with Shandong Yuxin Mechanical & Electrical Manufacturing Co., Ltd., (Jining, China) and Viking West Engineered Products Ltd. (Langley, BC, Canada) to establish additional manufacturing capability in China. Additional manufacturing capability increases production by approximately 40 CubicFarms containers per month inside the approximate 320,000 sq. ft. facility operated by Yuxin. The Company has approximately 30,000 sq. ft. dedicated to the assembly of its equipment at Yuxin's ISO9000 facility, with the ability to expand to approximately 60,000 sq. ft. of assembly space, if additional capacity is required by the Company. Yuxin's operations are described at <http://www.yuxinmechanical.com>.

Research and Development

CubicFarms operates a facility in Pitt Meadows, BC, which is used for R&D and product testing.

Feed Division

The Company's Feed Division operates using CubicFarms' HydroGreen System, the Company's technology for growing nutritious livestock feed. The HydroGreen System was invented by Dihl Grohs, a rancher with operations in South Dakota, Utah and Missouri. This system utilizes a unique process to sprout grains, such as barley and wheat, in a controlled environment with minimal use of land, labour and water. The HydroGreen System is fully automated and performs all growing functions including seeding, watering, lighting, harvesting, and re-seeding – all

with the push of a button – to deliver nutritious livestock feed without the typical investment in fertilizer, chemicals, fuel, field equipment and transportation. The HydroGreen System not only provides superior nutritious feed to benefit the animal, but also enables significant environmental benefits to the farm.

Manufacturing

HydroGreen products are manufactured at a 21,620 square foot warehouse and office space at HydroGreen's principal place of business located in Sioux Falls, South Dakota.

Research and Development

HydroGreen has developed a 12,000 square foot Innovation Center located Sioux Falls, South Dakota. The Innovation Center currently contains three HydroGreen Systems and will be used for research and development, product testing, customer visits, partner training, and feed trials.

HydroGreen also operates a 32-acre research farm located in Renner, South Dakota.

Highlights subsequent to the three months ended March 31, 2021

On April 5, 2021, the Company announced that pursuant to a non-brokered private placement, Burnett Land & Livestock Ltd., (Burnett) has agreed to purchase 1,464,622 common shares of the Company at a purchase price of CA\$1.29 per common share for gross proceeds of US\$1,500,000 (approximately CA\$1,886,427). Burnett is a strategic investor to CubicFarms interested in further advancing the HydroGreen technology and is a large US-based beef cattle rancher and dairy farmer with over 17,000 cattle located on 35,000 acres. The Company intends to use the proceeds of the Private Placement for advancing the research and development for HydroGreen and for general working capital purposes.

On April 6, 2021, the Company announced an agreement with Burnett, for 12 HydroGreen Grow System beta modules, daily feed production supply, and includes collaboration on a research program and feed analysis with HydroGreen. As part of the agreement, HydroGreen and Burnett will collaborate on the collection of data and research to quantify the livestock feed nutrition benefits, dry matter yield gain, performance of the herd, with special interest in fertility, milk production, and overall wellbeing of the animals. This beta project, called HydroGreen Vertical Pastures™, will include the first installation of the commercial scale HydroGreen GLS808 modules on a large-scale farm. The 12 HydroGreen GLS808 modules, once installed, can produce 80% more fresh livestock feed than HydroGreen's legacy systems, providing Burnett with up to 72,000lbs of feed daily. As part of the feed ration, that's enough to feed 2,000 animals daily. Burnett will purchase all the daily feed production supply with the option to purchase the modules and expand to accommodate Burnett's full operational needs.

On April 6, 2021, the Company announced the appointment of Thomas Liston as Vice President (VP) of Corporate Development. Mr. Liston will provide CubicFarms with strategic business development and capital markets advisory services in his role as VP of Corporate Development. Mr. Liston is a technology investor, advisor, and a Chartered Financial Analyst® with over 20 years of experience in capital markets. He's the founder of Water Street Corp and currently serves on several boards of directors for public and private technology companies, and he has a strong track record of shareholder value creation in that capacity. He has served on the Board of Directors of WELL Health Technologies (TSX: WELL) since April 2018 and Tantalus Systems Holding Inc. (TSX.V: GRID) since January 2021.

On April 20, 2021, the Company was awarded a Nexus Innovation Award for HydroGreen's Vertical Pastures™ Grow System, an automated, on farm fresh livestock feed technology. HydroGreen's unique automated technology for growing on farm fresh livestock feed was selected by dairy farmers because with this technology, dairies can gain more control over feed production and conserve water and land without the need for chemicals or fertilizers.

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On April 23, 2021, the Company announced the sale of 18 modules of the CubicFarm System onsite indoor growing technology at a sale price of US\$2,700,000 to BoomA Food Group. BoomA Food Group will use these modules

to grow commercial scale amounts of produce in New South Wales, Australia, specializing in herbs and microgreens. This purchase of equipment represents the first commercial sale in Australia.

On April 29, 2021, the Company amended its loan with BDC Capital Inc. The amendment includes cancelling the second \$2,500,000 tranche and adjusting the principal instalments to 47 monthly instalments of \$25,000 commencing July 15, 2021, with a balloon payment of \$1,325,000 payable on June 15, 2025. The variable loan bonus was also replaced with a fixed bonus of \$425,000, consisting of \$225,000 in cash and \$200,000 in common shares. The payment of the fixed bonus will take place as early as possible, and no later than 10 days after the filing of the Company's December 31, 2020 financial statements.

On May 14, 2021, the Company announced that Janet Wood has been appointed to the Company's Board of Directors. Janet Wood is recognized globally as a leader in the technology sector and as a successful executive who retired from a rewarding career with several major technology companies including IBM, Crystal Decisions, Business Objects, and SAP. Her success in building global channel partnerships and alliances with leading technology companies will bring invaluable insight to CubicFarms' Board of Directors.

After joining SAP in 2008, Wood's executive roles included Global Human Resources leader for the Office of the CEO, Global Head of Talent and Leadership, Executive Vice President (EVP) of Global Strategic Partners and EVP of Global Maintenance Go To Market. At Business Objects, she worked as Senior Vice President of Global Partnerships. Wood also served as Vice President of Business Development at Crystal Decisions and held various management positions during her 16-year tenure at IBM. Wood holds a Bachelor's degree in Business Administration from the University of Alberta, graduating with distinction.

Wood will replace John de Jonge, a founding member of the Company's Board of Directors. He will continue providing guidance in a different capacity by joining the Company's newly formed HydroGreen Business Advisory Board.

On May 17, 2021, the Company announced that 12 HydroGreen Grow System modules have been purchased by wholesale distributor Dihl Gros International for its beef cattle customers who require on farm fresh livestock feed for their herds. The sale of 12 HydroGreen Grow System modules represents equipment sales of approximately CA\$2,000,000 by the Company.

On May 26, 2021, the Company announced that it entered into an agreement with Raymond James Ltd. as sole bookrunner, on behalf of a syndicate of underwriters (collectively, the "Underwriters"), pursuant to which the Underwriters have agreed to purchase, on a "bought deal" basis, 14,814,815 common shares (the "Common Shares") of the Company at a price of \$1.35 per Common Share (the "Issue Price") for aggregate gross proceeds to the Company of approximately \$20,000,000 (the "Offering"). The Company has agreed to grant the Underwriters an over-allotment option to purchase up to an additional 15% Common Shares at the Issue Price, exercisable in whole or in part at any time for a period ending 30 days from the closing of the Offering. The net proceeds from the Offering will be used to further expand the Company's research and development efforts, and support working capital and other general corporate purposes.

On May 27, 2021, the Company announced that, due to strong demand, it has agreed with the Underwriters to increase the size of the Offering to 16,296,297 Common Shares at a price of \$1.35 per Common Share for aggregate gross proceeds to the Company of approximately \$22,000,000.

Forward-Looking Guidance

Systems Sales

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 modules. 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 modules or identification of partner farms.

Sales and deposits

The Company currently has a total of 199 modules under contract and deposit. The amount of System sales orders that are pending manufacturing and installation is approximately USD \$27 million. The table below shows the projects under contract and deposit:

| Project Name | Number of Modules | Value, USD |
|------------------|-------------------|---------------------|
| Surrey | 100 | \$12,561,538 |
| Montana | 21 | \$2,930,816 |
| Abbotsford | 16 | \$2,129,815 |
| Indiana | 20 | \$2,969,500 |
| Australia | 19 | \$2,746,000 |
| Vancouver Island | 23 | \$3,374,000 |
| Total | 199 | \$26,711,669 |

Revenue from System sales is dependent on the transfer of legal title upon the completion of the sales and delivery process – consisting of signing the purchase agreement, customer deposit, manufacture of modules, customer's site preparation, shipping, and installation of the System. Unforeseen delays attributable to the COVID-19 pandemic and the global recovery efforts employed by both individual companies and countries may delay the Company's completion of the module sales and delivery process. The Company does not expect to start delivering modules for the Surrey project until 2023. This is due to the expected time for the chosen site to be prepared.

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

During the three months ended March 31, 2021, the Company signed contracts for the projects below:

| Project Name | Number of Modules | Value, USD |
|------------------|-------------------|--------------------|
| Australia | 19 | \$2,746,000 |
| Vancouver Island | 23 | \$3,374,400 |
| Total | 42 | \$6,120,400 |

Contracts were signed for these two projects as of March 31, 2021; however, deposits were received on April 16, and April 22, 2021, for Vancouver Island and Australia, respectively.

Corporate and operational highlights for the three months ended March 31, 2021

On January 19, 2021, the Company changed its financial year-end from June 30 to December 31 and changed its auditor from MNP LLP to KPMG LLP.

On March 2, 2021, the Company appointed Edoardo De Martin as Chief Technology Officer of the Company. Mr. De Martin has more than 20 years of experience in the technology industry. Prior to joining CubicFarms, Mr. De Martin spent 10 years at Microsoft working in various roles including General Manager of the Microsoft Vancouver Development Centre, as well as driving innovation as GM of Dynamics Mixed Reality Applications on HoloLens.

On March 18, 2021, the Company appointed a Scientific Advisory Board. The Scientific Advisory Board is comprised of top experts in the fields of agriculture and technology and is primarily responsible for making recommendations to the Company's senior leadership team regarding research and development priorities.

On March 19, 2021, the Company announced that a scientific journal has published a case study involving HydroGreen, that has pioneered innovative technologies to produce live green animal feed. The article, published by Canadian Science Publishing in FACETS, the official journal of the Royal Society of Canada's Academy of Science, finds that HydroGreen's technology has great potential for reducing greenhouse gas emissions in the animal agriculture industry.

| Financial Results | Three months ended March 31, 2021 | Three months ended March 31, 2020 |
|------------------------------------|--------------------------------------|--------------------------------------|
| Fresh Division sales | 3,832,639 | 50,640 |
| Feed Division sales | 74,171 | 142,049 |
| Total sales | 3,906,810 | 192,689 |
| Cost of sales | 2,983,281 | 328,233 |
| Gross margin | 923,529 | (135,544) |
| Operating expenses | 4,998,209 | 2,891,013 |
| Loss before other income (expense) | (4,074,680) | (3,026,557) |
| Net finance income (expense) | (98,089) | 82,708 |
| Other income (expense) | 499,650 | (544,304) |
| Loss before income taxes | (3,673,119) | (3,488,153) |
| Income taxes | (3,969) | - |
| Net loss | (3,677,088) | (3,488,153) |
| Loss per share, basic and diluted | (0.03) | (0.04) |

| Financial Position | March 31, 2021 | December 31, 2020 |
|-------------------------------|----------------|-------------------|
| | \$ | \$ |
| Total assets | 32,036,752 | 34,736,855 |
| Total non-current liabilities | 3,847,751 | 4,474,071 |
| Dividends declared | Nil | Nil |

FRESH DIVISION

In the last three months, CubicFarms has signed contracts for 42 CubicFarm modules in Canada and Australia. During this time, CubicFarms has continued to its R&D efforts, and sell produce from the CubicFarm System it owns and operates in Pitt Meadows, British Columbia.

In the short to mid-term period the Company expects to close additional CubicFarm Systems sales in Canada, that will establish the Company from coast to coast, additional system sales in the United States, adding to the current CubicFarm System in operation in the country; and the first CubicFarm Systems sales in China with a strategic partner that will position us to establish a significant footprint of our CubicFarm Systems in the country.

As of March 31, 2021 the Fresh division had 71 employees and full-time contractors.

FEED DIVISION

Through the Company's acquisition of HydroGreen, Inc. it now has a fully automated hydroponic growing system that produces live, green livestock feed. HydroGreen's unique process sprouts grains, such as barley and wheat, in a controlled environment with minimal use of land, labour and water.

Over the last three months, HydroGreen has been focused on testing the larger, commercial-scale, eight-section by eight-row machine, as well as growing its team to execute its growth plans.

As of March 31, 2021 the feed division had 23 employees and full-time contractors.

Discussion of Operations

Three months ended March 31, 2021 and 2020.

Revenue

| Fresh Division | March 31, 2021 | March 31, 2020 | Change | % |
|--------------------|----------------|----------------|--------------|-------|
| Three months ended | \$ 3,832,639 | \$ 50,640 | \$ 3,781,999 | 7468% |

| Feed Division | March 31, 2021 | March 31, 2020 | Change | % |
|--------------------|----------------|----------------|-------------|------|
| Three months ended | \$ 74,171 | \$ 142,049 | \$ (67,878) | -48% |

| Total | March 31, 2021 | March 31, 2020 | Change | % |
|--------------------|----------------|----------------|--------------|-------|
| Three months ended | \$ 3,906,810 | \$ 192,689 | \$ 3,714,121 | 1928% |

The Company is still in its early stages of operations which has resulted in fluctuating sales on a quarter-by-quarter basis. In addition, the Company has recently acquired HydroGreen, Inc. and is in the process of expanding its product portfolio and integrating its systems, operations and sales staff into the Company which has had an impact on revenues from this subsidiary. As such, the Company expects financial results to fluctuate from period to period in the near term. The Company has three main sources of revenue - revenue from sales of Systems, revenue from services, and revenue from consumables. Consumables include produce sales, parts, seeds, nutrients, fertilizers, and substrates, and services include customer support subscriptions and consulting. As the Company matures, management expects to receive a larger percentage of overall sales as recurring revenue. Sales in the three months ended March 31, 2021 included Systems and accessories of \$3,689,369, services of \$64,592, and consumables of \$152,849. Systems sales revenue included the installation and training related to the Calgary project, as well as completion of the Armstrong, and San Diego projects. HydroGreen also sold one module during the period.

Gross margin

| Fresh Division | March 31, 2021 | March 31, 2020 | Change | % |
|--------------------|----------------|----------------|--------------|------|
| Three months ended | \$ 924,695 | \$ (164,555) | \$ 1,089,250 | n.a. |

| Feed Division | March 31, 2021 | March 31, 2020 | Change | % |
|--------------------|----------------|----------------|-------------|------|
| Three months ended | \$ (1,166) | \$ 29,011 | \$ (30,177) | n.a. |

| Total | March 31, 2021 | March 31, 2020 | Change | % |
|--------------------|----------------|----------------|--------------|------|
| Three months ended | \$ 923,529 | \$ (135,544) | \$ 1,059,073 | n.a. |

Gross margin for the three months ended March 31, 2021 was \$923,529 or 24% of revenue. The Company continues to invest in retrofitting existing customer equipment to the newest version of the equipment available. The Company made this decision to ensure its customers achieve the highest possible productivity and efficiency from its systems. The Company incurred approximately \$300,000 in retrofitting expense during the period, and gross margin would have been approximately \$1.2 million or 31% of revenue without the retrofitting projects.

General administrative expenses

| | March 31, 2021 | March 31, 2020 | Change | % |
|--------------------|----------------|----------------|------------|-----|
| Three months ended | \$ 3,228,634 | \$ 2,285,874 | \$ 942,760 | 41% |

The increase in general administrative expenses is in line with the Company's continued expansion of its business and staffing additions. General administrative staffing expense and consulting fees for the three months ended March 31, 2021 were \$2,276,781 compared to \$1,367,614 for the three months ended March 31, 2020, which reflects the Company's growth. Professional fees for the three months ended March 31, 2021 were \$93,330, compared to \$428,789 for the three months ended March 31, 2020, which were mostly due to the HydroGreen acquisition.

Selling expenses

| | March 31, 2021 | March 31, 2020 | Change | % |
|--------------------|----------------|----------------|------------|------|
| Three months ended | \$ 629,156 | \$ 198,042 | \$ 431,114 | 218% |

Advertising and promotions expense increased from \$23,546 for the three months ended March 31, 2020, to \$207,711 for the three months ended March 31, 2021; and consulting fees increased from \$42,117 to \$231,392, both of which are to support the Company's branding and expansion efforts. Wages and benefits increased from \$113,411 to \$156,643.

Research and development

| | March 31, 2021 | March 31, 2020 | Change | % |
|--------------------|----------------|----------------|------------|------|
| Three months ended | \$ 1,140,419 | \$ 407,097 | \$ 733,322 | 180% |

R&D expenses were for the continued automation of the Fresh and Feed growing systems, as well as research and development associated with growing new crops and animal feed in the equipment. Staffing expense and consulting fees increased from \$191,539 for the three months ended March 31, 2020, to \$621,384 for the three months ended March 31, 2021. This is predominantly due to the increased staffing and R&D efforts at HydroGreen.

Net loss

| | March 31, 2021 | March 31, 2020 | Change | % |
|--------------------|----------------|----------------|--------------|----|
| Three months ended | \$ (3,677,088) | \$ (3,488,153) | \$ (188,935) | 5% |

The Company's net loss in the three months ended March 31, 2021 reflect the Company's continued expansion of its business and staffing additions that management believes are necessary to both develop and sell its manufactured products within the global controlled-environment agricultural market. The Company has nearly doubled its workforce, going to 94 full-time employees and contractors at March 31, 2021, from 49 full-time employees and contractors at March 31, 2020. Net loss also includes \$665,611 in other income consisting of US\$500,000 from the South Dakota Small Business and Healthcare Grant, as well as other COVID-19 loan forgiveness and grants. The Company continues to assess its eligibility for available grants and loans. The Company also had \$64,935 in unrealized loss on the change in fair value of the earnout payable related to the HydroGreen acquisition, and \$34,393 in unrealized loss on the change in fair value of the derivative liability related to its BDC loan.

Use of Proceeds

The following table outlines the use of proceeds from the Company's financing activities as of March 31, 2021:

| Month | Amount | Use of Proceeds | Expected | % | Actual | % |
|--------|--------------|--|-------------|-------|-------------|-------|
| Dec-20 | \$15,475,595 | Sales and marketing | \$5,700,000 | 37.7% | \$629,156 | 12.8% |
| | | R&D | \$5,225,000 | 34.6% | \$1,030,518 | 20.9% |
| | | Working capital and general corporate purposes | \$4,194,068 | 27.7% | \$3,259,280 | 66.3% |

Summary of Quarterly Results

The financial results for each of the eight most recently completed quarters are summarized below, prepared in accordance with IFRS:

| Period | Revenue | Net income (loss) for the period | Basic and fully diluted income (loss) per share |
|-------------------------------------|-----------|----------------------------------|---|
| | \$ | \$ | \$ |
| April 1, 2019 - June 30, 2019 | 24,110 | (3,153,026) | (0.04) |
| July 1, 2019 - September 30, 2019 | 240,701 | (2,277,762) | (0.03) |
| October 1, 2019 - December 31, 2019 | 671,076 | (1,989,441) | (0.02) |
| January 1, 2020 - March 31, 2020 | 192,689 | (3,488,153) | (0.04) |
| April 1, 2020 - June 30, 2020 | 4,063,022 | (2,336,745) | (0.02) |
| July 1, 2020 - September 30, 2020 | 400,525 | (3,768,293) | (0.03) |
| October 1, 2020 - December 31, 2020 | 224,249 | (6,357,270) | (0.05) |
| January 1, 2021 - March 31, 2021 | 3,906,810 | (3,677,088) | (0.03) |

There is no established seasonality trend at this stage of the Company's development. Revenue is recorded based on the achieved revenue recognition milestones, which are transfer of title, shipping to a client site, installation, and training. There are three quarters with significantly higher revenue, where the Company recorded revenue from the transfer of title for the Armstrong project (March 2021), transfer of title for the Calgary project (June 2020) and the Swiss Leaf Farm project (March 2019).

The Company does not recognize revenue until customers have either accepted ownership or the Company has delivered and fully installed CubicFarms modules at customer sites. 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 in order to achieve smoother and more predictable sales cycles.

During the three months ended June 30, 2020, the Company recorded sales of 22 modules to the Calgary project, which resulted in the highest quarterly revenue recorded of \$4,063,022 and Gross Margin of 40%. The net loss in the three months ended June 30, 2020 was due to continued efforts to expand of operations both in Canada and U.S.A. by increasing staff on the Customer Experience, Production, and Installation teams to support growing customers' base and installations.

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During the three months ended September 30, 2020, the Company recorded revenue of shipping income and an irrigation system sold to a Calgary client, plus the first revenue from consulting services of approximately \$27,000. The net loss during the three months period was mainly due to continued expansion of the Sales and Marketing team; as well as the Operations team and HydroGreen, which has more than doubled in size since the date of acquisition in order to support the Feed system redesign, which will enable the Company to target large farms with more than 1000 cattle.

During the three months ended December 31, 2020, the Company sold one HydroGreen module, as well as produce and consumables. Operating expenses increased due to the Company's continued expansion and research and development. An additional 16 employees joined the Company including SVP Global Sales, Head of People, In-house Legal Counsel, and President of CubicFarm China to lead global sales.

During the three months ended March 31, 2021, the Company recorded revenue from 14 modules for the Armstrong project, as well as 1 module for the San Diego project. The Company also completed the installation and training components of the Calgary project. HydroGreen sold one module during the three months ended March 31, 2021.

Liquidity and Capital Resources

Working capital decreased from \$15,244,610 as at December 31, 2020 to \$13,286,331 as at March 31, 2021. The decrease in working capital is primarily due to a decrease in cash from \$16,206,535 to \$12,599,755 through funding the Company's operating activities. The Company's objective when managing its working capital and capital resources is to maintain liquidity so as to meet financial obligations when they come due, while actioning its strategic plan. The Company manages its working capital by monitoring operational and cash flow forecasts to identify cash flow needs for general corporate and working capital purposes.

Operating Activities

Cash outflows from operating activities for the three months ended March 31, 2021 were \$4,918,954 compared to \$871,841 for the same period last year. This is mainly driven by an outflow in working capital related to Trade and other receivables and Customer deposits of \$4,448,139.

Investing Activities

Cash from investing activities increased from an outflow of \$282,300 during the three months ended March 31, 2020 to an outflow of \$487,235 for the three months ended March 31, 2021. The increase in cash outflow is primarily due to increased capital expenditures.

Financing Activities

Cash inflows from financing activities increased to \$1,856,187 during the three months ended March 31, 2021 as compared to an outflow of \$19,396 during the three months ended March 31, 2020. The increase in cash flows from financing is primarily due to the Burnett private placement of \$1,883,250.

Capital Management

The Company's source of funding to date has been from equity and debt financing, as well as the sales of modules, consumables, and produce. 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 six months. However, the Company may seek additional financing through issuance of equity or debt to support further expansion and research and development activities.

Transactions with Related Parties

All transactions with related parties have occurred in the normal course of operations at the exchange amount agreed between the parties. All amounts are unsecured, non-interest bearing and have no specific terms of settlement, unless otherwise noted. Related parties include members of the Board of Directors and Key management personnel, as well as close family members and enterprises that are affiliated with these individuals.

Transactions with related party Bevo Farms Ltd., that is affiliated with an officer and director of the Company.

| | Three months ended March 31, 2021 | Three months ended March 31, 2020 |
|-------------------|--------------------------------------|--------------------------------------|
| | \$ | \$ |
| Short term leases | 31,561 | - |
| Lease payments | 5,000 | 2,500 |
| Office expenses | 37,570 | - |
| Lease liability | 63,647 | 72,731 |

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 March 31, 2021 | Three months ended March 31, 2020 |
|--------------------------|--------------------------------------|--------------------------------------|
| | \$ | \$ |
| Wages and salaries | 382,083 | 299,537 |
| Consulting fees | 301,183 | 47,500 |
| Share-based compensation | 578,433 | 79,993 |
| Total | 1,261,699 | 427,030 |

All related party balances

Zenabis Global Inc. and Bevo Farms Ltd. are related parties of the Company as they are affiliated with certain officers and directors that have significant influence over the Company. Swiss Leaf Farms Ltd. is a related party as it is an associate of the Company.

| | As at March 31, 2021 | As at December 31, 2020 |
|----------------------------------|----------------------|-------------------------|
| Accounts Receivable: | | |
| Zenabis | 10,017 | 8,001 |
| Total Accounts receivable | 10,017 | 8,001 |
| Accounts payable: | | |
| Bevo Farms | 17,448 | 12,034 |
| Swiss Leaf Farms | 19,582 | 11,360 |
| Total Accounts payable | 37,030 | 23,394 |

Outstanding Share Data

As at the date of this MD&A, the Company had 139,505,491 outstanding common shares.

Shares outstanding as of March 31, 2021:

| Class | Par Value | Number Authorized | March 31, 2021 Number Issued | December 31, 2020 Number Issued | June 30, 2020 Number Issued | June 30, 2019 Number Issued |
|----------------------|------------------|--------------------------|---|--|--|--|
| Common Shares | No par value | Unlimited | 137,986,536 | 137,704,536 | 116,315,015 | 84,179,714 |
| | | | 137,986,536 | 137,704,536 | 116,315,015 | 84,179,714 |

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.

Financial Instruments

The Company classifies its fair value measurements with the following fair value hierarchy:

Level 1 –Unadjusted quoted prices at the measurement date for identical assets or liabilities in active market.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs which are supported by little or no market activity.

The carrying value of the Company's cash & cash equivalents, trade and other receivables and trade and other payables approximate fair value due to their immediate and short-term nature.

The earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at March 31, 2021, the discount rate was estimated to be 17% (December 31, 2020 – 17%).

The fair value of the Company's Loans payable is the carrying value discounted at the market interest rate.

The derivative liability is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expected earnings before interest, taxes, depreciation, and interest ("EBITDA") in 2024. The expected related cash flows were discounted to derive the fair value of the derivative liability. As at March 31, 2021, the discount rate was estimated to be 41% (December 31, 2020 – 47%).

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The fair values of the Company's financial instruments are outlined below:

| As at March 31, 2021 | | | | |
|-----------------------------|-------------|----------------|-------------|-------------|
| Asset (Liability) | FVTPL | Amortized Cost | Fair Value | |
| | | | Level 2 | Level 3 |
| Cash and cash equivalents | - | 12,599,755 | - | - |
| Trade and other receivables | - | 2,837,635 | - | - |
| Trade and other payables | - | (2,379,789) | - | - |
| Earnout payable | (1,687,708) | - | - | (1,687,708) |
| Loans payable | - | (2,093,164) | (2,034,286) | - |
| Derivative liability | (1,036,521) | - | - | (1,036,521) |

| As at December 31, 2020 | | | | |
|-----------------------------|-------------|----------------|-------------|-------------|
| Asset (Liability) | FVTPL | Amortized Cost | Fair Value | |
| | | | Level 2 | Level 3 |
| Cash and cash equivalents | - | 16,206,535 | - | - |
| Trade and other receivables | - | 1,338,265 | - | - |
| Trade and other payables | - | (1,465,666) | - | - |
| Earnout payable | (1,643,033) | - | - | (1,643,033) |
| Loans payable | - | (2,034,835) | (1,990,278) | - |
| Derivative liability | (1,002,128) | - | - | (1,002,128) |

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The continuity for Earn out payable is as follows:

| | March 31, 2021 | December 31 2020 |
|-----------------------------------|------------------|------------------|
| | \$ | \$ |
| Opening balance | 1,643,033 | 1,364,756 |
| Foreign exchange | (20,260) | (89,700) |
| Fair Value change during the year | 64,935 | 367,977 |
| Ending balance | 1,687,708 | 1,643,033 |
| Comprised of: | | |
| Current Earn-out payments | 1,687,708 | 1,165,953 |
| Non-Current Earn-out payments | - | 477,080 |

The continuity for Derivative liability is as follows:

| | March 31, 2021 | December 31, 2020 |
|--|------------------|-------------------|
| | \$ | \$ |
| Opening Balance | 1,002,128 | - |
| Derivative liability – Initial recognition (July 20, 2020) | - | 595,712 |
| Change in fair value of derivative liability | 34,393 | 406,416 |
| Ending Balance | 1,036,521 | 1,002,128 |

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 March 31, 2021, 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. The Company performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at March 31, 2021, one customer accounted for 33% of the trade accounts receivable and the Company has no issues for collection for it. The Company performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible accounts receivable and associates.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. 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. 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.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's (loss) income or the fair value of its financial instruments. The market risk is analysed further below:

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.

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 of March 31, 2021, the following items are denominated in US dollars:

| | March 31, 2021 | December 31, 2020 |
|-----------------------------|------------------|-------------------|
| | \$ | \$ |
| Cash | 3,446,167 | 3,616,464 |
| Trade and other receivables | 1,602,884 | 1,251,269 |
| Trade and other payables | (619,512) | (432,742) |
| Customer deposits | (1,022,418) | (524,941) |
| Earn out payable | (1,342,114) | (1,290,475) |
| Loans payable | (90,031) | (58,622) |
| Net exposure | 1,974,976 | 2,560,953 |

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. The Company has not made any special arrangements to reduce the related currency risk.

A 10% increase in the US dollar exchange rate would decrease the Company's net loss by approximately \$198,000. A 10% decrease in the exchange rate would increase net loss by the same amount.

COVID-19 Disclosure

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. As of March 31, 2021, the Company has not observed any material impairments of our assets or a significant change in the fair value of assets due to the COVID-19 pandemic. Due to the rapid developments and uncertainty surrounding COVID-19 it is not possible to predict the impact it will have on the Company's business, financial position, and operating results in the future. It is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the affect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

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 May 31, 2021.