



CubicFarm Systems Corp.

Condensed Consolidated Interim Financial Statements

For The Three Months and Six Months Ended June 30, 2022, and 2021

(Unaudited)

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Financial Statements

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

	Notes	June 30, 2022	December 31, 2021
		\$	\$
Assets			
Current			
Cash and cash equivalents		11,766,681	21,381,366
Trade and other receivables	7	1,723,183	2,126,752
Inventories	8	12,037,141	8,433,461
Prepaid expenses and deposits		4,196,544	3,405,838
		29,723,549	35,347,417
Non-current			
Goodwill		1,909,565	1,874,879
Property, plant and equipment	9	12,595,317	9,431,561
Investment in associates		20	20
Intangible assets		5,653,476	5,371,307
Right-of-use assets	10	3,187,436	2,628,770
Prepaid expenses and deposits		23,195	23,195
		23,369,009	19,329,732
Total assets		53,092,558	54,677,149
Liabilities			
Current			
Trade and other payables		4,800,791	4,529,514
Earn-out payable	19	680,955	1,762,812
Customer deposits	11	7,446,914	2,233,946
Lease liability		683,976	493,794
Loans and borrowings	12	331,160	371,960
Warranty provision	13	111,589	388,093
		14,055,385	9,780,119
Non-current			
Lease liability		2,332,399	1,887,896
Restoration provision		121,540	133,171
Loans and borrowings	12	5,794,844	1,784,751
Earn-out payable	19	1,022,243	-
		9,271,026	3,805,818
Total liabilities		23,326,411	13,585,937
Equity			
Share capital	15	98,462,658	94,701,922
Equity reserves		8,514,618	6,125,986
Accumulated other comprehensive income/(loss)		193,685	(183,977)
Deficit		(77,404,814)	(59,552,719)
Total equity		29,766,147	41,091,212
Total liabilities and equity		53,092,558	54,677,149

Contingencies (Note 20)

Approved on behalf of the Board

Director

Director

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

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

	Notes	For the three months ended		For the six months ended	
		June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
		\$	\$	\$	\$
Revenue	17				
Systems		2,708,544	127,387	2,779,088	3,816,756
Consumables		98,339	131,342	253,850	284,191
Services		83,610	97,276	101,467	161,868
		2,890,493	356,005	3,134,405	4,262,815
Cost of sales		(2,779,898)	(543,363)	(2,913,205)	(3,526,644)
Gross margin		110,595	(187,358)	221,200	736,171
General and administrative expenses		(4,089,401)	(3,279,358)	(8,027,749)	(6,507,992)
Selling expenses		(1,945,108)	(1,744,754)	(3,634,801)	(2,373,910)
Research and development		(3,245,070)	(1,320,935)	(5,754,088)	(2,461,354)
		(9,279,579)	(6,345,047)	(17,416,638)	(11,343,256)
Loss before other income (expense)		(9,168,984)	(6,532,405)	(17,195,438)	(10,607,085)
Gain on debt modification		-	497,287	-	497,287
Finance income		810	91	1,205	1,733
Finance expense		(99,501)	(66,697)	(160,184)	(132,153)
Accretion charges		(117,160)	(47,575)	(185,781)	(81,850)
Net finance (expense) income		(215,851)	383,106	(344,760)	285,017
Other income (expense)					
Other income (expense)		-	(9,500)	-	656,111
Fair value change for earn-out payments		54,456	(66,626)	84,733	(131,561)
Foreign exchange loss		(241,162)	(232,074)	(183,461)	(266,910)
Change in fair value of derivative liability		-	(29,183)	-	(63,576)
Gain on disposal of property, plant and equipment		1,907	-	1,907	-
Provision for expected credit (loss) gain	7	(82,643)	14,641	(775,507)	(17,156)
		(267,442)	(322,742)	(872,328)	176,908
Loss before income taxes		(9,652,277)	(6,472,041)	(18,412,526)	(10,145,160)
Income taxes recovery (expense)		560,431	-	560,431	(3,969)
Net loss for the period		(9,091,846)	(6,472,041)	(17,852,095)	(10,149,129)
Other comprehensive loss					
Items that may be reclassified to profit or loss:					
Foreign currency translation loss/(gain)		594,137	70,325	377,662	(139,466)
Total comprehensive loss		(8,497,709)	(6,401,716)	(17,474,433)	(10,288,595)
Basic and diluted loss per share		(0.05)	(0.04)	(0.10)	(0.07)
Weighted average number of shares outstanding		180,693,017	145,228,327	179,484,156	141,512,685

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

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

	Notes	No of Shares #	Share capital \$	Equity reserves \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total equity \$
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						(10,149,129)	(10,149,129)
Exercise of stock options		392,333	141,547	(65,357)	-	-	76,190
Issuance of shares, net of share issuance costs		20,205,364	25,432,383	-	-	-	25,432,383
Issuance of shares on settlement of loan bonus		128,205	200,000	-	-	-	200,000
Foreign currency translation		-	-	-	(139,466)	-	(139,466)
Share-based payments		-	-	1,202,900	-	-	1,202,900
Balance, June 30, 2021		158,430,438	74,814,238	4,097,299	(204,617)	(40,344,465)	38,362,455
Balance, December 31, 2021		178,093,404	94,701,922	6,125,986	(183,977)	(59,552,719)	41,091,212
Net loss for the period		-	-	-	-	(17,852,095)	(17,852,095)
Exercise of stock options	15	253,800	89,596	(41,373)	-	-	48,223
Issuance of shares, net of share issuance costs	15	7,361,000	3,671,140	-	-	-	3,671,140
Equity component of convertible debenture, net of taxes		-	-	1,029,072	-	-	1,029,072
Warrants on convertible debenture, net of taxes		-	-	292,670	-	-	292,670
Foreign currency translation		-	-	-	377,662	-	377,662
Share-based payments	16	-	-	1,108,263	-	-	1,108,263
Balance, June 30, 2022		185,708,204	98,462,658	8,514,618	193,685	(77,404,814)	29,766,147

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

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

		For the six months ended	
	Notes	June 30, 2022	June 30, 2021
		\$	\$
Cash provided by (used for) the following activities			
Operating activities			
Net loss for the period		(17,852,095)	(10,149,129)
<i>Adjustments for:</i>			
Depreciation - property, plant and equipment	9	482,281	330,762
Depreciation - right-of-use assets	10	384,710	272,678
Amortization of intangible assets		106,072	9,675
Gain on disposal of property, plant and equipment		(1,907)	-
Loss on lease extinguishment		94,092	-
Provision for expected credit loss		775,507	17,156
Foreign exchange loss		183,461	266,910
Finance expense		160,184	132,153
Accretion charges		185,781	81,850
Finance income		(1,205)	(1,733)
Income tax expense (recovery)		(560,431)	3,969
Change in fair value of earnout payable		84,733	131,561
Share-based payments expense	16	1,108,263	1,202,900
Gain on debt modification		-	(497,287)
Change in fair value of derivative liability		-	63,576
Cash used in operations before changes in non-cash working capital		(14,850,554)	(8,134,959)
<i>Changes in non-cash working capital:</i>			
Trade and other receivables		(364,757)	(971,555)
Contract assets		-	605,279
Inventories		(3,603,680)	(114,746)
Prepaid expenses and deposits		(790,911)	(2,520,300)
Trade and other payables		190,742	862,624
Customer deposits		5,130,984	(1,363,923)
Warranty provision		(276,269)	(13,636)
Cash used in operating activities		(14,564,445)	(11,651,216)
Interest paid		(161,444)	(121,722)
Interest received		1,205	1,733
Income taxes paid		-	(3,969)
Net cash used in operating activities		(14,724,684)	(11,775,174)
Investing activities			
Additions to property, plant, and equipment	9	(3,652,121)	(898,799)
Additions to intangible assets		(305,394)	(77,407)
Loans to associates		-	(37,250)
Net cash used in investing activities		(3,957,515)	(1,013,456)
Financing activities			
Issuance of shares, net of issuance cost		3,671,140	25,432,383
Exercise of stock options	15	48,223	76,190
Principal and interest payments on lease		(434,048)	(268,646)
Proceeds from loans and borrowings	12	5,930,330	59,570
Principal payments on loans	12	(154,664)	(1,982)
Cash payment of loan bonus		-	(225,000)
Net cash from financing activities		9,060,981	25,072,514
Increase (decrease) in cash and cash equivalents		(9,621,218)	12,283,884
Effect of movements in exchange rates on cash held		6,533	(122,236)
Cash and cash equivalents, beginning of period		21,381,366	16,206,535
Cash and cash equivalents, end of period		11,766,681	28,368,183

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 and six months ended June 30, 2022 and 2021
(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 7170 Glover Road, Langley, BC, V2Y 0W9.

The Company listed its common shares on the TSXV as a Tier 1 issuer in July 2019. On September 1, 2021, the Company uplisted to the Toronto Stock Exchange and commenced trading under the symbol “CUB”.

The Company is a local chain agricultural technology company that provides unique automated on site commercial-scale food and livestock feed technologies through research and development, manufacture and sale of hydroponic growing systems (and ancillary products and services) that provide independent and efficient fresh produce and livestock feed supply. 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 June 30, 2022, 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 effect 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 systems, as well as the 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 of \$8,497,709 for the three months and \$17,474,433 for the six months ended June 30, 2022 (\$6,401,716 and \$10,288,595 for three months and six months ended June 30, 2021). Net cash used in operating activities was \$14,724,684 for the six months ended June 30, 2022, (\$11,775,174 for the six months ended June 30, 2021), and the Company has accumulated a deficit of \$77,404,814 as at June 30, 2022. The Company has current assets exceeding current liabilities by \$15,668,164 as at June 30, 2022, compared with \$25,567,298 as at December 31, 2021.

The losses and deficits indicate a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Despite the material uncertainty, these consolidated 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, realize its assets and discharge its liabilities in the normal course of business. Determining if the Company has the ability to continue as a going concern is dependent on its ability to secure debt and equity financing and to achieve profitable operations. Certain judgments are made when determining if and when the Company will secure debt and equity financing and achieve profitable operations.

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
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 (Unaudited)
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**2. Going concern (continued)**

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 appropriate for these condensed consolidated interim financial statements, adjustments might be necessary to classifications and carrying values of assets and liabilities. Such adjustments 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 should be read in conjunction with the annual audited consolidated financial statements for the period ended December 31, 2021 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, 2021. 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 Audit Committee of the Board of Directors approved these condensed consolidated interim financial statements on August 12, 2022.

Basis of measurement

These condensed consolidated interim financial statements have been prepared on a 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 are as follows at June 30, 2022.

Subsidiary name	Location	Interest	Classification and accounting method	Principal activity
CubicFarm Manufacturing Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Manufacture of cubic farming systems
CubicFarm Produce Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Growth and sale of lettuce, microgreens, and other products
CubicFarm Systems U.S. Corp.	DE, USA	100%	Subsidiary; Consolidation method	Holding company
Hydrogreen Inc.	SD, USA	100%	Subsidiary; Consolidation method	Manufacture and sale of animal feed systems
1241876 B.C. Ltd.	BC, Canada	20%	Associate, Equity method	Growth and sale of lettuce, microgreens, and other products
CubicFarm Systems (Shanghai) Corp.	Shanghai, China	100%	Subsidiary, Consolidation method	Research on new technologies for cubic farming systems

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
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 (Unaudited)
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**4. Significant accounting policies**

Convertible debentures

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. If the conversion feature meets the definition of equity, the fair value of the liability component is estimated at the date of issue of the instrument using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability (net of transaction costs) on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. Transaction costs are apportioned between the liability and equity components of the convertible instruments, based on the allocation of proceeds to the financial liability and equity components when the instruments are initially recognized.

All other 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, 2021. 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 condensed consolidated 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.

Convertible debentures

The allocation of the proceeds from the issuance of compound instruments between the financial liability and equity component requires management to use estimates. In determining the fair value of the financial liability component, the Company estimates the prevailing market interest rate for an equivalent nonconvertible instrument.

All other 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 consolidated financial statements.

6. Cyclicity of operations

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

7. Trade and other receivables

Current:	June 30, 2022	December 31, 2021
	\$	\$
Trade accounts receivable	2,490,697	2,238,447
Less: Provision for expected credit loss	(1,349,098)	(568,063)
Goods and services tax receivable	581,584	386,094
Other receivable	-	70,274
	1,723,183	2,126,752

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
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**7. Trade and other receivables (continued)****Aging**

The aging of trade accounts receivable and provision for expected credit loss is summarized as follows:

	June 30, 2022	December 31, 2021
	\$	\$
Current or under 30 days	159,143	1,233,872
Past due 31 to 90 days	140,063	103,036
Past due 91 to 360 days	1,296,704	588,303
Past due more than 360 days	894,787	313,236
	2,490,697	2,238,447

Continuity for provision for expected credit loss on trade accounts receivable

	June 30, 2022	December 31, 2021
Opening	568,063	538,212
Net addition during the period	781,035	29,851
Closing balance	1,349,098	568,063

For the three months and six months ended June 30, 2022, expected credit loss of \$82,643 and \$775,507 was recognized and recorded under Other income (expense). None of the expected credit loss was related to related parties. For the three months ended June 30, 2021, expected credit gain of \$14,641 was recognized and recorded under Other income (expense) which was all related to related parties and for six months ended June 30, 2021, expected credit loss of \$17,156 was recognized and recorded under Other income (expense) which was all related to related parties.

8. Inventories

	June 30, 2022	December 31, 2021
	\$	\$
Hydroponic growing systems	8,801,966	7,408,547
Work in progress	3,154,990	997,812
Seeds and other supplies	64,871	10,692
Packaging and other	15,314	16,410
	12,037,141	8,433,461

Hydroponic growing systems ("Systems") are finished goods on hand and available for sale by the Company. In the six months ended, June 30, 2022, there was an addition of \$2,157,178 which relates to partially completed Systems for on-going projects. The net realizable value of inventory as of June 30, 2022, and December 31, 2021, is higher than the cost. Accordingly, the Company has reported the inventory at cost in the Consolidated Statement of Financial Position. For the three months and six months ended June 30, 2022, inventories in the value of \$2,364,134 and \$2,446,428 respectively have been recognized as Cost of sales in the Consolidated Statement of Loss and Comprehensive Loss (for the three months and six months ended June 30, 2021 - \$269,025 and \$2,918,036 respectively).

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
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**9. Property, plant and equipment**

During the six months ended June 30, 2022, the Company acquired assets with a cost of \$3,652,121 (June 30, 2021 - \$898,799) and disposed of assets with a net book value of \$148,034 (June 30, 2021 - \$nil). Depreciation for the six months ended June 30, 2022, was \$482,281 (June 30, 2021 - \$330,762).

10. Right-of-use assets

During the six months ended June 30, 2022, the Company acquired right-of-use assets with a cost of \$1,053,583 (June 30, 2021 - \$559,191). Depreciation for the six months ended June 30, 2022, was \$384,710 (June 30, 2021 - \$272,678). Right-of-use assets in the period were reduced by \$130,880 (June 30, 2021 - \$nil) as the leases related to these assets were terminated. Loss on extinguishment of lease for the six months ended June 30, 2022, was \$94,092 with \$4,502 accounted for as general and administrative expenses and \$89,590 accounted for as research and development expenses (June 30, 2021 - \$nil).

11. Customer deposits

Customer deposits consist of funds paid by customers in advance of delivery for Systems based on the sales agreement. Unless otherwise stated, 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.

	June 30, 2022	December 31, 2021
	\$	\$
Balance - beginning of period	2,233,946	4,955,509
Additions	7,957,917	1,933,340
Recognized into revenue	(2,744,949)	(3,328,036)
Refund of deposit	-	(1,326,867)
Balance - end of period	7,446,914	2,233,946

Out of the balance of customer deposits, \$1,866,673 is the amount of customer deposits that were received more than twelve months ago (December 31, 2021 - \$1,866,673).

CubicFarm Systems Corp.

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**12. Loans and borrowings****Agriculture interest-free loan**

	June 30, 2022	December 31, 2021
	\$	\$
Balance - beginning of period agriculture interest free loans	74,321	74,638
Foreign exchange adjustment	1,375	(317)
Balance - end of period agriculture interest free loans	75,696	74,321
Less: current portion	(12,616)	(12,387)
Non-current portion	63,080	61,934

The Company received an interest free loan of \$60,000 for COVID-19 relief from the Canada Emergency Business Account program; \$20,000 of which was received in the twelve months ended December 31, 2021, and \$40,000 during the six months ended December 31, 2020. \$20,000 of the loan is forgiven if repaid by December 31, 2022. On January 12, 2022, the repayment deadline to qualify for the partial loan forgiveness was extended to December 31, 2023.

Government relief loan

	June 30, 2022	December 31, 2021
	\$	\$
Balance - beginning of period government relief loans	40,000	30,000
Addition during the year	-	20,000
Loan forgiven transferred to other income	-	(10,000)
Balance - end of period government relief loans	40,000	40,000
Less: current portion	-	(40,000)
Non-current portion	40,000	-

Business loan

	June 30, 2022	December 31, 2021
	\$	\$
Balance - beginning of period	2,009,283	1,930,197
Accretion	53,980	85,984
Accrued interest	9,041	10,301
Accrued interest paid	(10,301)	(10,616)
Principal payment	(150,000)	(150,000)
Loss on debt modification	-	568,417
Cash payment of loan bonus	-	(225,000)
Issuance of shares on settlement of loan bonus	-	(200,000)
Loan payable - end of period	1,912,003	2,009,283
Less: current portion	(309,041)	(310,301)
Non-current portion	1,602,962	1,698,982

CubicFarm Systems Corp.

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

**12. Loans and borrowings (continued)****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.

	June 30, 2022	December 31, 2021
	\$	\$
Balance - beginning of period	33,108	-
Loan payable – initial recognition	-	39,570
Accretion	120	-
Principal payment	(4,664)	(6,440)
Foreign exchange adjustment	493	(22)
Loan payable - end of period	29,057	33,108
Less: current portion	(9,503)	(9,273)
Non-current portion	19,554	23,835

Convertible debentures

On June 2, 2022, the Company issued unsecured convertible debenture units at a price of \$1,000 per Debenture Unit for total gross proceeds of \$6,540,000. Each offered debenture unit consists of a principal amount of \$1,000 which bears interest at a rate of 8.0% per annum from the date of issue, payable semi-annually in arrears on the last day of June and December each year, commencing June 30, 2022, computed on the basis of a 365-day year. The convertible unsecured debenture matures five years from the closing of the offering. Each offered debenture unit also consists of 400 common share purchase warrants, with each warrant entitling the holder thereof to acquire one common share of the Company at \$0.71 per share for a period of 36 months ending June 2, 2025.

The convertible debentures will be convertible at the holder's option into fully paid, non-assessable and freely tradable shares at any time prior to the earlier of the last business day immediately preceding the maturity date and the last business day immediately preceding the date fixed for redemption by the Company at a conversion price of \$0.68 per common share (the "Conversion Price").

The fair value of the liability component of the convertible debentures on the date of issuance was assessed to be \$4,464,329 based on an estimated market discount rate of 18.7% less the pro-rata portion of transaction costs of \$416,172 and will be accreted to the full-face value over the term of the convertible debentures. The liability component will be measured at amortized cost using the effective interest rate method. Accretion expense of \$21,091 was recorded during the six months ended June 30, 2022 (June 30, 2021: \$nil), in the consolidated statement of loss and comprehensive loss, calculated using an effective interest rate of 21.6%. The residual value of \$2,075,670 was allocated to the equity component less the pro-rata portion of transaction costs of \$193,497. Income tax recovery of \$560,431 associated with the conversion feature and warrants included in the convertible debenture was recognized, resulting in a net increase of \$1,321,742 in equity.

CubicFarm Systems Corp.

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**12. Loans and borrowings (continued)**

	June 30, 2022	December 31, 2021
Opening	-	-
Loan payable – initial recognition (June 2, 2022)	4,048,157	-
Accretion	21,091	-
Accrued interest	40,136	-
Interest paid	(40,136)	-
Loan payable - end of period	4,069,248	-
Less: Current	-	-
Non-current portion	4,069,248	-

Continuity for all loans and borrowings

	June 30, 2022	December 31, 2021
	\$	\$
Balance - beginning of period	2,156,711	2,034,835
Additions	4,048,157	59,570
Loan forgiven transferred to other income	-	(10,000)
Accretion	75,191	85,984
Accrued interest	49,177	10,301
Principal payments	(154,664)	(156,440)
Interest paid	(50,436)	(10,616)
Loss on debt modification	-	568,417
Cash payment of loan bonus	-	(225,000)
Issuance of shares on settlement of loan bonus	-	(200,000)
Foreign exchange adjustment	1,868	(340)
Balance - end of period	6,126,004	2,156,711
Less: current portion	(331,160)	(371,960)
Non-current portion	5,794,844	1,784,751

13. Warranty provision

	June 30, 2022	December 31, 2021
	\$	\$
Opening balance	388,093	191,342
Additions	55,375	276,530
Fulfillment	(331,879)	(79,779)
Ending balance	111,589	388,093

CubicFarm Systems Corp.

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**14. 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 controlled by these individuals and shareholders.

Transactions with Bevo Farms Ltd., that is related through a common officer and director of the Company.

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30 2022	Six Months Ended June 30 2021
	\$	\$	\$	\$
Short term leases	13,500	12,000	28,062	43,561
Lease payments	98,750	22,100	130,650	27,100
Office expenses	21,814	16,710	33,226	54,280

	As at June 30, 2022	As at December 31, 2021
	\$	\$
Lease liability	1,186,693	382,930

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 June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30 2022	Six Months Ended June 30 2021
	\$	\$	\$	\$
Wages and salaries	482,882	340,000	835,132	722,083
Consulting fees	239,750	293,729	683,894	594,913
Share-based compensation	192,825	396,793	508,571	975,225
Total	915,457	1,030,522	2,027,597	2,292,221

Share-based compensation is equal to the estimated fair value of the instruments granted and recognized over the vesting period.

Other related party balances as at June 30, 2022:

	As at June 30, 2022	As at December 31, 2021
	\$	\$
Accounts payable:		
Bevo Farms	11,209	18,291
Total Accounts payable	11,209	18,291

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**15. 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 June 30, 2022, the Company has no Class A Preferred Shares or Class B Preferred shares issued and outstanding (December 31, 2021 – Nil).

	Number of common shares	Impact on share capital
	#	\$
Balance December 31, 2020	137,704,536	49,040,308
Issuance of shares (i)	36,205,364	47,189,365
Share issuance costs (i)	-	(3,240,024)
Shares issued to settle liability (ii)	128,205	200,000
Options and warrants exercised (iii)	4,055,299	772,153
Transfer from equity reserves	-	740,120
Balance December 31, 2021	178,093,404	94,701,922
Issuance of shares (iv)	7,361,000	4,048,551
Share issuance costs (iv)	-	(377,411)
Options and warrants exercised (iii)	253,800	48,223
Transfer from equity reserves	-	41,373
Balance June 30, 2022	185,708,204	98,462,658

- i) Public offering and private placement of shares at net average price of \$1.21 per share. Share issuance costs of \$3,240,024 were accounted for as a deduction from equity.
- ii) Shares issued for settlement of loan bonus component of BDC loan (Note 12)
- iii) Options and warrants exercised at average price of \$0.19 per share.
- iv) Public offering of shares at net average price of \$0.50 per share. Share issuance costs of \$377,411 were accounted for as a deduction from equity.

16. Share based compensation

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 and warrant 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 and warrants carry neither right to dividends nor voting rights. Options and warrants may be exercised at any time from the date of vesting to the date of their expiry.

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

CubicFarm Systems Corp.

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**16. Share based compensation (continued)**

Share purchase options and warrants continuity schedule:

	Number of share purchase options and warrants	Weighted average exercise price
	#	\$
Balance December 31, 2021	24,977,042	0.66
Granted	4,038,000	0.79
Exercised	(253,800)	0.19
Forfeited	(569,870)	0.41
Expired	(150,000)	0.65
Balance June 30, 2022	28,041,372	0.70

Share purchase options outstanding at June 30, 2022:

Range of Exercise Price	Options Outstanding	Weighted average remaining contractual life	Weighted Average Exercise price	Options Exercisable
\$	#		\$	#
\$0.01-\$0.50	1,755,667	3.64	0.19	1,272,333
\$0.51-\$1.00	13,203,000	3.81	0.79	11,023,333
\$1.01-\$1.50	3,614,000	4.02	1.30	800,000
\$1.51-\$2.00	300,000	3.75	1.59	-
	18,872,667			13,095,666

Share purchase warrants outstanding at June 30, 2022:

Range of Exercise Price	Warrants Outstanding	Weighted average remaining contractual life	Weighted Average Exercise price	Warrants Exercisable
\$	#		\$	#
\$0.01-\$0.50	6,552,705	2.46	0.19	6,552,705
\$0.51-\$1.00	2,616,000	2.92	0.71	2,616,000
	9,168,705			9,168,705

The fair value of the share purchase options and warrants granted was calculated using the Black-Scholes option valuation model at the grant date, with the following weighted average assumptions:

	Options	
	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Share price volatility	63%	171%
Expected dividend yield	\$nil	\$nil
Employee forfeiture rate	27%	20%
Board of Directors forfeiture rate	13%	25%
Risk free interest rate	1.41%-3.14%	0.17%- 0.40%

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**16. Share based compensation (continued)**

	Warrants	
	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Share price volatility	58%	NA
Expected dividend yield	\$nil	NA
Risk free interest rate	2.50%	NA

The details of share-based compensation (“SBC”) expense is as follows:

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30 2022	Six Months Ended June 30 2021
	\$	\$	\$	\$
SBC for vendors	61,700	60,225	133,283	34,638
SBC for employees & directors	405,207	574,180	974,980	1,168,262
Total	466,907	634,405	1,108,263	1,202,900

17. Operating segments

For management purposes, the Company is organized into divisions based on its products and services and these are comprised of two separate reportable segments: The Company’s Fresh Division sells hydroponic equipment and services to promote leafy green production in a controlled environment. The Fresh division includes the head office function and operates in Canada. The Company’s Feed Division sells hydroponic equipment and services to promote live green animal feed production in a controlled environment, and operates in the United States.

Three months ended June 30, 2022.

	Fresh	Feed	Total
	\$	\$	\$
Revenue	2,676,060	214,433	2,890,493
Gross margin	30,351	80,244	110,595
Net loss	(6,983,390)	(2,108,456)	(9,091,846)
Total assets	28,769,342	24,323,216	53,092,558

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**17. Operating segments (continued)**

During the three months ended June 30, 2022, The Company earned a significant portion of its sales revenue from one customer in the amount of \$2,445,080. The customer is located in Canada, with its entire revenue reported in the Fresh reportable segment.

Three months ended June 30, 2021.

	Fresh	Feed	Total
	\$	\$	\$
Revenue	250,170	105,835	356,005
Gross margin	(199,311)	11,953	(187,358)
Net loss	(4,495,236)	(1,976,805)	(6,472,041)
Total assets (December 31, 2021)	35,388,719	19,288,430	54,677,149

During the three months ended June 30, 2021, The Company earned a significant portion of its sales revenue from four customers in the amount of \$167,370. Three customers were located in Canada and one in the United States with each having their entire revenue reported in the Fresh reportable segment.

Six months ended June 30, 2022.

	Fresh	Feed	Total
	\$	\$	\$
Revenue	2,901,908	232,497	3,134,405
Gross margin	130,870	90,330	221,200
Net loss	(13,573,644)	(4,278,451)	(17,852,095)
Total assets	28,769,342	24,323,216	53,092,558

During the six months ended June 30, 2022, The Company earned a significant portion of its sales revenue from one customer in the amount of \$2,445,080. The customer is located in Canada, with its entire revenue reported in the Fresh reportable segment.

Six months ended June 30, 2021.

	Fresh	Feed	Total
	\$	\$	\$
Revenue	4,082,809	180,006	4,262,815
Gross margin	725,384	10,787	736,171
Net loss	(7,350,730)	(2,798,399)	(10,149,129)
Total assets (December 31, 2021)	35,388,719	19,288,430	54,677,149

During the six months ended June 30, 2021, The Company earned a significant portion of its sales revenue from one customer in the amount of \$3,511,554. The customer was located in Canada with its entire revenue reported in the Fresh reportable segment.

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**18. 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 June 30, 2022 and December 31, 2021 was as follows:

	June 30, 2022	December 31, 2021
	\$	\$
Total Assets	53,092,558	54,677,149
Total Liabilities	(23,326,411)	(13,585,937)
Net Equity	29,766,147	41,091,212

18. 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 fair value of the Company's loans payable is the sum of expected future cash flows 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 June 30, 2022, the discount rate was estimated to be 17% (December 31, 2021 – 17%).

There has been no change between levels during the year. The fair values of the Company's financial instruments are outlined below:

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**19. Financial instruments (continued)****As at June 30, 2022**

Asset (Liability)	FVTPL	Amortized Cost	Fair Value	
			Level 2	Level 3
Cash and cash equivalents	-	11,766,681	-	-
Trade and other receivables	-	1,723,183	-	-
Trade and other payables	-	(4,800,791)	-	-
Earn out payable	(1,703,198)	-	-	(1,703,198)
Loans and borrowings	-	(6,126,004)	(6,093,421)	-

As at December 31, 2021

Asset (Liability)	FVTPL	Amortized Cost	Fair Value	
			Level 2	Level 3
Cash and cash equivalents	-	21,381,366	-	-
Trade and other receivables	-	2,126,752	-	-
Trade and other payables	-	(4,529,514)	-	-
Earn out payable	(1,762,812)	-	-	(1,762,812)
Loans and borrowings	-	(2,156,711)	(2,126,980)	-

Earn-out payable continuity

	June 30, 2022	December 31, 2021
	\$	\$
Balance – beginning of period	1,762,812	1,643,033
Foreign exchange	(144,347)	1,466
Fair value change during the period	84,733	118,313
Balance – end of period	1,703,198	1,762,812
Comprised of:		
Current earn-out payments	680,955	1,762,812
Non-current earn-out payments	1,022,243	-

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 June 30, 2022, 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 cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents 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 provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at June 30, 2022, three customers accounted for 44%, 28% and 11% of gross trade accounts receivable, respectively (December 31, 2021 - 48%, 27% and 12%).

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**19. 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 research and development activities, while implementing 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 analyzed 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 June 30, 2022, the following monetary items are denominated in US dollars:

	June 30, 2022	December 31, 2021
	\$	\$
Cash	319,661	166,656
Trade and other receivables	1,151,605	1,129,064
Trade and other payables	(1,579,055)	(1,039,306)
Customer deposits	(4,267,076)	(661,602)
Earn-out payable	(1,319,025)	(1,385,363)
Loans payable	(81,125)	(84,736)
Net exposure	(5,775,015)	(1,875,287)

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.

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19. Financial instruments (continued)

A 10% increase in the value of the US dollar relative to the Canadian dollar would increase the Company's comprehensive loss by approximately \$578,000 (December 31, 2021 – increase of \$188,000). A 10% decrease in the value of the US dollar relative to the Canadian dollar would decrease comprehensive loss by the same amount.

20. Contingent liability

The Company is party to a claim that arose in the ordinary course of business in May 2022, asserting that the Company was in breach of certain obligations pursuant to a manufacturing agreement.

In June 2022, the Company's legal counsel submitted a response to the notice of civil claim and a counterclaim against the firm and its directors in their personal capacity. As of the period end, the potential exposure the Company faces cannot be measured reliably.



Management's Discussion and Analysis

For the three and six months ended June 30, 2022

Dated: August 12, 2022

The following Management's Discussion and Analysis ("MD&A") is prepared as of August 12, 2022, and reports on the operating results and financial condition of CubicFarm Systems Corp., (the "Company" or "CubicFarms") for the three and six months ended June 30, 2022. This MD&A is prepared by management and should be read in conjunction with the condensed consolidated interim financial statements for the three and six months ended June 30, 2022, as well as the consolidated financial statements for the year ended December 31, 2021, 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 Produce (Canada) 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 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 pages 1-3, and 38-48 of the Company's annual information form 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 7170 Glover Road, Langley, BC, V2Y 0W9.

The Company listed its common shares on the Toronto Stock Exchange Venture Exchange (TSXV) as a Tier 1 issuer in July 2019. On September 1, 2021, the Company graduated to Toronto Stock Exchange (TSX) and commenced trading 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 localize food production and convert wasteful long supply chains within the agriculture industry into a more local supply chain. This improves the consumer's access to quality food and maximizes crop yield, all while reducing the environmental footprint of food and feed production. These technologies can provide independent and efficient fresh produce and livestock feed supply in any climate, 365 days a year.

The Company operates two segments, which are its Fresh Division and Feed Division. The Fresh Division (selling hydroponic equipment and services to promote leafy green production in a controlled environment) and Feed Division (selling hydroponic equipment and services to promote live green animal feed production in a controlled environment) use two distinct technologies and address two distinct, large 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 and development by Dutch greenhouse growers, Jack and Leo Benne, prior to the formation of CubicFarms. 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 Crop Motion Technology™ by operating its own Research and Development ("R&D") growing facilities in Pitt Meadows, British Columbia, and Busby, Alberta, as well as, selling the CubicFarm System to farmers, licensing its technology, and providing industry-leading vertical farming expertise to its customers.

As of June 30, 2022, the Fresh division had 129 employees and full-time contractors, an increase of 57% from 82 as of June 30, 2021.

Research and Development

CubicFarms operates growing facilities in Pitt Meadows, BC (referred to as the CubicFarms Innovation Centre), and Busby, AB, (referred to as the Alberta Grow Center) which are used primarily for R&D and product testing and growing protocol testing purposes.

The Company's additional R&D efforts consist primarily of improvements to the Company's hardware (both mechanical innovation and design) and the Company's software development initiatives around its platform technology and data analytics.

The Company has a robust software development team consisting of software engineers, user experience developers and data scientists recruited from world class companies including Microsoft, Electronic Arts, Samsung, and Amazon. With this strategy, the company is moving toward a Controlled Environment Agriculture (CEA) full stack solution encompassing both hardware and software.

In the three months ended June 30, 2022, the R&D team worked on new designs that help measure environmental KPI's, plant phenotype (such as taste, weight, and health), and a new approach that reduces the time and cost of trials. The team also released an updated version of the Beta App, which includes an offline mode which allows users control the hardware locally when there is no internet connectivity.

Feed Division

The Company's Feed Division operates using the Company's HydroGreen technology for growing nutritious livestock feed. The HydroGreen Grow System was originally invented by Dohl Grohs, a rancher with operations in South Dakota, Utah and Missouri, and was acquired by the Company along with the acquisition of HydroGreen Inc. on January 2, 2020. Since the acquisition, CubicFarms has improved upon the original HydroGreen technology and has commercialized two Automated Vertical Pastures™, the DG66 (designed for small family farms of 100 to 500 animals) and the GLS808 (designed for larger commercial farms of 500 to 15,000+ animals).

This system utilizes a unique process to sprout grains, such as barley and wheat, in a controlled environment with minimal use of land, labour, or water. Automated Vertical Pastures™ 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 land, fertilizer, chemicals, fuel, field equipment and transportation. Automated Vertical Pastures™ not only provides superior nutritious feed to benefit the animal, but also enables significant environmental benefits to the farm with reduced use of land, reduced use of water, and a reduction in harmful methane emissions.

As of June 30, 2022, the Feed Division had 44 employees and full-time contractors, an increase of 29% from 34 as of June 30, 2021.

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. HydroGreen also has an inventory facility in Cheyenne, WY.

Research and Development

HydroGreen has developed a 12,000 square foot HydroGreen Innovation Center located in Sioux Falls, South Dakota. The HydroGreen Innovation Center currently contains three Automated Vertical Pastures™ and is used for R&D, product testing, customer visits, partner training, and feed trials.

A dozen of the larger Automated Vertical Pastures™ replaces 500 acres of farmland and uses 95% less water than is used in traditional livestock feed grown in irrigated fields. With up to 25 million pounds of fresh nutritious feed grown per year, it can be added to the feed ration for large cattle herds numbering in the thousands of animals. At the time of this report, Automated Vertical Pastures™ consisting of 12 GLS808 machines are being constructed for Burnett Land & Livestock Ltd., LLLP ("Burnett"), operating as the Burnett Dairy Cooperative (www.burnettdairy.com) in Carpenter, Wyoming. As announced by the Company on April 6, 2021, these Automated Vertical Pastures™, a beta-test project, are the first installation of the larger commercial scale machines on a large-scale farm. The 12 HydroGreen GLS808 machines, once installed, can produce 80% more fresh livestock feed than HydroGreen's smaller Automated Vertical Pastures™, 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 Dairy's full operational needs. Burnett Land & Livestock Ltd. LLP operations include over 17,000 cattle located on 35,000 acres across the Midwestern and Western United States. The Company expects completion of this project in Q4 of this year.

In May 2022, HydroGreen released a report on a trial conducted to determine if adding hydroponically sprouted grains grown in HydroGreen's Automated Vertical Pastures™ can reduce methane in cows and improve feed efficiency, and cow health, nutrition, and performance outcomes. During an observational comparison study with 344 jersey dairy cows and 244 beef cattle, gathering over 200,000 data points, study trials measured methane concentration in dairy cows and beef cattle. Eructation event methane concentration was assessed twice weekly with an open path infrared absorption spectroscopy device in different settings, using methods described in the Journal of Methane. Observations showed that including HydroGreen in the ration significantly increases dry matter intake (DMI), rumination activity, and nutrient digestibility. The results indicated 24% less methane emissions in dairy cows, preliminary data showing a similar if not greater reductions in beef cattle. Dr. Fernando Diaz, Nutritionist and CEO of Deltait® Animal Nutrition & Health, found that "HydroGreen is a very unique product, it's like a high-energy forage. It has very good content on fiber, along with very high energy coming from sugar, making it one of the most energetic ingredients in the market." The same trial found that by enabling better ration digestibility in the rumen, overall health and performance outcomes are also improved.

The Company plans to carry out additional research and development activities on several of its beta project customer sites in the current fiscal year, including the Burnett Dairy in Wyoming, USA, the Crosswind Jerseys Dairy in South Dakota, USA, and the Bakerview Beef Cattle and Dairy Farm in Abbotsford, British Columbia, Canada.

Corporate and operational highlights for the three and six months ended June 30, 2022

On January 12, 2022, the Company announced the appointment of G. David Cole to the Company's Board of Directors. Cole is recognized internationally as an accomplished senior financial executive with nearly 40 years of corporate experience in building teams and businesses in a broad range of global markets and economies. As Vice Chairman of the Enterprise Strategic Client Group at Royal Bank of Canada, Cole has extensive expertise in strategic business growth, capital markets, financial products and client-centric sales and marketing. Known for his strong client focus, high energy level, creativity, demonstrated adaptability, and leadership skills, Cole is a highly respected senior executive, a member of the Institute of Corporate Directors, and a member of multiple boards.

On February 7, 2022, the Company announced that Tom Wiltrout has been appointed to the Company's HydroGreen Business Advisory Board. Wiltrout provides business consulting services for input agriculture and the global seeds industry in his role as President of Thirty Thirty, LLC. He is a senior executive at world-leading agriculture investor group Ospraie Ag Science, LLC, a strategic shareholder in the Company with approximately 16.6% ownership of CubicFarms.

On February 15, 2022, the Company announced a new Nebraska-based HydroGreen Certified Dealer, Central Confinement Service LLC ("CCS"), with initial sales commitments for 12 HydroGreen indoor growing systems to be delivered in 2022 valued at \$2.25 million. CCS is a leading designer and builder of turn-key livestock and agriculture facilities with more than 35 years of experience providing quality construction and custom-built equipment to livestock producers.

On March 7, 2022, the Company announced a sales agreement for 27 CubicFarm System modules in Winnipeg, Manitoba, at a sale price of \$5.13 million. Experienced greenhouse farmers Sheldon and Carrie Enns operate the Green Valley Garden Centre, supplying high-quality vegetables and ornamental plants in Southeastern Manitoba for the past 12 years. The Enns will use the CubicFarm Systems automated indoor growing technology to grow commercial scale amounts of leafy greens, herbs, and microgreens in the Winnipeg area for the surrounding communities.

On March 10, 2022, the Company announced that it has appointed Daniel Burns, a member of the Company's Board of Directors, as interim Chief Financial Officer ("CFO"). He will step down as Chair of the Company's Audit Committee to serve as interim CFO, effective April 1, 2022. Burns replaces Tim Fernback, who stepped down from his role as CFO but will continue as a Company advisor while overseeing several strategic projects over the next

several months. In addition, Fernback will continue serving as an active member of the Company's Scientific Advisory Board.

On March 25, 2022, the Company announced the appointment of Edoardo De Martin as President of CubicFarms, in addition to his role as Chief Technology Officer of the Company. A proven leader with over 20 years in the tech industry, in the last 12 months in his role as Chief Technology Officer at CubicFarms, De Martin has transformed the Company's technology and leveled up the skills, strategy, and offerings with the development of the Company's enterprise level platform. Since joining CubicFarms, De Martin has strengthened the Company's roadmap, built a new software division, and assembled a world-class product and technology team to deliver the next generation of indoor growing technologies.

On April 1, 2022, the Company announced Mountainland Supply Company ("Mountainland") as a new member of the HydroGreen Certified Dealer Network. Established in 1947 with 29 distribution branches, Mountainland has an agriculture division specializing in irrigation services for farmer and rancher customers in Utah, Wyoming, and Idaho.

On April 27, 2022, the Company announced the appointment of Carlos Yam as Chief Financial Officer of the Company, effective June 27, 2022. With over 15 years of senior finance executive experience, Yam has served as CFO of both publicly traded and private companies with responsibilities ranging from strategic growth, capital markets, mergers and acquisitions, business integration, risk management, banking and treasury, to financial reporting and analysis and operational finance.

On May 12, 2022, the Company announced data that demonstrates 54% to 62% less energy is used in a CubicFarm System module compared to results reported by other vertical farms surveyed globally. With electricity being the number one input cost in vertical farming, this is a significant advantage to customers using the CubicFarm System technology for indoor growing. The Company initiated new data collection to effectively measure energy usage in the CubicFarm System. Patented Crop Motion Technology™ moves plants to one layer of LED grow lights, unlike typical rack and stack layouts of other vertical farms that use multiple layers of energy-intensive LEDs.

On May 17, 2022, the Company announced that its HydroGreen division has entered into an agreement with Deloitte LLP to develop a carbon commercialization program designed to provide high-quality carbon credits to a fast-growing global market. HydroGreen's commercial scale Automated Vertical Pastures™ technology helps meet increasing demand for valuable farm-based inset and offset carbon credits from all manner of organizations with net-zero goals. HydroGreen will be uniquely positioned to supply carbon credits through the Company's agreement with Deloitte.

On June 2, 2022, the Company announced the closing of its overnight marketed public offering of unsecured convertible debenture units (the "Debenture Units") of the company at a price of \$1,000 per Debenture Unit for total gross proceeds of \$6,540,000, and 7,361,000 common shares (the "Common Shares") of the Company at a price of \$0.55 per Common Share for total gross proceeds of \$4,048,550. In aggregate, total gross proceeds were \$10,588,550, which is inclusive of the partial exercise of the overallotment option.

On June 14, 2022, the Company announced a 10-machine Automated Vertical Pastures™ sale to the Clossen Dairy located in Hereford, West Texas, which currently milks 11,000 cows over 7,500 acres of farmland. In addition, Dairy Specialists, Advanced Dairy Systems and Penner Farm Services joined the HydroGreen Certified Dealer Network.

On June 28, 2022, the Company announced that it has entered into agreements with NTE Discovery Park Ltd. ("NTE Discovery Park") for the purchase of 26 CubicFarm System modules, the manufacturing of those initial 26 modules, as well as the future manufacturing of major components for contracts within North America. The initial 26 modules will be installed at Discovery Park in Campbell River, B.C., with the intention to expand with the sale and manufacturing of an additional 100 modules in the near future.

Environmental, Social, and Governance (ESG)

The Company’s 2022 impact reporting is guided by the Sustainable Development Goals outlined by the United Nations and the Global Reporting Initiatives (GRI) Framework and will expand its reporting in future quarters to include ESG.



Beyond selling products that directly and positively impact climate change and improve the use of land and water resources, the Company and its products promote food security and food equality globally.

More specifically, the use of CubicFarms technology developed within the Fresh Division contributes to the United Nations' Sustainable Development Goals through the following:

- 95% less fresh water than traditional farming
- Crop Motion Technology™ innovation uses a single row of light to reduce energy consumption
- Shortened supply chain needs by growing local, resulting in 80% less waste
- Zero pesticides or herbicides used
- Significantly less land required to grow the same amount of food
- 45% more nutrients found within produce grown locally compared to produce transported via long supply chains

Similarly, the use of the HydroGreen technology within the Feed Division contributes to the United Nations' Sustainable Development Goals through the following:

- 95% less fresh water than traditional farming
- Seed to feed in 6 days, grown on-site, reducing long supply chains and feed transport
- Feed is highly nutritional, full of vitamins, antioxidants, and digestive enzymes
- Zero pesticides or fertilizer used
- Significantly less land required to grow the same amount of animal feed
- 7.4% fewer greenhouse gas emissions using hydroponic technology

HydroGreen technologies deliver reliable, cost-effective onsite feed production with a minimal environmental footprint, using 95% less water, less land, less energy, and less labour when compared to traditional growing methods. Further results indicate that hydroponic fodder farming could contribute to climate mitigation objectives if complemented with effective energy and land use policies.

CubicFarms ESG Disclosure

CubicFarms business is intertwined with environment, social and governance matters. The Company is making an active effort to deliver sustainable benefits to society needed for the long term. The Company is combining cost benefits with a positive effect on the environment in order to create shareholder value and attempt to make the world a better place.

The Company's technologies help significantly reduce the amount of fresh water, land and energy used by farmers. It's not just using fewer natural resources, it's also eliminating the need for pesticides, herbicides, or fertilizer. With every installation and expansion of the company indoor growing systems, farmers are using innovative technologies.

Environmental Commitments

Sustainability

CubicFarms and HydroGreen have endorsed the "Decade of Ag" movement, the first-ever sector-specific vision for the sustainable food systems of the future. The Company's endorsement is a pledge to work with leaders and organizations and work toward a resilient, restorative, economically viable, and climate-smart agricultural system that produces abundant nutritious food and livestock feed.

On September 7, 2021, the Company announced that the Business Intelligence Group named the HydroGreen indoor growing System as "Sustainability Product of the Year" in the 2021 Sustainability Awards program. The Sustainability Awards honour those people, teams, and organizations who have made sustainability an integral part of their business practice or overall mission.

On January 12, 2022, the Company announced that Real Leaders® named CubicFarms as one of the newly selected winners of its 2022 Top Impact Companies from around the world.

On March 11, 2022, South by Southwest® ("SXSW") recognized the Company's HydroGreen Automated Vertical Pastures™ indoor growing technology for fresh livestock feed as one of five global finalists in the "New Economy" category of the 2022 SXSW Innovation Awards.

On May 3, 2022, CubicFarms received an honourable mention for its HydroGreen technology in the Best World Changing Idea – North America category in Fast Company's 2022 World Changing Ideas Awards. This recognition honours clean technology, innovative corporate initiatives, brave new designs for cities and buildings, and other creative works that are supporting the growth of positive social innovation, tackling social inequality, climate change, and public health crises. A panel of eminent Fast Company editors and reporters selected winners and finalists from a pool of nearly 3,000 entries across transportation, education, food, politics, technology, health, social justice, and more. The Company's HydroGreen Automated Vertical Pastures™ indoor growing technology for fresh livestock feed was recognized for helping farmers and ranchers grow commercial scale amounts of nutritious fresh fodder in any climate, 365 days a year.

On July 6, 2022, Real Leaders® announced that CubicFarm Systems Corp. was selected as one of the Top 50 winners in the 2022 Real Leaders Eco Innovation Awards. This distinction celebrates achievement in environmental impact. As a longtime advocate for businesses that build sustainability into their business models, Real Leaders® wanted to recognize the products, projects, and initiatives that are actively contributing to a healthier planet.

Climate change

Warnings of the imminent pressures on the global food systems through demand for consumption of animal products, which are becoming more apparent as the world's population increases, include estimates suggesting a global population of almost 10 billion by 2050.

CubicFarms and the Company's Scientific Advisory Board (SAB) are contributing to scientific research developed through a collaboration of academic researchers and industry experts.

On March 19, 2021, the Company announced that Facets scientific journal, the official journal of the Royal Society of Canada's Academy of Science, published a case study involving HydroGreen Inc. technology determining that it has great potential for reducing greenhouse gas (GHG) emissions in the animal agriculture industry ([*Hydroponic fodder and greenhouse gas emissions: a potential avenue for climate mitigation strategy and policy development*](#)). The study's principal author, Dr. Lenore Newman, warns of the imminent pressures on our food systems through demand for consumption of animal products, which are becoming more apparent as our global population increases, with estimates suggesting a global population of almost 10 billion by 2050.

The journal article explores the potential for hydroponic fodder production for contributing to climate mitigation in fodder agriculture. Case studies compare GHG emissions and the carbon sequestration potential of hydroponically grown sprouted barley fodder to conventional barley grain fodder. The case study analyzed fresh livestock feed grown in the controlled environment using a HydroGreen Grow System when compared to traditional farming methods. Results of this published case study indicate that incorporating hydroponic systems into barley production

has the potential to reduce GHG emissions. Results also show that hydroponic farming can provide greater carbon sequestration opportunities than simply shifting to no-tillage farming.

Dr. Lenore Newman, Director and Canada Research Chair in Food Security, member of the CubicFarms SAB, and co-author of this research commented, "With approximately 70% of all agricultural land being used for some aspect of livestock production, beef and dairy farming currently represents approximately 14.5% of all human-induced GHG emissions. Feed production and animal waste represents the two largest sources of these GHG emissions, representing 45% and 39% respectively. This latest research estimated that the HydroGreen demonstration farm produced 7.4% fewer GHG emissions (per nutrient mass) than were found with conventional barley grain fodder farming, and greater reductions can be achieved with improved seed-to-fodder output, indicating that transitioning to such systems can result in GHG reductions and (ultimately) climate mitigation benefits. These are exciting findings and a bright light in the otherwise gloomy world of climate change."

Social Commitments

The Company is committed to the health and safety of our employees, customers, vendors, and community. The Company is attracting and retaining world-class talent and passionate individuals who believe in the Company mission and thrive in the workplace, in the office or on the farm.

The Company's CubicFarms Community Giving program organizes priority giving initiatives specifically chosen to align with the company ESG priorities, like improving food insecurity by dedicated fundraising programs for social food banks and participating as a team for the World Vision "Global 6K for Water" challenge.

Local communities using CubicFarms' technologies for indoor automated growing are experiencing more sustainable access to fresh food and livestock and are using natural resources more sustainably.

Local labour

Local food grown by local people, anywhere in the world. By localizing food and livestock feed grown indoors using the Company's technologies, CubicFarms is enabling more food independence for communities that need it, especially with increasing global population.

The Company builds strong relationships with an ecosystem of farmers, food service distributors, and more. Instead of concentrating the areas where produce is grown, CubicFarms technologies allow for more local growing distributed all over the world and in nearby communities. This allows farmers to grow with less physical labour than before, promoting greater inclusivity. The Company is advocating for government support for indoor growing and additional financing opportunities for farmers, empowering farmers to localize food production and operations so local jobs can be provided for more vibrant, thriving communities.

The Company's government lobbying efforts have resulted in positive changes to the way agricultural lands are administered in British Columbia, allowing for both agri-tech and controlled environment agriculture to become a permitted use on agricultural lands designated under the Agricultural Land Reserve. This change was announced by the Province of British Columbia and the BC Ministry of Agriculture on February 19, 2022.

Diversity

CubicFarms embraces different perspectives and values the contributions of the company team members. One of the Company's core values is respect, and CubicFarms takes that a step further by creating a culture celebrating diversity and allowing individuals to do their best work and thrive. The Company's goal is to foster an inclusive workplace where people feel they belong, that their unique talents matter, and that their needs are cared for by the

company's leaders and team members. CubicFarms is a growing company with talented people working toward a common goal. The Company is actively engaging with local communities by giving back and getting involved. CubicFarms has an engaged workforce with a mission to transform agriculture, using curiosity and resourcefulness with the company's teams.

As of the date of this report, the Company has created a Diversity and Inclusion Committee made up of several Company employees across all job functions and levels. This Committee meets regularly to discuss new ways to increase and support employee diversity and inclusion at the Company and to ensure a positive and inclusive work environment.

Animal welfare

At CubicFarms, the Company is concerned about animal welfare and uses both animal and plant science knowledge to create technologies that support animal health and wellbeing. The Company R&D team is conducting research and data collection on dairy cattle consuming HydroGreen fresh livestock feed as part of the herd's ration. Preliminary results on a sample of dairy cattle are showing impressive health improvements for close up cows and calves, that showed much better health during weaning and through the entire feeding period, compared to a sample of non-HydroGreen calves. The nutritious fresh livestock feed grown in HydroGreen Automated Vertical Pastures™ contains high quality protein in the form of amino acids and simple peptides. This results in high quality energy in the form of simple sugars and starches within the feed ration, with readily available nutrients that appear critical for health, growth, production, and reproduction. The feed palatability, as well as the higher moisture of the HydroGreen fresh feed, improves ration conditioning with less sorting of ingredients by the animals, resulting in a lower incidence of upper respiratory issues due to dust inhalation. Fresh livestock feed is both nutritious and devoid of anti-nutritional factors, such as haemagglutinins, trypsin inhibitors, tannins and pentosans, and phytic acid.

Governance Commitments

The Company is committed to open and transparent communications with all stakeholders. The CubicFarms team strives for clarity without unnecessary complexity in the Company's news and financial statements, avoiding unnecessary jargon for maximum understanding of the Company's messages.

CubicFarms is committed to disseminating all material information that would reasonably be required to make an informed decision about investment in or trading securities of the company (TSX: CUB) in a fair, timely, and cost-efficient manner. Material information is available on the company's website Investors page with a link to all associated documents.

The Company is advised with governance and oversight by the Corporate Governance Committee on the CubicFarms Board of Directors which is composed solely of experienced and independent member Directors. In addition, the Company benefits from the HydroGreen Advisory Board and the CubicFarms' Scientific Advisory Board (SAB). The SAB is comprised of top experts in the fields of agriculture and technology and are primarily responsible for making recommendations to the Company's senior leadership team regarding research and development priorities to advance food production technology.

Among other advantages, the Company's focus on ESG provides CubicFarms with opportunities to tap into new markets and expand into existing ones while attracting top talent to our goal of transforming agriculture globally.

Forward-Looking Guidance

Systems Sales Pipeline – under Contract

As of the date of this MD&A, the Company has a total of 223 modules under contract. The amount of CubicFarm System and HydroGreen sales orders that are pending manufacturing and installation is approximately USD\$30.7 million. The table below shows the projects under contract:

Geographic Territory	Country	Division	Number of Modules	Estimated Value (USD Millions)	Expected Completion Date
Indiana	USA	Fresh	20	3.0	2022 Q3
New South Wales	Australia	Fresh	19	2.7	2022 Q4
Manitoba	Canada	Fresh	27	4.0	2023 Q1
British Columbia	Canada	Fresh	26	3.4	2023 Q1
Montana	USA	Fresh	21	2.9	2023 Q2
British Columbia	Canada	Fresh	100	12.6	2023 Q4
Texas	USA	Feed	10	2.1	2022 Q4
Total			223	30.7	

The Company considers a sales order to have taken place when an 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."

Systems Sales Pipeline – Non-Binding

In addition to the above sales contracts and deposits received, the Company has also received non-binding letters of intent within the Fresh Division and certified dealer commitments within the Feed Division.

Fresh Division

CubicFarms has received a non-binding letter of intent to deliver 96 CubicFarm System modules in an innovative two-level cost-effective building design and controlled environment called a FreshHub, to be installed in the Lower Mainland area of Vancouver, BC. This next generation high-density system is the next level of indoor growing aiming to significantly localize food production. Leveraging the land and water efficiencies of the CubicFarm System technology, the new stacked configuration of this FreshHub will include 96 modules occupying one acre of land. New features of this FreshHub include a new agricultural building design that reduces capital costs, new farm infrastructure, workflow design, automation components, and proprietary software. The Company anticipates that the installation of this first FreshHub project will commence in the late part of the 2022 calendar year and be substantially completed by the end of the 2023 calendar year.

Geographic Territory	Project Name	Number of Modules	Estimated Value (CAD Millions)
Canada	FreshHub	96	\$20.0

Feed Division

The Company continues to notice a "halo effect" involving heightened interest from neighbouring farms of recently completed HydroGreen installations. The effect of this positive nearby reference appears to accelerate the HydroGreen business development cycle in the immediate area of the Company's current HydroGreen customers. In the six months ended June 30, 2022, the Company has continued to add to the HydroGreen Certified Dealer

Network, signing additional Certified Dealer LOI with Central Confinement Service LLC, Advanced Dairy Systems and Penner Farm Services. HydroGreen Certified Dealers will support local sales, installations, and customer experience.

Discussion of Operations

Three and six months ended June 30, 2022, and 2021.

Revenue

Fresh Division	June 30, 2022		June 30, 2021		Change	%
Three months ended	\$	2,676,060	\$	250,170	\$ 2,425,890	970%
Six months ended	\$	2,901,908	\$	4,082,809	\$ (1,180,901)	-29%

Feed Division	June 30, 2022		June 30, 2021		Change	%
Three months ended	\$	214,433	\$	105,835	\$ 108,598	103%
Six months ended	\$	232,497	\$	180,006	\$ 52,491	29%

Total	June 30, 2022		June 30, 2021		Change	%
Three months ended	\$	2,890,493	\$	356,005	\$ 2,534,488	712%
Six months ended	\$	3,134,405	\$	4,262,815	\$ (1,128,410)	-26%

The Company is still in its early stages of operations which has resulted in fluctuating sales on a quarter-by-quarter basis. As such, the Company expects financial results to continue to fluctuate from period to period in the near term. The Company has three main sources of revenue – revenue from sales of indoor growing technologies, 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 within the Fresh Division for the three months ended June 30, 2022, included System sales revenue of \$2.5 million from the delivery of the Abbotsford project, consumable revenue of \$98,339 and services revenue of \$83,610. Sales within the Fresh Division for the six months ended June 30, 2022, included System Sales of \$2.5 million, consumable revenue of \$253,850 and services revenue of \$101,467. Sales within the Feed division for the three months ended June 30, 2022, included System revenue of \$214,433. Sales within the Feed Division for the six months ended June 30, 2022, included System Sales of \$232,497.

CubicFarms management observed supply chain related issues during the first and second quarter of 2022. The global supply of semi-conductor chips for CubicFarms equipment, primarily within the Feed Division, was reduced significantly during this period. Management continues to secure alternative sources of supply for the remaining part of 2022 for its semi-conductor chip needs.

Supply chain issues caused shipping delays for Fresh Division modules manufactured in China, as both delivery times and freight forwarding shipping costs have increased primarily due to the increased volume from China's shipping ports as global economies start to emerge from a post-pandemic economy. Generally, CubicFarms' customers pay for the increased shipping costs, resulting in higher overall project costs. HydroGreen equipment is manufactured exclusively in South Dakota, USA, and was not directly affected by the same shipping delays experienced by the Fresh Division.

Gross margin

Fresh Division	June 30, 2022		June 30, 2021		Change	%
Three months ended	\$	30,351	\$	(199,311)	\$ 229,662	n.a.
Six months ended	\$	130,870	\$	725,384	\$ (594,514)	-82%

Feed Division	June 30, 2022		June 30, 2021		Change	%
Three months ended	\$	80,244	\$	11,953	\$ 68,291	571%
Six months ended	\$	90,330	\$	10,787	\$ 79,543	737%

Total	June 30, 2022		June 30, 2021		Change	%
Three months ended	\$	110,595	\$	(187,358)	\$ 297,953	n.a.
Six months ended	\$	221,200	\$	736,171	\$ (514,971)	-70%

Gross margin for the three months ended June 30, 2022, was \$110,595 or 4% of revenue. The Company incurred approximately \$245,000 related to one-time retrofitting of previously sold systems during the three months ended June 30, 2022. Without retrofitting costs, gross margin for the three months ended June 30, 2022, would be 12%. Gross margin for the six months ended June 30, 2022, was \$221,200 or 7% of revenue. Without retrofitting costs, gross margin for the six months ended June 30, 2022, would be 15%. All retrofitting of customer equipment was completed during the quarter.

Gross margin for the three and six months ended June 30, 2021, was \$(187,358) or -53% of revenue, and \$736,171 or 17% of revenue. The Company incurred \$200,000 and \$500,000 in retrofitting expense during the three and six months ended June 30, 2021. Without retrofitting costs, gross margin for the six months ended June 30, 2021, would be 29% of revenue.

General and administrative expenses

	June 30, 2022		June 30, 2021		Change	%
Three months ended	\$	4,089,401	\$	3,279,358	\$ 810,043	25%
Six months ended	\$	8,027,749	\$	6,507,992	\$ 1,519,757	23%

The increase in general and administrative expenses is in line with the Company's continued expansion of its business and staffing additions. General and administrative staffing expense and consulting fees for the three and six months ended June 30, 2022, were \$2,967,223 and \$5,949,512 respectively (an increase of 17% and 18% compared to \$2,539,486 and \$5,049,069 for the three and six months ended June 30, 2021) which reflects the Company's additional headcount.

Selling expenses

	June 30, 2022		June 30, 2021		Change	%
Three months ended	\$	1,945,108	\$	1,744,754	\$ 200,354	11%
Six months ended	\$	3,634,801	\$	2,373,910	\$ 1,260,891	53%

Advertising and promotions expenses decreased slightly from \$307,054 and \$514,765 for the three and six months ended June 30, 2021, to \$236,585 and \$479,697 for the three and six months ended June 30, 2022, as the Company leveraged cost efficiencies. Sales and marketing staffing expense and consulting fees for the three and six months ended June 30, 2022, were \$1,500,773 and \$2,729,952, compared to \$1,291,890 and \$1,679,925 for the three and six months ended June 30, 2021, due to the expansion of the overall sales and marketing team and marketing capabilities.

Research and development

	June 30, 2022		June 30, 2021		Change	%
Three months ended	\$	3,245,070	\$	1,320,935	\$ 1,924,135	146%
Six months ended	\$	5,754,088	\$	2,461,354	\$ 3,292,734	134%

R&D expenses were for the continued automation of the Fresh and Feed growing systems, including hardware and software, as well as research and development associated with growing new crops and animal feed in the equipment. The Company continues to add to its R&D capabilities in data science, software development and engineering, as well as supporting third party and internal benefit validation studies at its facilities and research partner locations in Canada and the USA.

R&D staffing expense and consulting fees increased from \$705,966 and \$1,327,819 for the three and six months ended June 30, 2021, to \$2,262,661 and \$3,908,617 for the three and six months ended June 30, 2022. The increase is primarily due to additional headcount in the Product and Technology department. Materials and supplies used for R&D increased from \$370,270 and \$694,859 for the three and six months ended June 30, 2021, to \$531,906 and \$907,971 for the three and six months ended June 30, 2022.

Net finance expense (income)

	June 30, 2022		June 30, 2021		Change	%
Three months ended	\$	215,851	\$	(383,106)	\$ 598,957	n.a.
Six months ended	\$	344,760	\$	(285,017)	\$ 629,777	n.a.

The net finance expense relates to finance expenses and accretion charges incurred in the period. In the three and six months ended June 30, 2021, the Company recorded a gain on debt modification which offset the finance expenses and accretion charged resulting in a net finance income. The net finance expense in the three and six months ended June 30, 2022 also included the interest on the convertible debentures issued in the second quarter.

Net loss

	June 30, 2022		June 30, 2021		Change	%
Three months ended	\$	(9,091,846)	\$	(6,472,041)	\$ (2,619,805)	-40%
Six months ended	\$	(17,852,095)	\$	(10,149,129)	\$ (7,702,966)	-76%

The Company's net loss in the three and six months ended June 30, 2022, 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 higher net loss was primarily driven by the increased workforce, with 173 full-time employees and contractors as of June 30, 2022, compared to 116 at June 30, 2021.

Use of Proceeds

The following table provides a comparison between the expected and actual use of proceeds from the Company's financing activities as of June 30, 2022:

Month	Expected Amount per Prospectus	Actual Amount Received	Use of Proceeds	Expected	%	Actual	%
Nov-21	\$18,550,000	\$18,550,000	Sales and marketing	\$7,420,000	40.0%	\$2,978,662	16.1%
			R&D	\$9,275,000	50.0%	\$4,477,816	24.1%
			Working capital and general corporate purposes	\$1,855,000	10.0%	\$9,915,391	53.5%
Jun-22	\$10,560,000	\$10,588,550	Sales and marketing	\$1,056,000	5.7%	\$0	0.0%
			R&D	\$6,336,000	34.2%	\$0	0.0%
			Working capital and general corporate purposes	\$3,168,000	17.1%	\$0	0.0%

The execution of the operations of the Company requires management to constantly re-evaluate the planned use of funds between working capital, research & development, and marketing expenses.

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 \$
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)
April 1, 2021 - June 30, 2021	356,005	(6,472,041)	(0.04)
July 1, 2021 - September 30, 2021	191,157	(7,964,949)	(0.05)
October 1, 2021 - December 31, 2021	819,195	(11,243,309)	(0.07)
January 1, 2022 - March 31, 2022	243,912	(8,760,249)	(0.05)
April 1, 2022 - June 30, 2022	2,890,493	(9,091,846)	(0.05)

There is no established seasonality trend at this stage of the Company's development. Revenue from the sale of goods is recognized when the Company transfers the risk and control to the customer, which generally occurs upon delivery or transfer of title. Revenue from services is recognized when the related service is provided, and completion sign off is obtained from the customer. License and subscription revenue is recognized over the period covered by the license or subscription.

In addition, there are factors beyond the Company's control, such as the customer's ability to secure permitting, complete site preparations, ocean freight/shipping delays, COVID-19-related delays, as well as weather and other transportation delays, which could affect the timing of the delivery of the modules.

During the three months ended June 30, 2022, the Company recorded revenue from 16 CubicFarm Fresh Division sales for the Abbotsford project and one Feed Division sale.

Liquidity and Capital Resources

Current assets in excess of current liabilities decreased from \$25,567,298 as at December 31, 2021, to \$15,683,539 as at June 30, 2022, a decrease of 39%. The decrease in current assets in excess of current liabilities is primarily due to cash and net working capital used towards the Company's operations. The Company's objective is to maintain liquidity so as to meet financial obligations when they come due, while actioning its strategic plan. The Company ensures its current assets exceed its current liabilities by monitoring operational and cash flow forecasts to identify cash flow needs for general corporate and working capital purposes.

Operating Activities

Cash used in operating activities changed from an outflow of \$6,856,220 during the three months ended June 30, 2021, to an outflow of \$7,936,487 during the three months ended June 30, 2022, a 16% increase. Cash used in operating activities changed from an outflow of \$11,775,174 for the six months ended June 30, 2021, to an outflow of \$14,724,684 for the six months ended June 30, 2022, an increase of 25%. This is mainly driven by a larger net loss incurred by the Company.

Investing Activities

Cash used in investing activities changed from an outflow of \$526,221 during the three months ended June 30, 2021, to an outflow of \$2,403,238 during the three months ended June 30, 2022, a 357% increase. Cash used in investing activities changed from an outflow of \$1,013,456 during the six months ended June 30, 2021, to an outflow of \$3,957,515 during the six months ended June 30, 2022, a 290% increase. The increase in cash outflow is primarily due to increased capital expenditures related to the Burnett project.

Financing Activities

Cash used in financing activities changed from an inflow of \$23,216,327 during the three months ended June 30, 2021, to an inflow of \$9,277,176 during the three months ended June 30, 2022, a 60% decrease. Cash from financing activities changed from an inflow of \$25,072,514 for the six months ended June 30, 2021, to an inflow of \$9,060,981 during the six months ended June 30, 2022, a 64% decrease. The decrease is as a result of less financing raised in the current period compared to the prior period.

Contractual Amounts Payable

As at June 30, 2022, the Company has financial liabilities which are due on a fiscal year basis as follows:

As at June 30, 2022	Carrying Amount	< 1 Year	1-5 years	5+ Years	Total
	\$	\$	\$		\$
Trade and other Payables	4,800,791	4,800,791	-	-	4,800,791
Earn-Out Payable	1,703,198	680,955	-	-	680,955
Lease liability	3,016,375	543,504	1,493,946	2,142,244	4,179,693
Loan payable	6,126,004	1,060,500	10,946,744	-	12,007,244
Total	15,646,368	7,085,749	12,440,690	2,142,244	21,668,683

Capital Management

To date, the Company has financed its operations primarily through issuances of debt and equity. The development of modular growing systems and animal feed systems 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 losses and deficits incurred by the Company indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Despite the material uncertainty, the condensed 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.

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

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 related to these individuals.

Transactions with Bevo Farms Ltd., that is related through a common officer and director of the Company

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
	\$	\$	\$	\$
Short term leases	13,500	12,000	28,062	43,561
Lease payments	98,750	22,100	130,650	27,100
Office expenses	21,814	16,710	33,226	54,280

	As at June 30, 2022	As at December 31, 2021
	\$	\$
Lease liability	1,186,693	382,930

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 June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
	\$	\$	\$	\$
Wages and salaries	482,882	340,000	835,132	722,083
Consulting fees	239,750	293,729	683,894	594,913
Share-based compensation	192,825	396,793	508,571	975,225
Total	915,457	1,030,522	2,027,597	2,292,221

Other related party balances

	As at June 30, 2022	As at December 31, 2021
	\$	\$
Accounts payable:		
Bevo Farms	11,209	18,291
Total Accounts payable	11,209	18,291

Outstanding Share Data

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 August 12, 2022, the Company has no Class A preferred shares or Class B preferred shares issued and outstanding.

As at June 30, 2022, and August 12, 2022, the Company had the following number of common shares, options, and warrants outstanding:

	June 30, 2022	August 12, 2022
Common shares issued and outstanding	185,708,204	185,708,204
Options	18,872,667	18,872,667
Warrants	9,168,705	9,168,705
Total fully diluted shares	213,749,576	213,749,576

Off-Balance Sheet Arrangements

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.

Contingent Liability

The Company is party to a claim that arose in the ordinary course of business in May 2022, asserting that the Company was in breach of certain obligations pursuant to a manufacturing agreement.

In June 2022, the Company's legal counsel submitted a response to the notice of civil claim and a counterclaim against the firm and its directors in their personal capacity. As of the period end, the potential exposure the Company faces cannot be measured reliably.

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.

CubicFarm Systems Corp.
Management's Discussion and Analysis
For the three and six months ended June 30, 2022

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 fair value of the Company's loans payable is the sum of expected future cash flows 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 June 30, 2022, the discount rate was estimated to be 17% (December 31, 2021 – 17%).

There has been no change between levels during the year.

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

As at June 30, 2022				
Asset (Liability)	FVTPL	Amortized Cost	Fair Value	
			Level 2	Level 3
Cash and cash equivalents	-	11,766,681	-	-
Trade and other receivables	-	1,723,183	-	-
Trade and other payables	-	(4,800,791)	-	-
Earnout payable	(1,703,198)	-	-	(1,703,198)
Loans payable	-	(6,126,004)	(6,093,421)	-

As at December 31, 2021				
Asset (Liability)	FVTPL	Amortized Cost	Fair Value	
			Level 2	Level 3
Cash and cash equivalents	-	21,381,366	-	-
Trade and other receivables	-	2,126,752	-	-
Trade and other payables	-	(4,529,514)	-	-
Earnout payable	(1,762,812)	-	-	(1,762,812)
Loans payable	-	(2,156,711)	(2,126,980)	-

The continuity for earn out payable is as follows:

	June 30, 2022	December 31, 2021
	\$	\$
Balance – beginning of period	1,762,812	1,643,033
Foreign exchange	(144,347)	1,466
Fair value change during the year	84,733	118,313
Balance – end of period	1,703,198	1,762,812
Comprised of:		
Current earn-out payments	680,955	1,762,812
Non-current earn-out payments	1,022,243	-

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 June 30, 2022, 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 cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents 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 provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at June 30, 2022, three customers accounted for 44%, 28% and 11% of gross trade accounts receivable, respectively (December 31, 2021 - 48%, 27% and 12%).

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 current assets and current liabilities.

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 analyzed 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 June 30, 2022, the following items are denominated in US dollars:

	June 30, 2022	December 31, 2021
	\$	\$
Cash	319,661	166,656
Trade and other receivables	1,151,605	1,129,064
Trade and other payables	(1,579,055)	(1,039,306)
Customer deposits	(4,267,076)	(661,602)
Earn-out payable	(1,319,025)	(1,385,363)
Loans payable	(81,125)	(84,736)
Net exposure	(5,775,015)	(1,875,287)

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.

As at June 30, 2022, a 10% increase in the US dollar exchange rate would increase the Company's comprehensive loss by approximately \$577,000 (December 31, 2021 – increase of \$188,000). A 10% decrease in the exchange rate would decrease comprehensive loss by the same amount.

Critical Accounting Estimates

The preparation of the Company's condensed consolidated interim financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects current and future periods.

In the process of applying the Company's accounting policies, management has made the following estimates, assumptions, and judgments, which have the most significant effect on the amounts recognized in the Consolidated Financial Statements:

Going concern: Determining if the Company has the ability to continue as a going concern is dependent on its ability to secure debt and equity financing and to achieve profitable operations. Certain judgments are made when determining if and when the Company will secure debt and equity financing and achieve profitable operations.

Business combinations: In determining the allocation of the purchase price in a business combination, estimates including market based and appraisal values are used.

Useful lives and impairment of property, plant, and equipment: Depreciation of property, plant and equipment is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Impairment of goodwill and intangible assets: Goodwill is tested for impairment annually, or whenever there is an indication that the CGU may be impaired, by comparing the carrying amount of the CGU, including the goodwill, with the recoverable amount of the CGU. If the carrying amount of the CGU exceeds the recoverable amount of the CGU, an impairment loss is recognized in profit or loss.

Fair value of financial instruments: When the fair values of financial assets and financial liabilities recorded in the Consolidated Statements of Financial Position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques such as the discounted cash flow (DCF) model. The inputs to these models, such as discount rates and future cash flows, require a degree of judgment. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Provision for expected credit losses: The valuation of allowances for uncollectable trade receivables requires assumptions including estimated credit losses based on the Company's knowledge of the financial conditions of its customers, historical experience, and general economic conditions. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and expected credit losses is a significant estimate. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Warranty provision: Provisions are made for estimated warranty claims in respect of equipment, spare parts, and service supplied to customers which are still under standard warranty at the end of the reporting period.

Convertible Debentures: The allocation of the proceeds from the issuance of compound instruments between the financial liability and equity component requires management to use estimates and judgement. In determining the fair value of the financial liability component, the Company estimates the prevailing market interest rate for an equivalent nonconvertible instrument.

Disclosure Controls and Internal Controls over Financial Reporting

The Company takes all necessary steps to ensure that material information regarding the Company's reports filed or submitted under securities legislation fairly presents the financial information of the Company. Responsibility for this resides with management, including the Chief Executive Officer and the Chief Financial Officer. Management is responsible for establishing, maintaining, and evaluating disclosure controls and procedures as well as internal control over financial reporting.

For the six months ended June 30, 2022, there were no material changes in the Company's internal controls over financial reporting or changes to disclosure controls and procedures that materially affect, or would be reasonably likely to affect, the Company's internal control systems.

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 June 30, 2022, 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 effect 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 Audit Committee of the Board of Directors has approved the disclosures contained in this MD&A as of August 12, 2022.