



**CUBICFARM SYSTEMS CORP.**

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**ANNUAL INFORMATION FORM**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**DATED OCTOBER 28, 2020**

**CUBICFARM SYSTEMS CORP.**  
**ANNUAL INFORMATION FORM**  
**FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

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## INTRODUCTORY NOTES

### Date of Information

In this Annual Information Form (the “AIF”), unless the content otherwise requires, references to the “Company” or “CubicFarms” mean CubicFarm Systems Corp. and its subsidiaries. The information in this AIF is as at June 30, 2020, with subsequent events disclosed to October 28, 2020, except where expressly noted.

### Currency

All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

### Cautionary Note Regarding Forward-Looking Information

This AIF contains certain “forward-looking information” and “forward-looking statements” (collectively, “**forward-looking statements**”), within the meaning of applicable Canadian securities laws, which are based upon the Company’s current internal expectations, estimates, projections, assumptions and beliefs. Such statements can be identified by the use of forward-looking terminology such as “expect”, “likely”, “may”, “will”, “should”, “intend”, “anticipate”, “potential”, “proposed”, “estimate” and other similar words, including negative and grammatical variations thereof, or statements that certain events or conditions “may” or “will” happen, or by discussions of strategy. Forward-looking statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of fact. Such forward-looking statements are made as of the date of this AIF. Forward-looking statements in this AIF include, but are not limited to, statements with respect to:

- the performance of the Company’s business and operations;
- the intention to grow the business, operations and potential activities of the Company;
- the anticipated growth of the industry;
- the competitive conditions of the industry;
- the applicable laws, regulations and any amendments thereof;
- the competitive and business strategies of the Company;
- the projected sales pipelines of the Company;
- the anticipated benefits of the Company’s strategic investor and reseller relationships; and
- the anticipated future gross revenues and profit margins of the Company’s operations.

With respect to the forward-looking statements contained in this AIF, the Company has made assumptions regarding, among other things:

- operating and capital costs, including the amount and nature thereof;
- the Company’s ability to generate sufficient cash flow from operations and to access existing credit facilities and capital markets to meet its future obligations;
- trends and developments in the Company’s industry;
- business strategy and outlook;
- opportunities available to or pursued by the Company;

- expansion and growth of business and operations;
- the Company's ability to attract and retain qualified personnel or management;
- credit risks;
- anticipated acquisitions; and
- stability of general economic and financial market conditions.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements. Some of the risks and other factors, some of which are beyond the Company's control, which could cause results to differ materially from those expressed in the forward-looking statements contained in this AIF include, but are not limited to:

- general economic, market and business conditions in Canada and other countries, including reduced availability of debt and equity financing generally;
- the Company's ability to maintain current financing and to raise equity and/or debt financing on acceptable terms;
- risks relating to the effective management of the Company's growth;
- liabilities and risks, including environmental liabilities and risks associated with the Company's operations;
- the execution of strategic growth plans;
- the Company's ability to attract and retain customers;
- the competitive nature of the industries in which the Company operates;
- competition for, among other things, capital and skilled personnel and management;
- limitations on insurance;
- failure to obtain industry partner and other third party consents and approvals when required;
- failure to obtain granted patents for applied patents and failure to have patent assignments properly recorded;
- imprecision in estimating capital expenditures and operating expenses;
- fluctuations in pricing environments;
- stock market volatility;
- the impact of new laws and regulatory requirements and other laws and regulations and changes in how they are interpreted and enforced;
- the Company's ability to maintain required regulatory approvals;
- geopolitical, political and economic conditions;

- the results of litigation or regulatory proceedings that may be brought against the Company;
- changes in income tax laws;
- management's success in anticipating and managing the foregoing factors; and
- the other factors disclosed under "*Risk Factors*" in this AIF.

Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements contained in this AIF are expressly qualified by this cautionary statement. The Company is not under any duty to update any of the forward-looking statements after the date of this AIF or to conform such statements to actual results or to changes in the Company's expectations and the Company disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

## GLOSSARY OF DEFINED TERMS

Unless otherwise defined herein, the following terms used in this AIF have the meanings set forth below:

<b>“\$”</b>	means Canadian dollars.
<b>“AIF”</b>	means this Annual Information Form of CubicFarms.
<b>“Arrangement Agreement”</b>	means the arrangement agreement between CubicFarms, Sun Pharm and Bevo dated October 4, 2018, as modified, supplemented or amended from time to time in accordance with its terms.
<b>“BCBCA”</b>	means the <i>Business Corporations Act</i> (British Columbia), as amended from time to time.
<b>“BDC Financing”</b>	means the secured loan in the amount of \$5,000,000 provided to the Company by BDC Capital Inc.
<b>“Bevo”</b>	means Bevo Agro Inc., which is now known as Zenabis Global Inc. following the Reverse Take-Over Transaction.
<b>“Board”</b>	means the board of directors of CubicFarms.
<b>“CEO”</b>	means Chief Executive Officer.
<b>“CFO”</b>	means Chief Financial Officer.
<b>“Class A Preferred Shares”</b>	means Class A Preferred Shares in the capital of CubicFarms.
<b>“Class B Preferred Shares”</b>	means Class B Preferred Shares in the capital of CubicFarms.
<b>“Common Shares”</b>	means the common shares in the capital of CubicFarms.
<b>“CubicFarms” or the “Company”</b>	means CubicFarm Systems Corp.
<b>“Cubic Manufacturing”</b>	means Cubic Manufacturing Ltd.
<b>“Del Fresco”</b>	means Del Fresco Produce Ltd.
<b>“HGG”</b>	HydroGreen Global, LLC
<b>“HydroGreen”</b>	means the Company’s subsidiary HydroGreen, Inc.

<b>“HydroGreen Acquisition”</b>	means the Company’s acquisition of HydroGreen which was completed effective January 1, 2020.
<b>“HydroGreen System”</b>	means CubicFarms’ HydroGreen technology for growing nutritious livestock feed.
<b>“Investment Agreement”</b>	means the investment agreement between CubicFarms and Nu Skin dated January 28, 2019 entered into in connection with the Nu Skin Financing.
<b>“NI 52-110”</b>	means National Instrument 52-110 - <i>Audit Committees</i> .
<b>“Nu Skin”</b>	means Nu Skin Enterprises Inc.
<b>“Nu Skin Financing”</b>	means the private placement completed by CubicFarms on January 28, 2019 whereby the Company issued and sold 9,953,913 Common Shares to Nu Skin at a price of \$1.00463 per share for aggregate consideration of \$10,000,000.
<b>“Nu Skin Participation Rights”</b>	means the pre-emptive right of Nu Skin to participate in future equity financings of CubicFarms to maintain its pro rata ownership of CubicFarms (up to a maximum 12.9% ownership interest) pursuant to the terms of the Investment Agreement which right is available to Nu Skin for so long as it owns not less than 8% of the Common Shares.
<b>“Nu Skin Top-Up Rights”</b>	means the pre-emptive right of Nu Skin to maintain a pro rata ownership in CubicFarms (up to a maximum of 12.9% ownership interest) in connection with the issuance of any shares of CubicFarms during each fiscal quarter pursuant to the exercise of stock options, or any other convertible securities of CubicFarms, any non-cash transaction, or any offering conducted on a bought deal basis (provided that Nu Skin did not previously have a right to participate pursuant to the Nu Skin Participation Rights), with the price of such Common Shares calculated based on the volume weighted trading price of the Common Shares on the TSXV during the five trading days prior to CubicFarms delivery Nu Skin notice thereof.
<b>“Ospraie”</b>	Ospraie Ag Science, LLC.
<b>“Ospraie Financing”</b>	means the private placement completed by CubicFarms on May 13, 2020 whereby the Company issued and sold 21,739,130 Common Shares to Ospraie at a price of \$0.23 per share for aggregate consideration of \$5,000,000.
<b>Ospraie Secondary Financing</b>	means the secondary market purchase completed by Ospraie from certain CubicFarms shareholders on August 7, 2020 whereby Ospraie purchased 7,500,000 Common Shares at a price of \$0.70 per share for aggregate consideration of \$5,250,000.



<b>“Reverse Take-Over Transaction”</b>	means the reverse take-over of Bevo by Sun Pharm.
<b>“Sales Pipeline”</b>	means CubicFarms’ early-stage discussions with various companies across Canada and internationally to develop customer interest for the purchase of machines.
<b>“SEDAR”</b>	means the System for Electronic Document Analysis and Retrieval, the electronic filing system for the disclosure documents of public companies and investments funds across Canada, available at <i>www.sedar.com</i> .
<b>“Spin-Out”</b>	means the distribution by Bevo to its shareholders of the Common Shares previously held by Bevo.
<b>“Subdivision”</b>	means the subdivision of the Common Shares completed on December 19, 2018 at a ratio of 46 post-Subdivision Common Shares for 1 pre-Subdivision Common Share.
<b>“Sun Pharm”</b>	means Sun Pharm Investments Ltd.
<b>“Swiss Leaf Farms”</b>	means Swiss Leaf Farms Ltd.
<b>“System”</b>	means the Cubic Farm System, CubicFarms’ unique modular growing system.
<b>“Thriiv”</b>	means Thriiv Local Garden™, a patent-pending packaging developed by CubicFarms for lettuce, basil and microgreens sold in grocery stores.
<b>“TSXV” or the “Exchange”</b>	means the TSX Venture Exchange.
<b>“Viking West”</b>	means Viking West Engineered Products Ltd.
<b>“Yuxin”</b>	means Shandong Yuxin Mechanical & Electrical Manufacturing Co., Ltd.
<b>“Zenabis”</b>	means Zenabis Global Inc., previously known as Bevo Agro Inc. prior to the Reverse Take-Over Transaction.

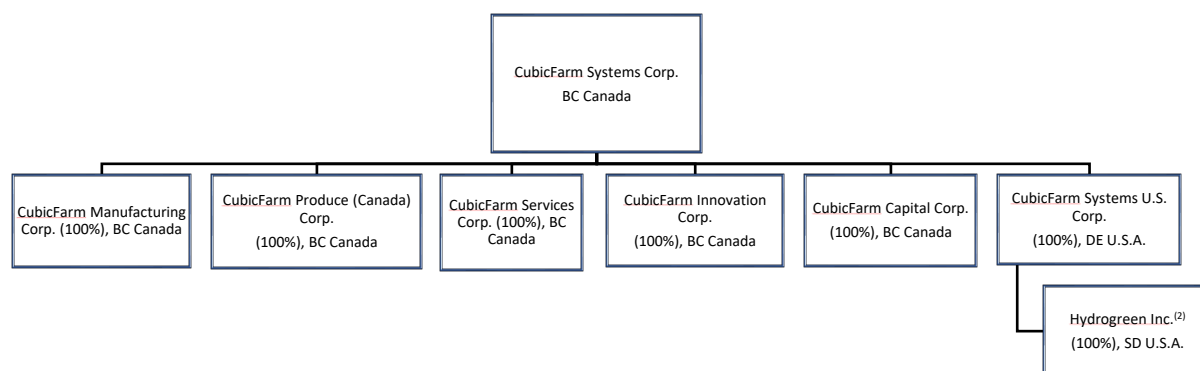
## CORPORATE STRUCTURE

### Name, Address and Incorporation

CubicFarms Systems Corp. was incorporated on October 8, 2015 pursuant to the provisions of the BCBCA under the name 4D Enterprises Ltd., and subsequently changed its name to Forty Foot Farms Ltd. on February 11, 2016 and to CubicFarms Systems Corp. on June 27, 2016. The head office of CubicFarms is located at #353-19951 80A Avenue Langley, British Columbia V2Y 0E2, and the registered and records office is located at 2900 – 550 Burrard Street, Vancouver, British Columbia, V6C 0A3.

### Inter-Corporate Relationships

The following are the Company's wholly-owned subsidiaries and their corresponding places of incorporation:



## GENERAL DEVELOPMENT OF THE BUSINESS

Founded in October 2015, CubicFarms is an agriculture, technology and vertical farming company. CubicFarms develops and employs proprietary technologies to provide high-quality, predictable crop yields for farms around the world.

CubicFarms is a technological leader in indoor growing with a senior leadership team with over 80 years of cumulative industry experience.

### Three Year History<sup>1</sup>

- In May 2017, CubicFarms signed an agreement with Cubic Manufacturing to establish dedicated manufacturing resources in China. See “*Description of the Business- Production*” and “*Material Contracts*”.
- In August 2017, CubicFarms raised \$1,120,000, at a price of \$0.19 per share, in equity to fund research and development, marketing initiatives and general operations of CubicFarms.
- In December 2017, Swiss Leaf Farms, a company in the farming business based in Edmonton, Alberta, made a cash deposit for the purchase of a System.
- In March 2018, the first manufactured Systems from China were delivered to the CubicFarms facility in Pitt Meadows, British Columbia, and purchased by Bevo.
- In June 2018, Del Fresco made a cash deposit for the purchase of a System for a facility in Ontario.
- In June 2018, CubicFarms raised \$3,524,938, at a price of \$0.83 per share, in equity for working capital, the purchase of the previously-mentioned System from Bevo and to expand the management team.

<sup>1</sup> Unless otherwise noted, the prices per share below under this heading reflect the prices at the time, after giving effect to the Subdivision. 308297.00001/94721446.3

- In July 2018, the first crops were seeded at the System in Pitt Meadows, British Columbia. This is the first operational System. It serves as a research and development facility and a sales demonstration System.
- In October 2018, CubicFarms began delivering produce from its System in Pitt Meadows, British Columbia to local grocery stores under CubicFarms' trademarked produce brand "Thriiv Local Garden".
- In November 2018, CubicFarms began the System installation for Swiss Leaf Farms, which is currently 50% owned by CubicFarms and 50% owned by Swiss Leaf Farms.
- In December 2018, CubicFarms signed an Equipment Sale Agreement and received a deposit from a third party for a System to be installed in Surrey, British Columbia. In January 2019, such third party provided an additional deposit of \$1,000,000.
- On January 8, 2019, Sun Pharm completed a reverse take-over of Bevo to form Zenabis. Immediately prior to the completion of the reverse take-over, Bevo completed the Spin-Out of its 41.1% interest in CubicFarms to the shareholders of Bevo. In light of CubicFarms' shareholder base following the Spin-Out and in light of CubicFarms' expectation of the opportunities available to it as a public company, CubicFarms determined to seek a listing of the Common Shares of CubicFarms on the TSXV.
- On January 28, 2019, CubicFarms completed the Nu Skin Financing and raised \$10,000,000 in gross proceeds by way of the issuance and sale of Common Shares at a price of \$1.00463 per share for general corporate purposes, investment in joint ventures and installation of CubicFarms-owned machines. Pursuant to the terms of the Nu Skin Financing, Nu Skin has the right to designate a nominee to be appointed to the Board and was granted the Nu Skin Participation Rights and Nu Skin Top-Up Rights. The net proceeds received by CubicFarms were approximately \$9,965,000 after deducting expenses approximately in the amount of \$35,000. See "*Material Contracts*".
- Concurrently with the Nu Skin Financing, CubicFarms executed a binding term sheet with Nu Skin which outlines the business arrangement under which Nu Skin and CubicFarms intend to market and sell Systems in China.
- On March 29, 2019, CubicFarms completed a private placement of 2,741,275 Common Shares to certain subscribers at a price of \$1.00463 per share for aggregate proceeds of approximately \$2,753,967. The net proceeds received by CubicFarms were approximately \$2,749,967, after deducting expenses of approximately \$9,000, and were intended for general corporate purposes, investment in joint ventures and installation of CubicFarms-owned machines.
- In April 2019, CubicFarms completed the installation of a System in Vineyard, Utah for CubicFarms' strategic investor, Nu Skin.
- In May 2019, CubicFarms commenced early works for the expansion of its Pitt Meadows, British Columbia facility with an estimated budget of \$2,500,000.
- On July 9, 2019, the Company's Common Shares commenced trading on the TSXV as a Tier One Issuer under the symbol "CUB".
- On September 24, 2019, the Company appointed Rodrigo Santana as its interim CFO. Supported by the rest of the CubicFarms finance team, Mr. Santana continued his role as Chief Operating Officer. Mr. Santana is very experienced in the dual role of COO and CFO where he held both positions in his previous employment at Sacré-Davey Engineering.
- On November 6, 2019, the Company announced that it had entered into a global Reseller Agreement (the "Reseller Agreement") with Groviv, a leader in the science and technology of controlled-environment agriculture ("CEA"). Groviv, a division of Nu Skin - a minority investor in CubicFarms - will lead global sales for CubicFarms and has appointed Joe Huston, its Vice President of Business Development to direct the effort. Mr. Huston has extensive retail sales and distribution experience, working with brands such as

Walmart, Kroger and Costco. In January 2020, Groviv was renamed to Grōv Technologies. See “*Material Contracts*”.

- On December 23, 2019, the Company announced the appointment of Jeff Booth as a member of the Board, subject to customary TSXV approval. Mr. Booth has more than 25 years of experience as an entrepreneur, responsible for growing innovative online marketplace BuildDirect.com to over \$120 million in annual revenues.
- Effective January 1, 2020, the Company completed the HydroGreen Acquisition.
- On January 23, 2020 following the Company’s annual meeting of shareholders, Jeff Booth was appointed as Chairman of the Board.
- On March 5, 2020, the Company appointed Tim Fernback as Chief Financial Officer of the Company.
- On May 13, 2020 whereby the Company issued and sold 21,739,130 Common Shares to Ospraie at a price of \$0.23 per share for aggregate consideration of \$5,000,000.
- Effective July 1, 2020, the Company issued 926,845 Common Shares to the former shareholders of HydroGreen representing the portion of the 1,000,000 Common Share holdback payable to such former shareholders of HydroGreen.
- On July 23, 2020 the Company completed a private placement pursuant to which it issued and sold an aggregate of 1,659,600 Common Shares to certain subscribers at a price of \$0.70 per share for aggregate consideration of \$1,161,720.
- On August 7, 2020, certain Company shareholders completed the Ospraie Secondary Financing at a price of \$0.70 per share for aggregate consideration of \$5,250,000, resulting in a cumulative 25.4% ownership in CubicFarms post-transaction.
- On August 28, 2020, the Company completed the BDC Financing.
- On September 9, 2020, the Company entered into a Reseller Agreement with HGG. HGG has been engaged to help drive the promotion, marketing and sales of HydroGreen Systems.

## **DESCRIPTION OF THE BUSINESS**

CubicFarm Systems Corp. is a technology company that is developing and deploying technology to feed a changing world. Its proprietary technologies enable farmers to grow high-quality, predictable crop yields for farms around the world. CubicFarms has two distinct technologies that address two distinct markets. The first technology is its patented CubicFarm™ System, which contains CubicFarms’ patented technology for growing leafy greens and other crops. It is a unique modular growing system which is the product of eight years of research by Dutch greenhouse growers, Jack and Leo Benne. Jack and Leo Benne were the majority shareholders of Bevo Agro Inc. (now a wholly-owned subsidiary of Zenabis Global Inc.), one of the largest plant propagation businesses in North America. The System addresses two of the most difficult challenges in the vertical farming industry, being high electricity and labour costs, using unique undulating path technology. CubicFarms leverages its patented technology by operating its own R&D facility in Pitt Meadows, British Columbia, selling the System to farmers, licensing its technology and providing industry-leading vertical farming expertise to its customers.

The second technology is CubicFarms’ HydroGreen System, the Company’s technology for growing nutritious livestock feed. The HydroGreen System was invented by Dihl Grohs, a rancher with operations in South Dakota, Utah and Missouri. This system utilizes a unique process to sprout grains, such as barley and wheat, in a controlled environment with minimal use of land, labour and water. The HydroGreen System is fully automated and performs all growing functions including seeding, watering, lighting, harvesting, and re-seeding – all with the push of a button – to deliver nutritious livestock feed without the typical investment in fertilizer, chemicals, fuel, field equipment and transportation. The HydroGreen System not only provides superior nutritious feed to benefit the animal, but also enables significant environmental benefits to the farm. CubicFarms completed the HydroGreen Acquisition in January 308297.00001/94721446.3

2020 for a total purchase price of \$4.3 million, representing 3.8x trailing twelve months revenue of HydroGreen Inc. The HydroGreen Acquisition provides a scalable platform to the Company with an estimated capital expenditure of \$500,000 to increase capacity from 24 to 96 machines per year, which is expected to bring in over \$20 million in revenue to CubicFarms.

### **Production**

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

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

### **Specialized Skill and Knowledge**

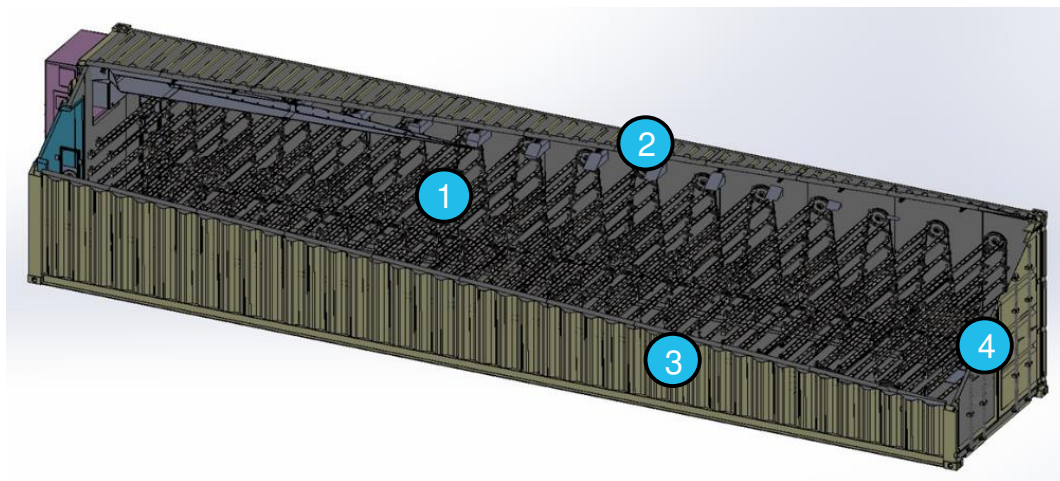
Through the Company's executives, officers, directors, consultants and employees, the Company has the necessary expertise and experience in engineering, cultivation, manufacturing, sales and global entrepreneurship to drive growth at an international level.

### **Employees**

CubicFarms, including all of its subsidiaries, had 48 employees and full-time contractors as of June 30, 2020 and has approximately 73 employees and full-time contractors as of the date of this AIF. Of this total, the Company had 11 employees and full-time contractors (June 30, 2020) and 21 employees and full-time contractors (as of the date of this AIF) located in South Dakota, USA within HydroGreen Inc. No CubicFarms employees are represented by a labour union and there is no collective bargaining agreement in place.

### **The Technologies For Growing Leafy Greens and Animal Feed**

#### *CubicFarms Leafy Greens System*



Component	Description
1	Crops are cycled within growing trays along a conveyor system in the shape of an undulating path. The growing trays advance every 30 seconds to 5 minutes, depending on the crop and stage of crop, and can complete a full rotation in as little as 90 minutes.
2	As crops cycle through the machine, they are bathed in lights mounted on the ceiling. All sides of the plants are exposed to light as the undulating path creates 14 V shaped valleys, above which the lights are mounted. Stainless steel surfaces aid in light reflection.
3	As crop trays reach the bottom return track, they are dosed with nutrient rich water, according to the specific crop and stage of the crop to further optimize growth. Water is also captured and recycled at this point in the process.
4	Each machine has double wide doors that open into the centralized, climate controlled clean work area, where crops are planted and harvested. Each tray is brought to the front during each rotation for maximum labour efficiency. Each machine also has its own air handling unit to further optimize the environment for each crop.



A standard System contains the following:

- CubicFarms' growing machines
- CubicFarms' germination machine
- Irrigation system

The growing machines and germination machines use a patented conveyor to minimize water, electricity, land, and labour required. All System components are contained inside custom insulated stainless-steel chambers. These chambers are the same size and shape as a high cube ocean shipping container, making it easy to transport. The conveyor follows an undulating path that cycles at least 252 growing trays up and down in vertical columns. The System is capable of growing multiple varieties of lettuce, basil, and microgreens, nutraceutical ingredients, animal feed, and the Company intends to expand the assortment of crops that can be successfully grown in the System. Microgreens are small vegetables, such as radishes, harvested at an early stage of their growth, and valued by fine dining establishments for their intense flavour and colour as garnish on salads and other menu items, as well for being a superfood because of their intense nutritional value.

CubicFarms’ growing trays shift every 30 seconds to five minutes as they move along the conveyor belt. Crops complete a full cycle of the growing chamber in as little as 90 minutes, but speeds can be optimized to accommodate harvesting, planting, or plant growth. Each growing tray is exposed to an equal amount of light and nutrient-rich water during rotations. The crops sustain this continuous cycle until they are fully grown. Temperature, humidity, CO<sub>2</sub>, rotation speed and nutrient levels are adjusted to create the optimal growing environment for each crop. CubicFarms believes that these crops are demonstrably superior – better in size, colour, appearance, flavour and consistency than crops grown with traditional warehouse technology.

Plants within a CubicFarms System are grown hydroponically. Some crops are first germinated in the proprietary CubicFarms germination machine, and then transplanted into the growing machine. Other broadcast seeded crops are planted directly into the growing trays from germination through harvest. Crops are spaced optimally within each growing tray utilizing crop spacing inserts, allowing optimized density and an increased yield per cubic foot. Growing trays advance within the growing chamber as often as every 30 seconds, and a gentle rocking motion as part of the natural movement of the trays simulates adverse weather conditions such as wind thereby creating a heartier plant. Throughout the cycle within the System, each crop is subject to identical conditions, which leads to greater crop consistency.



Component	Description
1	The centralized climate controlled work area, into which every machine opens providing a centralized, clean work area for all planting, harvesting, and packing.
2	Each CubicFarm growing machine is built within a customized, insulated stainless steel container, each with their own climate control thus creating an optimized growing chamber for each crop.
3	1 irrigation machine towards the back of the system will feed each growing machine, and can feed up to 50 CubicFarm growing machines. Additional systems can be easily added to expand capacity without disrupting current capacity.

Each growing machine opens into the center of the building where farmers can access the growing trays and control temperature, humidity, lighting, and irrigation. Unlike traditional warehouse growing, the System enables farmers to create ideal growing conditions for the specific crop inside each container. If the farmer is not physically present, the farmer can change growing conditions using a smartphone application and also receive alerts when conditions require attention. The modular nature of the design easily accommodates scalability; Systems can be added according to the farm’s growth requirements. While Systems are designed to be attached to a CubicFarms central building, they can

also be inserted into any existing building if desired. They can also be connected to an existing building, offering incredible versatility for the location of growing operations.

Currently, CubicFarms’ Systems have successfully produced dozens of varieties of lettuce, four varieties of basil, Asian vegetables, wheatgrass, multiple varieties of microgreens and herbs and animal feed. Total growth time, depending on the type of crop, ranges from 5 to 21 days. A summary of the cultivation capabilities for a growing machine in Canada for two selected crops is provided below. The projected economics are based on observed costs of production at the Pitt Meadows, British Columbia facility.

Per Machine	Lettuce	Basil
Measure of unit	Heads	Plugs
Crops Per Cycle (units)	6,240	20,640
Cycles Per Year	~17 (21 days per cycle)	~36 (10 days per cycle)
Wastage Rate	5%	5%
Net Annual Crops (units)	~103,000	~716,000

Broadcast seeding crops do not require germination and their growing cycle is from 5 to 14 days. They have varying yields depending on the crop type and can accommodate a large density of trays.

*Intellectual Property*


CubicFarms owns a granted patent in certain countries covering certain aspects of the System. The title of the subject patents is “Method and Apparatus for Growing Plants along an Undulating Path”. A summary indicating the countries where the patent has been granted, and the countries where the patent application remains pending, is provided below.

Patent Status	Locations
Granted	Australia, Canada, China, Eurasia (covering 8 countries – Armenia, Azerbaijan, Belarus, Kyrgyzstan, Kazakhstan, Russia, Tajikistan & Turkmenistan), Europe (covering 37 EU countries – Albania, Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Macedonia, Malta, Monaco, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey & United Kingdom), Japan, New Zealand, Saudi Arabia, South Africa, S. Korea & United States
Pending	United Arab Emirates, India, Oman

In addition, CubicFarms has filed: (i) a PCT International Patent Application for its dunking system, entitled: “Apparatus, System and Method for Watering Plants”; and (ii) a Canadian design patent application, entitled “Container for Plants”.

CubicFarms’ subsidiary, CubicFeed Systems US Corp., has filed: (i) a PCT International Patent Application entitled: “Hydroponic Grower”; and (ii) a PCT International Patent Application entitled: “Controller for a Hydroponic Grower”. Both of these applications relate to inventions that were acquired as part of the acquisition of HydroGreen Inc., and remain currently pending.



Trademark	Locations	Status
CUBICFARM ( <i>word mark</i> )	Australia, Canada, St. Maarten and United Kingdom	Registered
CUBICFARM ( <i>word mark</i> )	China <sup>(1)</sup> and United States	Pending
CUBICFARM ( <i>word mark</i> )	Puerto Rico	Instructed to Abandon Application
CUBIC FARMING ( <i>word mark</i> )	Canada	Registered
CUBIC FARMING ( <i>word mark</i> )	United States	Pending
CUBICFARM SYSTEMS CORP. ( <i>word mark</i> )	China <sup>(2)</sup>	Pending
顾碧农 CUBICFARM ( <i>word mark</i> )	China	Pending
	Canada	Pending

Notes:

(1) Cancellation proceedings have commenced against similar marks that are currently blocking this application.


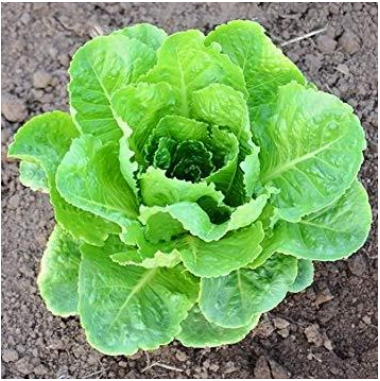




(2) The application is under review by the Chinese Trademark Office. The Company is awaiting a decision to approve the application for the word mark CUBICFARM SYSTEMS CORP.

### *Advantages of the System*

#### *Product Quality*

Fresher product due to customer proximity – The System enables indoor growing regardless of weather conditions or climate. As a result, Systems can be located close to customers and deliver fresh produce with a completely intact root, where appropriate. Harvesting with an intact root results in crops staying fresh for a much longer period of time, so grocers and other produce vendors benefit from lower costs as a result of less spoilage. Harvesting with the root intact also enables the crop to remain fresh and continue growing after it leaves the facility.

Since the System can cultivate in any climate, crops can be locally grown by the customer rather than internationally imported. The result of local sourcing is much fresher, higher quality produce. An illustration comparing CubicFarms crops with those that are conventionally grown is provided below.

Variety	CubicFarms Crop	Conventionally Grown Crop
Coastal Star Lettuce		
Basil		
Microgreens		

*Improved quality and taste* – The environment of a System creates ideal growing conditions and allows harvests at a size that is much more ideal for consumption. For example, the sweetest part of lettuce is right above the root, but when allowed to grow too large, it hardens and become inedible. Lettuce grown in a System can be harvested at the ideal time and, as a result, the entire head of lettuce can be eaten, with only the actual roots being discarded.

*Improved food safety* – The System grows crops in an enclosed growing container with minimal exposure to the external environment, substantially reducing the risk of contamination.

*Environmental Sustainability*

Advantage	Description
Reduced consumption of water	A System is a closed environment, enabling it to capture water from plant transpiration. As a result, the System is able to grow two heads of lettuce for every litre of water consumed, on average. Growing two heads of lettuce using conventional methods requires 24 litres of water, according to the Water Education Foundation. <sup>2</sup>
Reduced land use	Systems provide a high yield per square foot compared to conventional farms due to the vertical stacking of trays, spacing, and customized control of temperature, CO <sub>2</sub> , humidity, temperature, and lighting. Depending on the location, a System can replace one to four acres of conventional farmland.

*Yield Comparison*

CubicFarms expects to realize yields per square foot comparable to the most efficient facilities in the vertical farming industry. When compared to similar technology, vertical farming in containers, CubicFarms expects to achieve at least double the yield per square foot.

*Economics*

Advantage	Description
Year-round growth and consistent output	As an indoor farm, a System’s productivity is not dependent on outdoor weather conditions or the arability of land. With conditions such as temperature and lighting closely moderated within each individual growing container, each System ensures a consistent, year-round output.
Improved productivity from resources	In addition to water and labour efficiencies, the System requires considerably less light than traditional warehouse farming. Each System uses one row of light fixtures per 7.5 growing trays, while traditional methods use one row of light fixtures per growing tray. With lighting amongst the largest expense items for indoor farms, the System’s conveyor optimizes the use of light to minimize expense.
Less product wastage due to proximity to customers	For crops with a high rate of perishability, such as lettuce or microgreens, Systems located near customers reduce the rate of spoilage. The ability to harvest live produce also reduces waste.
Reduced cost of transportation	Systems located at customer sites enable them to supply their local markets instead of importing produce.
Reduced labour requirements	When harvesting and planting, a System brings the plants to the workers, eliminating time spent walking around the growing area. Traditional methods require strenuous lifting with heavy trays. The System has a seamless one-touch handling process from machine to packaging. As a result, farmers significantly reduce labour costs, compared to conventional or other indoor or static growing systems.

***CubicFarms HydroGreen Animal Feed System***

<sup>2</sup> <https://www.watereducation.org/post/food-facts-how-much-water-does-it-take-produce.308297.00001/94721446.3>

The HydroGreen System is patent pending and consists of a 10-foot by 8-foot rack with 8-foot by 6-foot growing surfaces stacked 6 layers high to a total height of 10 feet. This is the smallest, one-section system available for sale – two-section up to six-section systems that are 50 feet long, 8 feet wide and 10 feet high are available.

A second larger HydroGreen System has been developed by the Company. This new larger HydroGreen System consists of a 67.25 ft. by 8.5 ft. rack on a 61.5 ft. by 6.0 ft. growing surfaces stacked 8 layers high to a total height of 16.9 ft. There is approximately 3,000 sq. ft. of growing surface for live green fodder production on all 8 levels of the larger HydroGreen System.

The modular design of both HydroGreen Systems allows farmers to combine multiple systems to feed hundreds or thousands of livestock.

**The HydroGreen System automated three-section growing system for animal feed.**



Seeding one growing surface each day with 1.8 bushels of seed can produce 487 pounds of animal feed every six days. A one-section system could produce enough feed for a 20 to 25-cattle farm, while a three-section system could potentially provide most of the feed for a herd of 100.

The HydroGreen System’s automated seeder spreads half an inch of small grain seed on the growing surface. A fine mist of water is sprayed from above to initiate growth, followed by a gentle-rain automated irrigation system to feed the plants as they sprout. After six days, fresh green feed on the growing surface is rolled off and harvested at the push of a button on the touchscreen control panel.

As the feed layer is rolled off the surface, it is sliced into pieces with a water jet, ready to be blended with a feed ration or fed directly to livestock. Once the harvest cycle is complete, the surface is automatically cleaned and reseeded with a new seed bed, ready to be irrigated – setting in motion another grow cycle.

**The HydroGreen system takes seed to feed in six days.**



#### *Advantages of the System*

##### *Mold Mitigation*

While growing feed hydroponically is not a new concept, traditional rack-and-stack systems are labour intensive and are sensitive to mold. Mold tends to grow on seeds in warm, damp or humid conditions. Traditional hydroponic systems rely on human labour to manually clean the growing pans and soak, spread and water the seed, resulting in significant potential for human error and potential for mold to develop. The HydroGreen technology alleviates both problems as it requires only one second of labour per tonne of feed produced – to push a button on the touchscreen control panel. Through its automated process, the HydroGreen System applies a sequence of eleven procedures dedicated to controlling mold, stretching from seed selection to harvest, reducing the potential for human error and for mold to develop.

##### *Economic, Environmental and Nutritional Benefits of Hydroponic Animal Feed*

The HydroGreen System provides local, on-demand availability of fresh green feed 365 days a year, unaffected by drought, snow or rain. Hydroponic feed that is fed directly to livestock results in significant reduction of feed waste since the entire root mass is consumed with the grass.

In addition to savings from reduced labour and water, the HydroGreen System's vertically stacked surfaces allow for high yields in a very small area, increasing farmers' independence by growing food for their livestock without the need for cultivated land.

When wheatgrass and barley are sprouted, they release many vitamins and minerals as well as convert hard-to-digest starches into easily digestible proteins. Sprouting results in increased enzyme levels in the ration, which aids digestion and absorption of nutrients; increased levels of vitamins; increased mineral bioavailability and increased fatty acids

(quality energy) and amino acids (quality protein). These nutrients are critical to animal health, growth, milk production and reproduction.

### **Relationships and Partnerships**

CubicFarms has established three other relationships that it expects to support the growth and adoption of its technology:

1. Relationship with Key Investors. CubicFarms completed key strategic investments with Ospraie and Nu Skin.

Ospraie is an established and highly respected investment firm that supports productivity-enhancing companies in the agriculture technology space with a focus on sustainable solutions that improve the quality of life for farmers and society.

Nu Skin is a United States-based company that develops and sells personal care products and dietary supplements under its Nu Skin and Pharmanex brands. Nu Skin has operations in multiple countries including the United States and China.

CubicFarms believes that these key investors have brought value to CubicFarms for three specific reasons:

- i. **Access to Capital**. The financings provided CubicFarms with the capital required to: (i) continue to invest in joint ventures; (ii) proceed with the optimization and automation of the System; and (iii) have available working capital to be deployed for other opportunities that may be accretive to the business.
  - ii. **Strategic Value**. Given these investors reach globally, CubicFarms believes that these relationships provide CubicFarms with better access to global markets.
  - iii. **Access to People**. These strategic investors have introduced several important manufacturing, supply chain and sales leads to the Company. Furthermore, these investors have provided insights on collaborative companies and technologies, as well as, access to both advisors and directors to the Company.
2. Reseller Agreement with Groviv. On November 6, 2019, the Company announced that it had entered into a global Reseller Agreement with Groviv (now Gröv Technologies), a leader in the science and technology of controlled-environment agriculture (CEA). The Reseller Agreement expands upon the framework agreed to between Nu Skin and CubicFarms under which the parties agreed to work together to market and sell Systems in China. Groviv, a division of Nu Skin - a minority investor in CubicFarms - will lead global sales for CubicFarms and has appointed Joe Huston, its Vice President of Business Development to direct the effort. Mr. Huston has extensive retail sales and distribution experience, working with brands such as Walmart, Kroger and Costco. In January 2020, Groviv was renamed to Gröv Technologies.
3. The License Agreement with Zenabis. In January 2019, CubicFarms and Zenabis entered into the License Agreement which provides Zenabis with an exclusive worldwide right and license to use the CubicFarms technology for cannabis cultivation and propagation and to sell cannabis grown using the CubicFarms technology so long as Zenabis satisfies annual machine purchase thresholds. If such purchase thresholds are not met, the exclusive license becomes a non-exclusive license. Zenabis is also granted the right to sublicense the rights and licenses granted to it under the License Agreement, subject to approval of CubicFarms, which consent may not unreasonably be withheld. CubicFarms believe that Zenabis is a compelling partner for the cannabis industry given the expertise that Leo Benne, Zenabis' Chief Growing Officer, has in agriculture automation and innovation.
4. Reseller Agreement with HGG. On September 9, 2020, the Company entered into a Reseller Agreement with HGG. HGG has been engaged to help drive the promotion, marketing and sales of HydroGreen Systems. HGG is licensed to use the "HydroGreen" name and trademark in its authorized reseller activities to maintain brand consistency in the marketplace. HGG will develop a global dealer network to increase customer uptake worldwide, by leveraging its access to an industry dealer network in over 40 countries. HGG will also manage

customer experience and all aspects of the sales cycle by providing purchasers of the systems with installation, training and troubleshooting services, and managing warranty claims. HGG is entitled to purchase HydroGreen machines, parts and consumables at wholesale costs, for resale. HGG will be responsible for the payment of dealer sales commissions. John De Jonge, a director of the Company, has a non-controlling indirect ownership interest in HGG through his investment in Total Dairy Solutions (“TDS”), the 100% shareholder of HGG. TDS is a diversified multinational company that provides products and services to the international dairy industry and is managed by Mr. Kevin Fiske as CEO. TDS’ many existing international contacts and business relationships will enable HGG to quickly develop an international HydroGreen dealer network in several key geographic markets and provide the necessary infrastructure to successfully install the Company’s HydroGreen system sales on a global basis.

### ***Other Revenue Opportunities***

In addition to the System and the HydroGreen System, CubicFarms will provide a number of other services to customers in order to develop complementary revenue streams, such as consumables and logistics support.

### ***Distribution***

In January 2018, CubicFarms acquired a small distribution company for the purpose of distributing crops from its Pitt Meadows facility to local retailers. This company developed a small business blending and distributing microgreens to the local market.

### ***Monthly Recurring Revenues***

1. Support Subscription. CubicFarms offers a monthly support subscription that provides its customers with software updates, new crop technology, optimization data, training and grower support.
2. Consumables. CubicFarms customers also have the option to purchase seeds, nutrients, substrates, and packaging (see *Thriiv Local Garden*, below) required to produce crops for sale.

### ***Thriiv Local Garden***

CubicFarms has developed patent-pending packaging, under the brand Thriiv Local Garden™, for lettuce, basil and microgreens sold in grocery stores. The packaging preserves this produce in-store and at home for an extended period. Within the package, the crop and its roots are stored in a box that contains some of the nutrient-rich water from cultivation. Consumers have the option to store the produce in the fridge, or simply place it on the counter and keep it watered, where it will continue to grow. Once ready to eat, consumers simply remove the root and the produce is ready for the plate. Thriiv’s value proposition is two-fold: retailers benefit from prolonging the freshness of perishable produce and consumers benefit from a fresh produce that can be prepared just prior to eating. CubicFarms has shown the packaging to multiple retailers and received very positive reviews.

### ***CubicFarms Garden***

In June 2020, the Company created a farm and market consulting services division, called CubicFarms Garden, in order to help facilitate pre-sales of CubicFarms equipment internationally and provide additional produce sales / brokerage services to our North American-based clients post-sale. CubicFarms Garden is comprised of 2.5 full-time-equivalent staff with a combined 30 years + experience in brokering produce sales to retailers within North America. Fee-based consulting services provided by CubicFarms Garden includes the development of detailed financial plans, market assessments, business plans and investor presentations / pitch deck. Produce Sales / Brokerage services include commission-based sales of customer grown produce to local, regional and national retailers. The customer can determine how much of their production volume is to be committed to this sales channel on a monthly basis.



*Research and Development at Pitt Meadows*

Within the last twelve months, CubicFarms' research and development team has developed:

- An improved method of germination that has potential for applications in areas outside of vertical farming;
- Redesigned tray and irrigation process that further automates broadcast seeded crops, such as microgreens, animal feed, and ingredient crops;
- Increased tray width to increase crop yield productivity per growing machine;
- Improved method of seeding microgreens to lock in moisture and encourage more uniform growth;
- A new drive and chain system that can accommodate up to 75% more tray capacity than previous models;
- Developed automation processes for harvesting and processing broadcast seeded crops;
- Design and development of the growing machine's new control system that will further enhance usability, reliability, productivity and support further industrial-scale manufacturing; Dozens of new crop varieties for both produce and ingredients verticals; and
- Patent-pending packaging for in-store displays, and product packaging and design.

Illustrations of some of the successfully tested crop varieties are included below.





R&D developments have provided two new outbound selling opportunities for the CubicFarms System for growing leafy greens.

1. Propagation Machine for Germination. Germination is efficiently done in a CubicFarms machine with modified trays and watering system to water plants from the bottom up, and customized control monitoring settings designed for germination. Depending on configuration, the machine can germinate between 80,000 and 120,000 seedlings inside one machine at up to a 100% germination rate. The tray configuration facilitates air pruning, where roots are exposed to air in the absence of high humidity. The roots are effectively “burned” off, causing the plant to constantly produce new and healthy branching roots. Air pruning saves time during the transplanting stage because there are no long, spiral roots to disturb (disturbed roots go dormant for two days). The plant develops quicker and is generally healthier once transplanted. Potential customers include greenhouses, the flower industry, and nurseries supplying greenhouses.

**Propagation machine germinating seedlings from seed. Plants in the second row of tray from the left are being watered from the bottom up.**



2. High-Density Crops. The CubicFarms' machine can be configured with double the number of trays to accommodate high-value, low-light, broadcast seeded crops while maintaining the same flavour, quality and colour profiles provided by its typical configuration of 252 trays. Potential customers include nutraceutical companies and farmers growing crops such as microgreens, radish, cilantro and arugula.

**CubicFarms machine growing high-density microgreens.**



## **Systems Installed to Date and the Sales Pipeline**

### *Milestones and success*

In the last twelve months, CubicFarms has successfully sold a number of Systems in Canada and the United States. During this time, CubicFarms has continued to complete research and development, and sell produce, from the System it owns and operates in Pitt Meadows, British Columbia.

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

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

The Company has a target to have approximately 120 machines under deposit by the end of June 30, 2021 with a total sales value of approximately USD\$19 million. The Company considers an order to have taken place when a binding equipment purchase agreement is signed and a first deposit has been provided.

There can be no assurances that any of these pipeline opportunities will lead to sales of Systems. The Company currently has a backlog of approximately USD\$18 million consisting of 138 machines under contract and deposit.

## **Industry Analysis**

The global vertical farming market size stood at US\$2.13 billion in 2018 and is projected to reach US\$12.04 billion by 2026, exhibiting a CAGR of 24.8% during the forecast period. Rising interest in organic food among consumers interested in healthy living is expected to elevate the global vertical farming market. Increasing demand for high quality food, technological advancements in agriculture techniques, and growing urbanization are some of the significant factors impacting global vertical farming industry growth. With the unprecedented growth of world population, the demand for urban agriculture is increasing, shifting the focus to vertical farming.<sup>3</sup>

As the value proposition for vertical farming grows stronger, the industry's high growth has attracted a variety of players seeking to capitalize on the market opportunity. In 2017, companies such as Plenty, AeroFarms, and Bowery garnered the interest of various investors and collectively raised approximately US\$307 million in funding.<sup>4</sup> As of October 2020, Plenty has raised more than US\$540 million from investors including Bezos Expeditions, Innovation Endeavors and DCM Ventures, while AeroFarms received grants from the Foundation for Food and Agriculture Research, Abu Dhabi Investment Office, Meraas and Newark Venture Partners.<sup>5,6</sup>

The broader indoor farming industry can be segmented based on two criteria: the growing system and type of facility. The growing system is segmented based on the medium in which plants are grown; segments currently consist of hydroponics, aeroponics, aquaponics, and conventional soil. Growing techniques affect factors such as growth time, resource consumption, and yield. Facility type is segmented into three categories: greenhouse, indoor vertical farm, and shipping container. The facility type affects the growing method (i.e. vertical farming versus traditional farming), resource consumption, crop type, and the mobility of operations.

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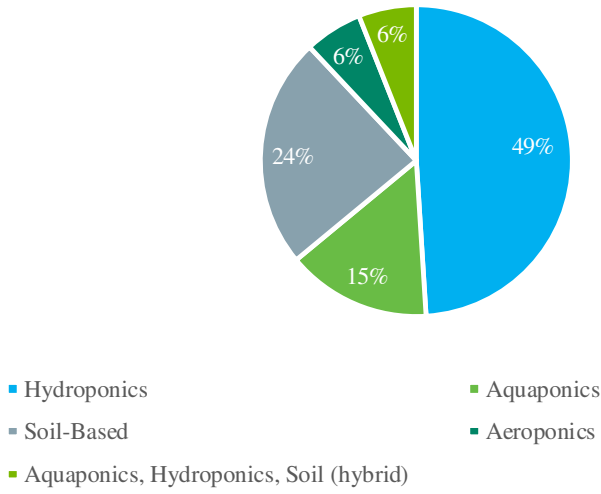
<sup>3</sup> Fortune Business Insights – Vertical Farming Market Size, Share & Industry Analysis : 2019-2026, January 2020.

<sup>4</sup> Global Newswire - Vertical Farming Market Expected to Reach 6.4 Billion by 2023.

<sup>5</sup> <http://www.businessinsider.com/vertical-farming-company-plenty-investment-second-farm-seattle-2017-11>

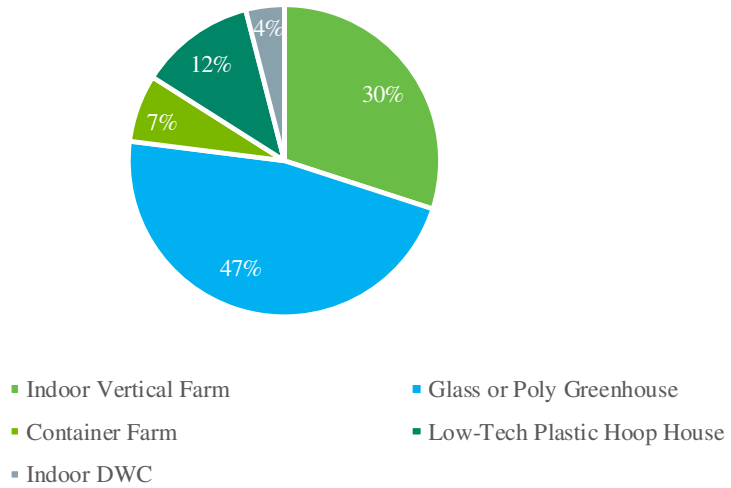
<sup>6</sup> Crunchbase Inc. (<https://www.crunchbase.com/organization/see-jane-farm>), October 19, 2020  
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### Growing System Breakdown



Graph summarizes information extracted from Agrilyst - State of Indoor Farming 2017.

### Facility Type Breakdown



Graph summarizes information extracted from Agrilyst - State of Indoor Farming 2017.

## **Growing System**

### *Hydroponics*

Hydroponics is the technique of growing plants in a nutrient-rich basin of water rather than using soil. The main benefits of hydroponics include the ability to grow year-round (both indoor and outdoor), water efficiency, space efficiency, growth cycle time, yield, and elimination of the need for pesticides and weeding. These factors contribute to the favorable economics of hydroponic growing, which has been the key driver for growth within the vertical farming category. Despite these advantages, many hydroponic farms suffered from weak profitability due to the high upfront capital costs and high labour costs associated with operating hydroponic grow systems. While aeroponic and aquaponic technologies are growing in popularity, hydroponics is the most widely adopted growing system by a considerable margin, holding nearly a 50% share of the market in 2017.<sup>7</sup>

### *Aeroponics*

Aeroponics is the technique of misting plants with a nutrient solution while they are suspended mid-air. The benefits of aeroponics are similar to hydroponics, but with greater water efficiency and higher nutrient absorption. While aeroponics results in greater resource efficiency, only a small segment of aeroponic operations have sustained profitability in recent years. This is due to the need for constant monitoring of pH and nutrient density ratios by skilled workers, which drives up labour costs.<sup>8</sup> Due to the high level of expertise required to operate an aeroponic growing system, aeroponics is used only by about 6% of indoor farms. That said, the aeroponics segment is expected to grow at the highest CAGR from 2018 to 2023.<sup>9</sup>

### *Aquaponics*

Aquaponics is a method where plants are grown in water previously used to cultivate fish and seafood. As plants are grown in water, aquaponics presents very similar pros and cons to hydroponics, with a few exceptions. Aquaponics benefits from less waste water and has a lower chance of water-borne disease than hydroponics. Aquaponics is expected to consume more energy and require more labour than hydroponics. Currently, aquaponics is a more popular growing method than aeroponics, with a 15% market share of indoor farms, but aquaponics is still far less popular than hydroponics.<sup>10</sup>

## **Facility Type**

### *Indoor Vertical Farming*

Indoor vertical farming systems grow crops, typically through hydroponics, in vertically stacked layers. Indoor growth permits year-round cultivation while stacking layers reduces the consumption of resources such as water and electricity. Another benefit of indoor vertical farming over conventional farming is that it reduces spoilage because crops are not subject to adverse weather conditions. Compared to greenhouses, indoor vertical farms use space more efficiently, making it possible to locate farming systems in urban areas closer to consumers. But indoor vertical farms incur high electricity costs due to the need for artificial lighting. While vertical farms stack crops efficiently under LED lighting, reports have shown that it can still take up to 1,200 kilowatt hours of electricity to produce 2.25 pounds of food.<sup>11</sup> According to Agrilyst, approximately 30% of indoor farms in the United States are vertical farms.<sup>12</sup>

### *Container Farms*

Container farms are similar to indoor vertical farms, except they are enclosed within modular shipping containers. Shipping containers are beneficial because they are mobile and scalable. Furthermore, growing conditions such as

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<sup>7</sup> Agrilyst – State of Indoor Farming 2017.

<sup>8</sup> <https://www.doityourself.com/stry/aeroponics-vs-hydroponics>.

<sup>9</sup> Global Newswire – Vertical Farming Market Expected to Reach 6.4 Billion by 2023.

<sup>10</sup> Agrilyst – State of Indoor Farming 2017.

<sup>11</sup> <https://draxe.com/vertical-farming/>.

<sup>12</sup> Agrilyst – State of Indoor Farming 2017.

lighting, humidity, and temperature, can be moderated separately based on crop type. This means farms can run multi-crop operations without a loss in efficiency. But container farming can produce plants of lower quality at higher cost than indoor vertical farming. Airflow can be inadequate, and plants can be burned by nearby lighting. Shipping containers can also be subject to higher variable costs if they are repurposed or end-of-life, with additional hidden costs arising from regulatory compliance or insurance issues.<sup>13</sup>

### *Greenhouses*

Greenhouses grow plants in an enclosed, transparent structure that is typically made of glass or polycarbonate. In contrast to indoor vertical farms, greenhouses use natural light where possible, and supplement with artificial light when necessary, so greenhouse farmers can in some regions and time of year, incur less lighting expenses, although they can incur significant heating expenses. For some crops such as leafy greens, summer climates usually prove to be too hot to successfully grow leafy greens. Since climate is closely monitored, greenhouses can still benefit from year-round growth for certain crops. Greenhouses, however, are not fully sealed environments and still exchange air with outside. This means that humidity or pests can have an adverse effect on plant quality. And since greenhouses are not as efficient with space, farmers have greater difficulty locating in urban areas that are closer to customers.

### **Crop Selection**

The main crops currently grown within indoor farms are leafy greens, tomatoes, flowers, herbs, and microgreens.<sup>14</sup> As the main value proposition of indoor farms is local delivery, three key drivers have led farmers to select these crop types. First, crops typically have to be short in height, enabling vertical farms to stack many layers. Second, crops must have a short growth cycle, so that farmers can offset high operating costs with a quick inventory turnover and higher revenue. Last, crops are chosen based on perishability; if a crop is highly perishable, a local grocer or dining establishment pays more for live produce grown nearby.

These factors have resulted in leafy greens becoming the most commonly grown crop among indoor growers, representing 57% of total crops grown indoors.<sup>15</sup> In 2017, indoor growers attributed 66% of future expansion plans, as a portion of total square feet, to capacity to grow leafy greens. In recent years, profitability for crops has suffered at farms where management does not possess the necessary technology, experience and skill to efficiently grow produce in a vertical farm.

### **Industry Strategies**

There a number of existing players in the vertical farming industry. Although each player generally has a unique growing approach or value proposition, their strategies can generally be grouped into two separate categories:

- (a) Selling vertical farming technology to farmers, greenhouse growers, schools, and other agriculture partners. There are several industry players utilizing this strategy. These companies often have some form of unique technology and have established manufacturing facilities to bring their product to market. This strategy generates one-time earnings as opposed to the perpetual-style earnings available for those that own their own farm.
- (b) Using their own vertical farming technology to grow produce and sell to a wholesaler, distributor or direct to retail. There are several industry players currently utilizing this strategy. These groups have established large vertical farming facilities in buildings close to large population centers and are in the process of expanding their presence across North America. As a result, this strategy generally requires meaningful upfront capital expenditures and perpetual-style earnings.

As far as CubicFarms is aware, no major players in the vertical farming industry in North America are simultaneously pursuing the two strategies listed above.

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<sup>13</sup> <https://indoor.ag/2018/03/top-5-challenges-container-farming/> .

<sup>14</sup> Agrilyst – State of Indoor Farming 2017.

<sup>15</sup> Agrilyst – State of Indoor Farming 2017.  
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## **Current Positioning and Competitive Advantages**

*Proprietary technology delivers lower labour costs than competitors*

Machines require significantly less labour than traditional or greenhouse farming. The harvesting process allows for one-touch handling from machine to packaging, reducing labour costs. This patented technology is expected to create a sustainable advantage for CubicFarms as the vertical farming industry attempts to reach profitability through effective cost management.

*Strong seed-to-store shelf brand increases value for local grocers*

CubicFarms expects to add value along the supply chain through its packaging brand, Thriiv. The resulting seed-to-store shelf brand provides grocers with an effortless purchase process that compares favourably to other farms that merely grow crops.

*Seasoned management with the know-how to cut costs*

The management team at CubicFarms is experienced in agriculture and manufacturing automation. Together, the team has engaged in the research and development that created the proprietary technology that CubicFarms possesses today. Future innovation, in combination with expertise in supply chain management, are expected to contribute to CubicFarms' success as it develops operations at its Pitt Meadows facility.

## **RISK FACTORS**

*An investment in the securities of CubicFarms is speculative and involves a high degree of risk and should be regarded as speculative due to the nature of CubicFarms' business. CubicFarms has incurred losses and expects to incur further losses. Prior to making an investment in CubicFarms' securities, prospective investors should carefully consider the information described in this AIF, including the risk factors set out below. Such risk factors, as well as risks not currently known to CubicFarms, could materially adversely affect CubicFarms' future business, operations and financial condition and could cause them to differ materially from the estimates described in forward-looking statements contained herein.*

### **General**

An investment in CubicFarms is only suitable for investors capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which may result. A prospective investor should consider with care whether an investment in CubicFarms is suitable for them in the light of their personal circumstances and the financial resources available to them.

An investment in CubicFarms should not be regarded as short-term in nature. There can be no guarantee that any appreciation in the value of CubicFarms' investments will occur or that the investment objectives of CubicFarms will be achieved. Investors may not get back the full or any amount initially invested.

The prices of shares and the income derived from them can go down as well as up. Past performance is not necessarily a guide to the future.

Changes in economic conditions including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and trends, tax laws and other factors can substantially and adversely affect equity investments and CubicFarms' prospects.

### **Volatile Market Price**

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies experience wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Factors unrelated to the financial performance or prospects of CubicFarms include macroeconomic developments in North America and globally, and market perceptions of the

attractiveness of particular industries. As a result of any of these factors, the market price of the securities of CubicFarms at any given point in time may not accurately reflect the long-term value of CubicFarms.

### **There Is No Assurance CubicFarms Will Continue to Meet the Listing Standards of the TSXV**

CubicFarms must meet continuing listing standards to maintain the listing of Common Shares on the TSXV. If CubicFarms fails to comply with such listing standards and the TSXV delists or removes the Common Shares, CubicFarms and its security holders could face significant material adverse consequences, including: (i) a limited availability of market quotations for the delisted Common Shares; (ii) reduced liquidity for such Common Shares; (iii) a determination that such Common Shares are “penny stock,” which would require brokers trading in such Common Shares to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for such Common Shares; (iv) a limited amount of news about CubicFarms and analyst coverage of it; and (v) a decreased ability for CubicFarms to issue additional securities or obtain additional equity or debt financing in the future.

CubicFarms cannot assure that a market will exist or continue to develop or be sustained for its securities. If a market does not continue to develop or is not sustained, it may be difficult for investors to sell securities at an attractive price or at all. The Company cannot predict the prices at which its securities will trade.

### **Future Sales of Common Shares by CubicFarms**

CubicFarms may issue additional securities in the future, including Common Shares, which may dilute a shareholder’s holdings in CubicFarms. CubicFarms’ articles permit the issuance of an unlimited number of Common Shares, an unlimited number of Class A Preferred Shares and an unlimited number of Class B Preferred Shares and shareholders will have no pre-emptive rights in connection with such further issuances under such articles. The Company could enter a contractual pre-emptive rights arrangement in the future. The directors of CubicFarms have the discretion to determine the provisions attaching to any series of Preferred shares and the price and the terms of issue of further issuances of Common Shares. Also, additional Common Shares will be issued by CubicFarms on the exercise of options under CubicFarms’ stock option plan.

### **CubicFarms’ Operations May Require Further Capital and Liquidity, Financial Resources and Access to Capital may be Reduced**

CubicFarms’ operations and development will require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of development or production of CubicFarms’ properties or even a loss of those property interests. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to CubicFarms. Any future financing may be dilutive to existing shareholders.

A prolonged decline in the price of Common Shares could result in a reduction in the liquidity of Common Shares and a reduction in CubicFarms’ ability to raise capital and/or continue operations. Because a significant portion of CubicFarms’ operations have been and are expected in future to be financed through the sale of equity securities, a decline in the price of Common Shares could be especially detrimental to CubicFarms’ liquidity and its operations. Such reductions may force CubicFarms to reallocate funds from other planned uses and may have a significant negative effect on CubicFarms’ business plan and operations, including its ability to repay outstanding obligations, to develop new products and continue its current operations.

There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be available on favorable terms. If CubicFarms is unable to raise sufficient capital in the future, CubicFarms may not be able to have the resources to continue its normal operations.

If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. Debt financings may increase CubicFarms’ debt levels above industry standards or its ability to service such debt. Any debt financing obtained in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which could make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may contain provisions, which, if breached, entitle lenders to accelerate repayment of debt and there is no assurance that



CubicFarms would be able to repay such debt in such an event or prevent the enforcement of security, if any, granted pursuant to such debt financing.

### **Forward-Looking Statements May Prove Inaccurate**

Shareholders are cautioned not to place undue reliance on forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. The Company's actual financial position and results of operations may differ materially from management's expectations. As a result, the Company's revenue, net income and cash flow may differ materially from the Company's projected revenue, net income and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations. Additional information on the risks, assumptions and uncertainties are found in this AIF under the heading "*Cautionary Note Regarding Forward-Looking Information*".

### **Ability to Implement Business Plan**

There can be no assurance that CubicFarms will successfully market the Systems. CubicFarms' success will depend upon market acceptance of its technology and products, its ability to enhance its existing technology and products and its ability to introduce new products and features that meet customer requirements. There can be no assurance that CubicFarms will be successful in developing, manufacturing, marketing or enhancing its technology and products. CubicFarms' business would be adversely affected if it incurs delays in spreading its technology, products or enhancements or if such technology, products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render CubicFarms' technology or products non-competitive or obsolete.

### **Limited Operating History and No Assurance of Profitability**

CubicFarms was incorporated on October 8, 2015. The Company has yet to generate any positive operating cash flow from its business for any financial year since incorporation. CubicFarms will be subject to all of the business risks and uncertainties associated with any early-stage enterprise, including undercapitalization, cash shortages, limitations with respect to personnel, financial and other resources, and lack of revenues.

CubicFarms has incurred operating losses in recent periods. CubicFarms may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, CubicFarms expects to continue to increase operating expenses as it implements initiatives to grow its business. If CubicFarms' revenues do not increase to offset these expected increases in costs and operating expenses, CubicFarms will not be profitable. There is no guarantee that the Company's products will be attractive to potential consumers or that the revenues generated from such products will meet the Company's projections. There is no assurance that CubicFarms will be successful in achieving a return on shareholders' investments and the likelihood of success must be considered in light of the early stage of operations.

### **Risks Inherent in the Agricultural Business**

CubicFarms' revenue involves the growing of vegetable plants and is subject to the risks inherent in the agricultural business, including plant and seed diseases. Although CubicFarms and its customers grow their products in climate-controlled Systems, with trained growing personnel continually monitoring the growing conditions in the Systems, there can be no assurance that these risks will not have a material adverse effect on the production of its products.

### **Reliance on Key Personnel and Key Executives**

CubicFarms success has depended and continues to depend upon its ability to attract and retain key management and consultants. CubicFarms will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The loss of any of

CubicFarms' senior management or key consultants and employees could materially adversely affect CubicFarms' ability to execute CubicFarms' business plan and strategy, and CubicFarms may not be able to find adequate replacements on a timely basis, or at all. CubicFarms does not maintain key person life insurance policies on any of CubicFarms' employees.

CubicFarms is dependent upon certain of its executive management team. The loss of the services of its executive officers could have a material adverse effect on CubicFarms. CubicFarms' ability to manage its development and operating activities, and hence its success, will depend in large part on the efforts of its executive officers and other members of management of CubicFarms. CubicFarms faces intense competition for qualified personnel, and there can be no assurance that it will be able to attract and retain such personnel. CubicFarms does not yet have in place formal programs for succession or training of management.

### **Competition**

The agricultural industry in North America may become increasingly competitive. CubicFarms expects to face competition from numerous producers throughout North America. A number of these companies may have greater financial resources, operational experience and technical capabilities than CubicFarms. As a result of this competition, CubicFarms may be unable to maintain operations on terms it considers acceptable or at all. There can be no assurance that CubicFarms will be able to compete successfully against its current or future competitors or that such competition will not have a material adverse effect on CubicFarms' financial condition and results of operations and the amount of cash available for distribution to shareholders.

### **Increased Competition with Field Growers, Greenhouses and Other Vertical Farmers in the Summer**

Competition from other growers in the summer months may lead to an oversupply of crops such as leafy greens, basil and microgreens. CubicFarms is subject to the risk that local grocers will opt for other crops from local growers rather than CubicFarms' products. There can be no assurance that retailers will have enough capacity in-store to sell the product of both CubicFarms and other growers.

### **Pricing of Vegetable Plants**

The agricultural business is competitive and sensitive to changes in the price of vegetable plants such as leafy greens, basil and microgreens. The price of CubicFarms' and its customers' products is affected by many factors including supply and demand of the customers, negotiations between buyers and sellers, quality and general economic conditions, all of which could have a material adverse effect on the financial condition of CubicFarms. Demand for CubicFarms' and its customers' products is subject to fluctuations resulting from adverse changes in general economic conditions, evolving consumer preferences, nutritional and health-related concerns and public reaction to food spoilage or food contamination issues. There can be no assurance that demand for CubicFarms' and its customers' products will increase or that present demand levels will be maintained. If demand for plant vegetable plants decreases, CubicFarms' financial condition and results of operations may be materially adversely affected.

### **Product Liability**

CubicFarms is exposed to costs related to warranties, product recalls, and potentially lawsuits or other claims, particularly if its products were to prove defective, or potential product liabilities connected with its operations and the marketing and distribution of vegetable products, including liabilities and expenses associated with contaminated or unsafe product. There can be no assurance that the insurance against all such potential liabilities maintained by CubicFarms will be adequate in all cases. In addition, even if a claim was not successful or was not fully pursued, the negative publicity surrounding any such assertion could adversely impact CubicFarms' reputation with its customers. The consequences of any of the foregoing events may have a material adverse effect on CubicFarms' financial condition and results of operations.

### **New and Evolving Technologies**

In any new business involving new and evolving technologies there are many unforeseen development risks which could impair or delay CubicFarms in achieving its goals. There is a risk that CubicFarms' technology will not meet the requirements of the market. It is possible that more economical or efficient production technology than what is

currently produced by CubicFarms will be developed, thereby potentially adversely affecting CubicFarms' competitive position.

### **Trade Restrictions**

CubicFarms business of constructing and selling vertical farming facilities is dependent on inputs from around the world. CubicFarms machines are currently fabricated in China and shipped around the world. Any adverse trade restriction on farming technology could have a material impact on CubicFarms' business.

### **Commodity Prices**

The cost of CubicFarms machines is dependent on a number of raw materials that can vary in costs with fluctuations in commodity pricing. CubicFarms cannot provide any assurance that the costs of production will remain unchanged on this basis.

### **Natural Catastrophes**

CubicFarms' business operations are located in British Columbia in an area that is geologically active and considered to be at risk from earthquakes. While CubicFarms maintains insurance coverage, it cannot predict that all potential insurable risks have been foreseen or that adequate coverage is maintained against known risks.

### **Climate Change**

CubicFarms recognizes that climate change may affect CubicFarms' and its customers' business and operations directly or indirectly. Extreme weather events (such as prolonged drought or freezing, increased periods of snow and increased frequency and intensity of storms) have the potential to disrupt CubicFarms' and its customers' operations, including with respect to transport routes. CubicFarms is unable to predict the impact of climate change on its business but extended disruptions could result in interruption to production which could materially adversely affect CubicFarms' financial condition and results.

Governments at all levels are moving towards enacting legislation to address climate change by regulating carbon emissions and energy efficiency, among other things or to make current regulation more stringent. There is no assurance that compliance with such legislation will not have an adverse effect on our business, results of CubicFarms' operations, financial condition and share price.

### **Transportation Disruptions**

Due to the perishable nature of CubicFarms' products, CubicFarms depends on fast and efficient road transportation to distribute its product. Any prolonged disruption of this transportation network could have an adverse effect on CubicFarms' financial condition and results of operations.

### **Foreign Exchange Exposure**

CubicFarms estimates that a significant portion of its sales will be recorded in U.S. dollars, and as such, it will be necessary to convert U.S. dollars to Canadian dollars to pay for some of its production and overhead costs. Any foreign currency hedge arrangements that CubicFarms has entered into may not protect it against any losses which may occur as a result of a fluctuation in the U.S./Canadian dollar exchange rates. As a result, such fluctuations may have an adverse impact on CubicFarms' financial results.

### **Dependence on Third Party Suppliers**

CubicFarms has established relations with third party suppliers, upon whom it relies to provide materials and components for its products. A supplier's failure to supply materials or components in a timely manner, or to supply materials and components that meets CubicFarms' quality, quantity or cost requirements, or CubicFarms' inability to obtain substitute sources for these materials and components in a timely manner or on terms acceptable to it, could adversely impact its ability to deliver its products.

### **Dependence on Third Party Manufacturer**

CubicFarms has established relations with its third-party manufacturer, upon whom it relies to manufacture the Systems. A failure of such third party to manufacture CubicFarms' product in a timely manner, or to manufacture the Systems in a manner that meets CubicFarms' quality, quantity or cost requirements, or CubicFarms' inability to obtain a substitute manufacturer for the Systems in a timely manner or on terms acceptable to it, could adversely impact its ability to deliver its products.

### **Manufacturing Costs**

CubicFarms is continually seeking out ways to reduce its manufacturing costs, which allows it to further reduce selling prices for its products, increase its business volume thereby improving profit margins. CubicFarms' ability to reduce manufacturing costs depends on successful research and development, component purchasing volumes generating savings of scale and fluctuations in material costs.

### **Intellectual Property**

The success of CubicFarms' business depends in part on its ability to protect its ideas and technology. CubicFarms has been granted a patent in certain countries for the technical approach of the Systems. CubicFarms is also in the process of applying for patents on its packaging, several other processes and have patents on the manufacturing process. Even if CubicFarms moves to protect its technology with trademarks, patents, copyrights or by other means, CubicFarms is not assured that competitors will not develop similar technology, business methods or that CubicFarms will be able to exercise its legal rights. Other countries may not protect intellectual property rights to the same standards as does Canada. Actions taken to protect or preserve intellectual property rights may require significant financial and other resources such that said actions have a meaningful impact our ability to successfully grow our business.

### **Cyber Security**

Cyber security has become an increasingly problematic issue for issuers and businesses in Canada and around the world, including CubicFarms. Cyber-attacks against organizations of all sizes are increasing in sophistication and are often focused on financial fraud, compromising sensitive data for inappropriate use or disrupting business operations. A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of CubicFarms' information resources. More specifically, a cyber-incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information. As CubicFarms' reliance on technology has increased, so have the risks posed to its systems. CubicFarms' primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to its reputation, damage to CubicFarms' business relationships, disclosure of confidential information regarding its employees and third parties with whom CubicFarms interacts, and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation. CubicFarms has implemented processes, procedures and controls to help mitigate these risks, but these measures, as well as its increased awareness of a risk of a cyber-incident, do not guarantee that its financial results will not be negatively impacted by such an incident.

### **Risks Associated with Cross-Border Trade**

CubicFarms' products are actively sold internationally. Markets in the United States and other countries may be affected from time to time by trade rulings and the imposition of customs, duties and other tariffs. There can be no assurance that CubicFarms' financial condition and results of operations will not be materially adversely affected by trade rulings and the imposition of customs duties or other tariffs in the future. Furthermore, there is no assurance that further trade actions will not be initiated by U.S. producers of vegetables. Any prolonged disruption in the flow of CubicFarms' product across the U.S.-Canada border or internationally could have an adverse effect on CubicFarms' financial condition and results of operations.

### **Failure to Realize Growth Strategy**

There are risks associated with CubicFarms' growth strategy, and such strategies may not succeed, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors. If CubicFarms cannot manage its growth effectively it may have a material adverse effect on the business, prospects, financial condition, results of operations and cash flows of CubicFarms.

### **Failure to Comply with Anti-Bribery Laws**

CubicFarms is subject to the *Corruption of Foreign Public Officials Act* (Canada) ("CFPOA"), which generally prohibits companies and company employees from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. The CFPOA also requires companies to maintain accurate books and records and internal controls, including at foreign controlled subsidiaries. In addition, CubicFarms may become subject to other anti-bribery laws of any nations in which it conducts business that apply similar prohibitions as the CFPOA (e.g. United States Foreign Corrupt Practices Act and the Organization for Economic Co-operation and Development Anti-Bribery Convention). CubicFarms' employees or other agents may, without CubicFarms' knowledge and despite CubicFarms' efforts, engage in prohibited conduct under CubicFarms' policies and procedures and the CFPOA or other anti-bribery laws to which CubicFarms may be subject for which CubicFarms may be held responsible. If CubicFarms' employees or other agents are found to have engaged in such practices, CubicFarms could suffer severe penalties and other consequences that may have a material adverse effect on CubicFarms' business, financial condition and results of operations.

### **Threat of Legal Proceedings**

Due to the nature of its business, CubicFarms may be subject to regulatory investigations, civil claims, lawsuits and other proceedings in the ordinary course of its business. The results of these legal proceedings cannot be predicted with certainty due to the uncertainty inherent in litigation, the difficulty of predicting decisions of regulators, judges and juries and the possibility that decisions may be reversed on appeal. There can be no assurances that any such matters will not have a material adverse effect on CubicFarms' business.

### **Governmental Regulations**

CubicFarms' operations are governed by a broad range of federal, state, provincial and local environmental, health and safety laws and regulations, permits, approvals, and common law and other requirements that impose obligations relating to, among other things: worker health and safety; taxes; labour standards; environmental protection; and other matters. Failure by CubicFarms to comply with applicable laws, rules, regulations and policies may subject CubicFarms to civil or regulatory proceedings, including fines, injunctions, administrative orders or seizures, which may have a material adverse effect on CubicFarms' financial condition and results of operations. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be amended or applied in a manner which could limit, curtail or prevent production, development or exploration, which could cause increases in costs or reduction in levels of production.

### **CubicFarms' Operations Are Subject to Environmental Risks**

All phases of CubicFarms' operations are subject to federal, provincial and local environmental regulation in the various jurisdictions in which it operates which could potentially make operations expensive or prohibit them all together. These regulations mandate, among other things, the disposal of waste and the ownership, management, control or use of transport vehicles and real estate. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect CubicFarms' operations or prevent operations all together. Environmental hazards may exist on the properties on which Sun Pharm (now Zenabis) holds and will hold interests which are unknown to CubicFarms at present and which have been caused by previous or existing owners or operators of the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed,

and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

### **Uninsured and Underinsured Losses**

CubicFarms maintains at all times insurance coverage in respect of business risks, in those amounts, with those insurers, and on those terms as CubicFarms' management considers appropriate to purchase and which is readily available, taking into account all relevant factors including the practices of owners of similar assets and operations, as well as costs.

CubicFarms' insurance will not cover all the potential risks associated with CubicFarms' operations. CubicFarms may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to CubicFarms or to other companies in the same industry on acceptable terms. CubicFarms might also become subject to liability for environmental occurrences pollution or other hazards which may not be insured against or which CubicFarms may elect not to insure against because of premium costs or other reasons. Losses from these events may cause CubicFarms to incur significant costs that could have a material adverse effect upon its financial condition and results of operations.

### **Accounting Estimates**

CubicFarms will be required to make accounting estimates and judgments in the ordinary course of business. Such accounting estimates and judgments will affect the reported amounts of its assets and liabilities at the date of the financial statements and the reported amounts of its operating results during the periods presented. Additionally, CubicFarms will be required to interpret the accounting rules in existence as of the date of the financial statements when the accounting rules are not specific to a particular event or transaction. If the underlying estimates are ultimately proven to be incorrect, or if auditors or regulators subsequently interpret CubicFarms' application of accounting rules differently, subsequent adjustments could have a material adverse effect on its operating results for the period or periods in which the change is identified.

### **Potential Conflicts of Interest**

Certain of the directors and/or officers of CubicFarms are also associated with other companies and, accordingly, conflicts of interest may arise from time to time. In the event of any conflict of interest, CubicFarms will adhere to the provisions of the BCBCA which requires that a director or officer who is a party to, or has the material interest in any person who is a party to, a material contract or proposed material contract with CubicFarms, shall disclose such interest to CubicFarms and shall refrain from voting on any matter in respect of such contract unless otherwise permitted by the BCBCA.

### **Dividend Risk**

CubicFarms has not paid dividends in the past and CubicFarms does not anticipate paying dividends in the near future. CubicFarms expects to retain its earnings to finance further growth and, when appropriate, retire debt.

## **DIVIDENDS AND DISTRIBUTIONS**

No dividends or distributions on the Common Shares have been paid or declared by the Company to date and the Company has no plans at present to declare any dividends or distributions. The future payment of dividends will be determined by the Board, and will depend on the financial needs of the Company to fund future growth, the general financial condition of the Company, capital expenditure requirements, potential acquisition opportunities, debt position and other conditions that the Board may consider relevant at such future time, including satisfaction of the solvency requirements under the BCBCA for the declaration and payment of dividends.

## DESCRIPTION OF CAPITAL STRUCTURE

### **Authorized Capital**

The Company has an 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 the date of this AIF, the Company has 119,292,793 fully paid and non-assessable Common Shares and no Class A Preferred Shares or Class B Preferred Shares issued and outstanding. Except for the contractual rights granted to Nu Skin pursuant to the Nu Skin Participation Rights and the Nu Skin Top-Up Rights, there are no pre-emptive or conversion rights and no provisions for exchange, exercise, redemption and retraction.

### **Common Shares**

#### *Voting Rights*

Each holder of Common Shares is entitled to receive notice of and to attend all meetings of the shareholders of the Company (other than a separate meeting of the holders of another class of shares) and shall have one vote in person or by proxy for each such Common Share held. The holders of Class A Preferred Shares, the holders of Class B Preferred Shares and the holders of Common Shares will vote as one class, except as required by law.

#### *Dividends*

Subject to the rights of the holders of any other shares ranking senior to the Common Shares with respect to priority in the payment of dividends, the holders of Common Shares will be entitled to receive dividends as and when declared by the directors of CubicFarms, on a pro rata basis.

#### *Dissolution*

In the event of the liquidation, dissolution or winding-up of CubicFarms, the holders of Common Shares will, subject to the rights of holders of any other class of shares of CubicFarms ranking in priority to the Common Shares, participate rateably with the holders of other classes of shares in CubicFarms in equal amounts per share, without preference or distinction, in the remaining assets of CubicFarms.

### **Class A Preferred Shares**

#### *Voting Rights*

Each holder of Class A Preferred Shares is entitled to receive notice of and to attend all meetings of the shareholders of the Company (except meetings at which only holders of another class of shares of the Company are required by law to vote separately as a class) and at each such meeting shall have one vote in person or by proxy for each Common Share such holder would be entitled to receive upon full conversion of its Class A Preferred Shares into Common Shares as at the record date of the meeting. The holders of Class A Preferred Shares, the holders of Class B Preferred Shares and the holders of Common Shares will vote as one class, except as required by law.

#### *Dividends*

Each holder of Class A Preferred Shares will be entitled to receive dividends as and when declared by the directors of CubicFarms, on a pro rata basis. Each time CubicFarms pays a dividend on any of its Common Shares, it shall also concurrently pay a dividend on a pro rata basis to each holder of Class A Preferred Shares based on the number of Common Shares that such holder would be entitled to receive upon full conversion of its Class A Preferred Shares into Common Shares at the time of declaration of such dividend.

### *Liquidation or Dissolution*

In the event of the liquidation, dissolution or winding-up of CubicFarms, each holder of Class A Preferred shares will be entitled to promptly receive from the assets and property of CubicFarms in respect of such holder's Class A Preferred shares, on a *pari passu* basis with all other such holders, but in preference and in priority to the registered holders of any other class of shares of CubicFarms, including the Common Shares, an amount equal to the greater of: (i) the issue price for each of its Class A Preferred shares (as determined in the Articles of CubicFarms) plus any dividends declared but unpaid thereon; and (ii) the amount that such holder would have received as a holder of the number of Common Shares into which the Class A Preferred shares held by such holder would have been convertible, and, in each such case, there shall be no priority of one class of shares over the holders of the other class of shares. If upon liquidation or dissolution the assets of CubicFarms available for distribution are insufficient to make such payments, each holder of Class A Preferred shares will share rateably in any distribution of the assets available for distribution to the holders of Class A Preferred shares in proportion to the respective amounts which would otherwise be payable in respect of the Class A Preferred shares held by them upon such distribution.

### **Class B Preferred Shares**

#### *Voting Rights*

Each holder of Class B Preferred Shares is entitled to receive notice of and to attend all meetings of the shareholders of the Company (except meetings at which only holders of another class of shares of the Company are required by law to vote separately as a class) and at each such meeting shall have one vote in person or by proxy for each Common Share such holder would be entitled to receive upon full conversion of its Class B Preferred Shares into Common Shares as at the record date of the meeting. The holders of Class B Preferred Shares, the holders of Class A Preferred Shares and the holders of Common Shares will vote as one class, except as required by law.

#### *Dividends*

Each holder of Class B Preferred Shares will be entitled to receive dividends as and when declared by the directors of CubicFarms, on a pro rata basis. Each time CubicFarms pays a dividend on any of its Common Shares, it shall also concurrently pay a dividend on a pro rata basis to each holder of Class B Preferred Shares based on the number of Common Shares that such holder would be entitled to receive upon full conversion of its Class B Preferred Shares into Common Shares at the time of declaration of such dividend.

### *Liquidation or Dissolution*

In the event of the liquidation, dissolution or winding-up of CubicFarms, each holder of Class B Preferred Shares will be entitled to promptly receive from the assets and property of CubicFarms in respect of such holder's Class B Preferred Shares, on a *pari passu* basis with all other such holders. But in preference and in priority to the registered holders of any other class of shares of CubicFarms, including the Common Shares, an amount equal to the greater of: (i) the issue price for each of its Class B Preferred Shares (as determined in the Articles of CubicFarms) plus any dividends declared but unpaid thereon; and (ii) the amount that such holder would have received as a holder of the number of Common Shares into which the Class B Preferred Shares held by such holder would have been convertible, and, in each such case, there shall be no priority of one class of shares over the holders of the other class of shares. If upon liquidation or dissolution the assets of CubicFarms available for distribution are insufficient to make such payments, each holder of Class B Preferred Shares will share rateably in any distribution of the assets available for distribution to the holders of Class B Preferred Shares in proportion to the respective amounts which would otherwise be payable in respect of the Class B Preferred Shares held by them upon such distribution.

### **Share Purchase Warrants**

CubicFarms has issued share purchase warrants, entitling the holders to purchase up to 14,590,096 Common Shares at an exercise price of \$0.19 per Common Share, as follows:



Number of Warrants	Grant Date	Expiry Date	Vesting
14,130,096	May 3, 2018	5 years from the date of listing	5,434,624 Common Shares when 50 units shipped. 2,173,868 Common Shares when an additional 50 units shipped in any 12-month period. 3,260,802 Common Shares on the earlier of (i) 200 units shipped in any 12 month period or (ii) achieving \$4 million EBITDA in any 12 month period. 3,260,802 Common Shares on the earlier of (i) 300 units shipped in any 12 month period or (ii) achieving \$8 million EBITDA in any 12-month period.
460,000	Mar. 20, 2018	Mar. 30, 2023	Milestone-based vesting conditions.

### Stock Options

There are 14,714,337 stock options of CubicFarms (the “**Cubic Options**”) outstanding as of the date of this AIF. The Cubic Options are governed by the terms of CubicFarms’ stock option plan (the “**Cubic Stock Option Plan**”) which was approved by the Board on June 18, 2019. The Cubic Stock Option Plan authorizes the Board to issue stock options to directors, officers, employees and consultants of CubicFarms and its subsidiaries. The purpose of the Cubic Stock Option Plan is to provide an incentive to directors, officers, employees and consultants of CubicFarms, to acquire a proprietary interest in CubicFarms, to continue their participation in the affairs of CubicFarms and to increase their efforts on behalf of CubicFarms. The exercise price of Cubic Options granted under the Cubic Stock Option Plan will be fixed by the Board at the time of grant, provided that the exercise price (a) if the Common Shares are listed on the Exchange, will not be lower than the last closing price for the Common Shares as quoted on the Exchange prior to the date of grant, less any discount permitted by the Exchange; (b) if the Common Shares are listed on the Toronto Stock Exchange, will not be lower than the last closing price for the Common Shares as quoted on the Toronto Stock Exchange prior to the date of grant or, (c) if the Common Shares are not listed on any stock exchange, a price determined by the Board, subject to the rules or policies of any stock exchange or quotation system on which the Common Shares are listed.

#### *Maximum Number of Common Shares Reserved*

The aggregate number of Common Shares that may be issued pursuant to the exercise of Cubic Options granted under the Cubic Stock Option Plan and all other share compensation arrangements of CubicFarms is fixed at 16,835,942, being 20% of the issued and outstanding Common Shares as of the date of listing of the Common Shares on the TSXV.

#### *Transferability*

The Cubic Options are not assignable or transferable.

#### *Term and Vesting*

The term of Cubic Options granted shall be determined by the Board in its discretion, up to a maximum of 10 years from the date of the grant of the Cubic Option. The vesting period or periods within this period during which a Cubic Option or a portion thereof may be exercised shall be determined by the Board. Further, the Board may, in its sole discretion, at any time, in the agreement in respect of the Cubic Option grant, accelerate or provide for the acceleration of, vesting of Cubic Options previously granted.

### *Early Expiration*

Unless otherwise provided in an agreement evidencing the grant of Cubic Options, Cubic Options shall terminate at the earlier of: (i) immediately upon termination of the Cubic Option holder for cause; (ii) on a date fixed by the Board, which will be no more than one year from the date the Cubic Option holder ceases to be an eligible person under the Cubic Stock Option Plan (other than by reason of death, disability or cause) and if no such date is fixed, 30 days after the Cubic Option holder ceases (other than by reason of death, disability or cause) to be an eligible person; and (iii) if the Cubic Option holder ceases to be an eligible person due to death or disability, the Cubic Option will terminate one year from the date of death or disability of such holder.

## **MARKET FOR SECURITIES**

### **Trading Price and Volume**

The following table sets forth information relating to the trading of the Common Shares on the TSXV during the most recently completed financial year and up to the date of this AIF.

<b>Month</b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Volume</b>
July 2019 <sup>(1)</sup>	1.700	0.700	1,420,988
August 2019	0.960	0.650	567,046
September 2019	0.750	0.550	446,459
October 2019	0.690	0.350	1,393,496
November 2019	0.455	0.285	1,085,861
December 2019	0.640	0.370	665,091
January 2020	0.540	0.370	719,793
February 2020	0.310	0.290	338,485
March 2020	0.280	0.120	864,677
April 2020	0.230	0.210	503,703
May 2020	0.670	0.400	1,045,453
June 2020	0.860	0.600	1,077,195
July 2020	1.240	0.620	1,227,566
August 2020	1.170	0.870	1,398,527
September 2020	1.020	0.710	763,801
October 1-27, 2020	0.830	0.650	835,368

Note:

(1) The Company's Common Shares commenced trading on the TSXV on July 9, 2019.

### **Prior Sales**

The following table summarises the grant and issuance of the securities outstanding but not listed or quoted on a marketplace, convertible or exercisable, as applicable, into Common Shares during the most recently completed financial year and up to the date of this AIF.

Date Granted/Issued	Number of Securities	Security	Exercise/Issue Price
September 03, 2019	10,000	Options exercisable for 10,000 Common Shares	\$0.68
November 14, 2019	100,000	Options exercisable for 100,000 Common Shares	\$0.51
November 30, 2019-	50,0000	Options exercisable for 50,000 Common Shares	\$1.00
December 02, 2019	10,000	Options exercisable for 10,000 Common Shares	\$0.39
June 17, 2020	3,620,000	Options exercisable for 3,620,000 Common Shares	\$0.63

### ESCROWED SECURITIES

The following table summarizes the details of the Company's securities of each class which are held, to the Company's knowledge, in escrow or that are subject to a contractual restriction on transfer:

Name of Securityholder	Designation of Class and Number of Securities in Escrow or Subject to Contractual Restrictions on Transfer	Percentage of Class
David Dinesen	2,844,701 Common Shares <sup>(1)</sup>	2.4%
	575,000 options	1.96%
John De Jonge	1,187,614 Common Shares <sup>(2)</sup>	1.00%
	575,000 options	1.96%
Leo Benne	2,114,017 Common Shares <sup>(3)</sup>	1.77%
	460,000 options	1.57%
John Hoekstra	835,601 Common Shares <sup>(4)</sup>	0.70%
	460,000 options	1.57%
1134129 B.C. Ltd.	2,300,000 Common Shares <sup>(5)</sup>	1.93%
Dihl Grohs	1,924,473 Common Shares <sup>(6)</sup>	1.61%
Craig Livingston	243,801 Common Shares <sup>(6)</sup>	0.20%
Ryan Joens	158,212 Common Shares <sup>(6)</sup>	0.13%
Christopher Campbell	1,924,473 Common Shares <sup>(6)</sup>	1.61%
Brandon Peterson	12,450 Common Shares <sup>(6)</sup>	0.01%
James Lere	12,450 Common Shares <sup>(6)</sup>	0.01%
Sydney Cowan	10,375 Common Shares <sup>(6)</sup>	0.01%

**Notes:**

- (1) Includes 2,141,200 Common Shares owned by WideOcean Strategies Ltd. and 128,801 Common Shares owned by Carolynne Dinesen.
- (2) Includes Common Shares controlled by John De Jonge and Denise De Jonge jointly as well as Common Shares controlled by Comfort Holdings Ltd. which is controlled by Mr. De Jonge.
- (3) Includes 1,818,466 Common Shares owned by C.G.M. Ventures Inc. over which Mr. Benne exercises control and direction.
- (4) Includes 607,367 Common Shares owned by C.G.M. Ventures Inc. over which Mr. Hoekstra exercises control and direction.
- (5) 1134129 B.C. Ltd. is not controlled by any director or officer of the Company.
- (6) Total 4,286,232 Common Shares being held in escrow and will dealt with accordance with the terms of Escrow Agreement (former HydroGreen shareholders)

The remainder of the Common Shares referenced in Notes 1-5 above will be released on January 5, 2021. The remainder of the Common Shares referenced in Note 6 above will be released in two stages with one half being released on January 1, 2021 and the remainder on July 1, 2021 Computershare Investor Services Inc. is the depository for the escrowed securities.

## DIRECTORS AND OFFICERS

### Name, Occupation and Security Holding

The Company's directors are elected by the shareholders at each annual meeting and hold office until the next annual meeting at which time they may be re-elected or replaced. Casual vacancies on the Board are filled by the remaining directors, in accordance with the articles of the Company, and the persons filling those vacancies hold office until the next annual general meeting at which time they may be re-elected or replaced. The officers are appointed by the Board and hold office at the pleasure of the Board.

The following table sets forth the name of each of our directors and executive officers, their province or state and country of residence, their position(s) with the Company, their principal occupation during the preceding five years and the date they first became a director of the Company.

Name, Province and Country of Residence	Principal Occupation for Past Five Years	Director or Officer of CubicFarms Since	Number and Percentage of Securities Beneficially Owned, Controlled or Directed
Leo Benne British Columbia, Canada Director	President and General Manager of Bevo Farms Ltd.	February 11, 2016	7,478,067 <sup>(1)</sup> Common Shares (6.27% of Common Shares) 2,100,000 Cubic Options
Jeffrey Booth <sup>(7)</sup> British Columbia, Canada Director and Chairman	President – 5 Booths Consulting Nov 2017 – present  Previous President & CEO, Co-Founder – BuildDirect Technologies	December 19, 2019	180,700 <sup>(2)</sup> Common Shares (0.15% of Common Shares) 840,000 Cubic Options
Daniel Burns <sup>(7)</sup> British Columbia, Canada Director	Corporate Director	Director as of May 7, 2019 and Non-Executive Chairman as of May 3, 2019	400,000 Cubic Options
John De Jonge British Columbia, Canada Director	President of Artex Barn Solutions	October 10, 2016	4,869,158 <sup>(3)</sup> Common Shares (4.08% of Common Shares) 2,900,000 Cubic Options 14,130,093 Warrants convertible into the same number of Common Shares <sup>(4)</sup>

Name, Province and Country of Residence	Principal Occupation for Past Five Years	Director or Officer of CubicFarms Since	Number and Percentage of Securities Beneficially Owned, Controlled or Directed
David Dinesen British Columbia, Canada Director, President and Chief Executive Officer	President and Chief Executive Officer of CubicFarms. President and CEO of WideOcean Strategies Ltd.	October 8, 2015	6,551,273 <sup>(5)</sup> Common Shares (5.49% of Common Shares) 2,860,000 Cubic Options
Michael McCarthy <sup>(7)</sup> British Columbia, Canada Director	Vice President - Business Solutions at Telus	December 19, 2018	350,000 Cubic Options
Chris Papouras Texas, USA Director	President of Nabors Drilling Solutions from July 1991 to June 2018	September 17, 2020	Nil
Tim Fernback British Columbia, Canada Chief Financial Officer	Chief Financial Officer, CubicFarms March 2020 – present	March 5, 2020	84,900 <sup>(6)</sup> Common Shares (0.07% of Common Shares) 680,000 Cubic Options
Rodrigo Santana British Columbia, Canada Chief Operating Officer	Chief Operating Officer, CubicFarms June 2019 – present  Chief Operating Officer / Chief Financial Officer, Sacré-Davey Engineering, May 2017 – June 2019  VP Corporate Development Sacré-Davey Engineering	September 19, 2019	71,500 Common Shares (0.06% of Common Shares) 680,000 Cubic Options

**Notes:**

- (1) Includes 6,273,865 Common Shares owned by C.G.M. Ventures Inc. over which Mr. Benne exercises control and direction.
- (2) Includes 116,200 Common Shares owned by Booths Consulting Inc., a company controlled by Jeffrey Booth and 24,500 Common Shares owned by Kelly Booth.

- (3) Includes 1,541,920 Common Shares owned by Comfort Holdings Ltd. and 36,700 Common Shares owned by Dejonge Family Farms Ltd., companies controlled by John De Jonge.
- (4) Includes 14,130,096 common share purchase warrants issued to Cubic Manufacturing. John De Jonge indirectly controls 51% of the outstanding shares of Cubic Manufacturing.
- (5) Includes 4,423,600 Common Shares owned by WideOcean Strategies Ltd., a company controlled by David Dinesen, 17,170 Common Shares owned by The Blue Ocean Trust, a trust for the benefit of Dave Dinesen's family members and 385,503 Common Shares owned by Carolynne Dinesen.
- (6) Includes 77,400 Common Shares owned by TCF Ventures Corp., a company controlled by Tim Fernback.
- (7) Member of Audit Committee.

As at the date of this AIF, the directors and executive officers of the Company, collectively, beneficially own, directly and indirectly, or exercise control or direction over 22,244,002 Common Shares, representing 19% of the total number of Common Shares outstanding, and 47,959,095 Common Shares, representing 40% of the total number of Common Shares outstanding if all securities to acquire Common Shares held by such group are exercised. The statement as to the number of Common Shares beneficially owned, directly or indirectly, or over which control or direction is exercised by the directors and executive officers of the Company as a group is based upon information furnished by the directors and executive officers.

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

No director or executive officer of the Company is, or within ten years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company (including the Company) that: (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Except as disclosed below, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company: (i) is, or within ten years prior to the date hereof has been, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (ii) has, within ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

- Mr. Burns became the sole independent director of Rubicon Minerals Corporation in August of 2016 after the resignation of the previous board to assist with the restructuring and refinancing of the Company. The Company entered the CCAA in October 2016 and emerged from CCAA proceedings on December 20, 2016 after a successful implementation of the restructuring transaction. Mr. Burns had no previous involvement with the Company prior to his appointment.

No director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **Conflicts of Interest**

Except as disclosed below, there are no existing or potential material conflicts of interest between the Company or a subsidiary of the Company and a director or officer of the Company or of a subsidiary of the Company.

Some of the directors and officers of CubicFarms are also directors, officers and/or promoters of other reporting and non-reporting issuers, including those engaged in the agriculture industry. As a result, potential conflicts of interest may arise.

CubicFarms entered into a Services Agreement with Cubic Manufacturing dated May 3, 2017, as amended and restated on June 18, 2019, and a Warrant Agreement with Cubic Manufacturing dated May 3, 2017, as amended and restated on June 18, 2019. The Services Agreement contemplates Cubic Manufacturing providing services related to the manufacture and installation of the leafy greens System. In order to align the interests of CubicFarms and Cubic Manufacturing, the parties agreed that the compensation payable to Cubic Manufacturing would be on the basis of \$250,000 bonus payments for \$1,000,000 of EBITDA (as determined in the Services Agreement) achieved by CubicFarms per fiscal year, subject to an aggregate maximum of \$2,700,000 of bonus payments. The Service Agreement will terminate on April 1, 2027 unless extended by the parties. In addition, as partial consideration for the services provided under such agreements, CubicFarms issued to Cubic Manufacturing warrants, pursuant to the terms of the Warrant Agreement, to acquire shares of CubicFarms. John De Jonge, a director of CubicFarms, indirectly controls 51% of the issued and outstanding shares of Cubic Manufacturing.

CubicFarms currently has a License Agreement and Equipment Sales Agreement with Zenabis, pursuant to which Zenabis has the exclusive right to utilize the CubicFarms technology for cannabis cultivation and propagation. Leo Benne, a Director of CubicFarms, is also a Director and Officer of Zenabis. John Hoekstra, former Director and former CFO of CubicFarms, is CFO of Bevo, a subsidiary of Zenabis and is the former CFO of Zenabis. Dan Burns, Director and Non-Executive Chairman of CubicFarms, is a Director of Zenabis.

CubicFarms entered into the Investment Agreement with Nu Skin dated January 28, 2019 providing for certain rights of Nu Skin, for so long as Nu Skin and its affiliates beneficially own at least 8% of the outstanding Common Shares, including the Nu Skin Participation Rights and the Nu Skin Top-Up Rights, and the right to designate one nominee for election or appointment on the Board, subject to the terms of the Investment Agreement. As of the date hereof, Nu Skin currently owns 10,879,587 Common Shares, representing 9% of the issued and outstanding Common Shares.

CubicFarms entered into a Reseller Agreement with HGG. HGG has been engaged to help drive the promotion, marketing and sales of HydroGreen Systems. HGG is licensed to use the "HydroGreen" name and trademark in its authorized reseller activities to maintain brand consistency in the marketplace. John De Jonge, a director of the Company, has a non-controlling indirect ownership interest in HGG.

## **PROMOTER**

Leo Benne may be considered a promoter of CubicFarms within the last two most recently completed financial years within the meaning of Canadian securities legislation in that he took the initiative in substantially organizing the business of CubicFarms within the last two years. Mr. Benne beneficially owns, controls or directs, directly or indirectly 7,478,067 Common Shares, which amounts to 6.27% of the issued and outstanding Common Shares. Mr. Benne does not beneficially own, control or direct, directly or indirectly, any Class A Preferred Shares or Class B Preferred Shares in the capital of the Company.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

To the best of Company's knowledge, there are no material legal proceedings by or against the Company or affecting any of its interests as of the date hereof, nor are we aware that any such proceedings are contemplated.

Furthermore, there are no: (a) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during its most recently completed financial year; (b) other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision in the Company; or (c) settlement agreements the Company



entered into before a court relating to securities legislation or with a securities regulatory authority during its most recently completed financial year.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as described below, none of the persons who were directors or executive officers of the Company or a subsidiary of the Company at any time during the Company's last three most recently completed financial years or during the current financial year, no person or company that beneficially owns, or controls or directs (or a combination of both), directly or indirectly, more than 10% of the issued and outstanding Common Shares of the Company, and no associate or affiliate of any such persons, has any material interest, direct or indirect, in any transaction which has materially affected or is reasonably expected to materially affect the Company.

- CubicFarms entered into a Services Agreement with Cubic Manufacturing dated May 3, 2017 as amended and restated on June 18, 2019, and a Warrant Agreement with Cubic Manufacturing dated May 3, 2017 as amended and restated on June 18, 2019. The Services Agreement contemplates Cubic Manufacturing providing services related to the manufacture and installation of the System. In order to align the interests of CubicFarms and Cubic Manufacturing, the parties agreed that the compensation payable to Cubic Manufacturing would be on the basis of \$250,000 bonus payments for \$1,000,000 of EBITDA (as determined in the Services Agreement) achieved by CubicFarms per fiscal year, subject to an aggregate maximum of \$2,700,000 of bonus payments. The Service Agreement will terminate on April 1, 2027 unless extended by the parties. In addition, as partial consideration for the services provided under such agreements, CubicFarms issued to Cubic Manufacturing warrants, pursuant to the terms of the Warrant Agreement, to acquire shares of CubicFarms. John De Jonge, a director of CubicFarms, indirectly controls 51% of the shares of Cubic Manufacturing.
- CubicFarms has entered into the Arrangement Agreement with Bevo and Sun Pharm. The Arrangement Agreement contemplated the Spin-Out of CubicFarms by Bevo, which is now complete, and the reverse take-over of Bevo by Sun Pharm. Prior to the Spin Out, Bevo owned 41.1% of the outstanding Common Shares. This summary is qualified in its entirety by reference to the terms of the Arrangement Agreement, which is available on Bevo's SEDAR profile at [www.sedar.com](http://www.sedar.com). Leo Benne and John Hoekstra (a former director of CubicFarms) were directors of both Bevo and CubicFarms at the time that the Arrangement Agreement was entered into.
- CubicFarms has entered into the Investment Agreement with Nu Skin, which beneficially owns over 10% of the issued and outstanding Common Shares. For so long as Nu Skin and its affiliates beneficially own at least 8% of the outstanding Common Shares, Nu Skin may designate one nominee for election or appointment on the Board, subject to the terms of the Investment Agreement.
- CubicFarms and Zenabis agreed to entered into a License Agreement that provides Zenabis with exclusive access to the CubicFarms technology for cannabis cultivation and propagation so long as Zenabis satisfies certain annual machine purchase thresholds. Leo Benne was a director of Zenabis at the time that the License Agreement was entered into.
- CubicFarms entered into a Reseller Agreement with HGG. HGG has been engaged to help drive the promotion, marketing and sales of HydroGreen systems. HGG is licensed to use the "HydroGreen" name and trademark in its authorized reseller activities to maintain brand consistency in the marketplace. John De Jonge, a director of the Company, has a non-controlling indirect ownership interest in HGG.

### **AUDIT COMMITTEE**

#### **The Audit Committee Charter**

The Company's Audit Committee is governed by an audit committee charter. A copy of the Company's Audit Committee Charter is attached hereto as Schedule "A".

## **Composition of the Audit Committee**

The Company's Audit Committee is comprised of three directors: Jeffrey Booth, Michael McCarthy and Daniel Burns. Mr. McCarthy and Mr. Burns are independent (as defined in NI 52-110).

All of the Audit Committee members are "financially literate", as defined in NI 52-110, as all have the industry experience necessary to understand and analyze financial statements of the Company, as well as the understanding of internal controls and procedures necessary for financial reporting.

The Audit Committee is responsible for the review of both interim and annual financial statements for the Company. For the purposes of performing their duties, the members of the Audit Committee have the right at all times, to inspect all the books and financial records of the Company and any subsidiaries and to discuss with management and the external auditors of the Company any accounts, records and matters relating to the financial statements of the Company. The Audit Committee members meet periodically with management and quarterly with the external auditors.

## **Relevant Education and Experience of Members of the Audit Committee**

Every member in the Audit Committee has sufficient education and experience to perform its responsibilities in relation to the Audit Committee, including:

- Understanding the accounting principles used by the Company to prepare its financial statements;
- Having the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and provisions;
- Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more individuals engaged in such activities; and
- An understanding of internal controls and procedures for financial reporting.

The relevant education and/or experience of each member of the Audit Committee is as follows:

- Jeffrey Booth (Company Executive Chairman, Audit Committee Chairman) is an entrepreneur, angel investor and technology leader, using the application of technology to bring big ideas into reality that positively impact people's lives. He co-founded BuildDirect.com and led the company through various iterations to over \$120 million in revenue. Jeff saw the opportunity to transition that company from a unique e-commerce company to a platform company by using first party data to create AI and machine learning to build a more efficient network supply chain for both buyers and sellers.

Jeff has been a Young Presidents' Organization member since 2004, and an active mentor and advisor to numerous companies. He contributes time on the BC Tech Hypergrowth advisory board and is a G7 Fellow on the Creative Destruction Lab (CDL West). He was named the BC TECH person of the year in 2015 and Goldman Sachs 100 most intriguing Entrepreneurs in 2016. Jeff also served on the Board of Coastal Contacts (a public company through their sale to Essilor for \$435 million) and currently serves on the Boards of Terramera Inc., Risetech Capital Corp., SPUD.ca, RTOWN, EZ-Robot and the Richmond Hospital Foundation as well as numerous advisory boards of start-ups.

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- Michael McCarthy (Independent Director) held a senior executive role at TELUS (one of Canada's largest corporations) for 9 years (2010 - 2019). His responsibilities included managing P&L, bid management, competition law compliance, financial accounting and regulatory compliance. Mr. McCarthy has a B.Sc Computer Science / Mathematics from McMaster University.
- Daniel Burns (Independent Director) is a lawyer, accountant and entrepreneur. He is the CEO of NDC Solutions Inc, a software development company that has developed alternative booking solutions for major airlines. He was the first ICD certified director British Columbia and is an experienced corporate director

with regulated and public companies. Mr. Burns has an Master of Business Administration from the Rotman School of Management, University of Toronto and a Global Executive Master of Business Administration from the University of St. Gallen, Switzerland.

Since the commencement of the most recently completed financial year, the Company has not relied on the exemptions contained in sections 2.4, 3.2, 3.4, 3.5 or Part 8 of NI 52-110.

### **Audit Committee Oversight**

At no time since the commencement of the Company's most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate CubicFarms' external auditor, MNP LLP, not adopted by the Board.

### **Pre-Approval Policies and Procedures**

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services as set out in the Audit Committee Charter of the Company.

### **External Auditor Service Fees**

In the following table, "audit fees" are fees billed by the Company's external auditor for services provided in auditing the Company's annual financial statements for the subject year. "Audit-related fees" are fees not included in audit fees that are billed by the auditor for assurance and related services that are reasonably related to the performance of the audit review of the Company's financial statements. "Tax fees" are fees billed by the auditor for professional services rendered for tax compliance, tax advice and tax planning. "All other fees" are fees billed by the auditor for products and services not included in the foregoing categories.

The aggregate fees billed by the Company's external auditor in the last two financial years, by category, are as follows:

<b>Financial Year Ended</b>	<b>Audit Fees</b>	<b>Audit Related Fees<sup>(1)</sup></b>	<b>Tax Fees<sup>(2)</sup></b>	<b>All Other Fees</b>
June 30, 2019	\$92,610	\$25,610	\$4,000	\$Nil
June 30, 2020	\$96,000	\$51,164	\$13,723	\$73,535

#### **NOTES:**

- (1) Audit-Related Fees consist of quarterly reviews, financial, accounting and income tax matters for quarterly reviews.
- (2) Tax Fees consist of the preparation of tax returns, tax compliance, tax advice and tax planning.

### **TRANSFER AGENT AND REGISTRAR**

Computershare Investor Services Inc., at its principal offices in Vancouver, British Columbia, is the transfer agent and registrar for the Common Shares.

### **MATERIAL CONTRACTS**

The only material contracts that the Company has entered into (i) since the beginning of its most recently completed financial year or (ii) before the beginning of its most recently completed financial year and that are still in effect, other than contracts entered into in the ordinary course of business, are as follows:

- CubicFarms entered into an agreement and plan of merger with HydroGreen and the shareholders of HydroGreen dated December 10, 2019 pursuant to which CubicFarms, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of HydroGreen.

#### **INTERESTS OF EXPERTS**

The Company's auditors are MNP LLP of 1021 West Hastings Street, Suite 2200, Vancouver, BC V6E 0C3. MNP LLP have advised that they are independent of the Company in accordance with the auditor's rules of professional conduct in a jurisdiction of Canada.

#### **ADDITIONAL INFORMATION**

Additional information relating to CubicFarms may be obtained from SEDAR at [www.sedar.com](http://www.sedar.com) under the Company's profile.

Additional financial information is provided in the Company's most recent audited financial statements and management discussion and analysis, which are available on SEDAR at [www.sedar.com](http://www.sedar.com) under the Company's profile.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, are contained in the Company's information circular for its most recent annual meeting of shareholders.

**SCHEDULE "A"**  
**AUDIT COMMITTEE CHARTER**

*[See attached.]*

## **SCHEDULE “A”**

### **AUDIT COMMITTEE CHARTER CUBICFARM SYSTEMS CORP. (the “Company”)**

#### **I. PURPOSE**

#### **II.**

The Audit Committee Charter (the “Charter”) outlines the duties and responsibilities of the Audit Committee (the “Committee”) is, subject to applicable laws and the Company’s constituting documents, to:

- (a) assist the board of directors (the “Board of Directors” or “Board”) of the Company in fulfilling its oversight responsibilities by reviewing and reporting on the financial information which will be provided to shareholders and others, the system of corporate internal controls which management and the Board have established, and the audit process;
- (b) identifying the principal risks of the Company and its subsidiaries and ensuring the implementation of appropriate systems to monitor those risks;
- (c) reviewing accounting principles, capital budgeting and major transactions (acquisitions, divestitures and funding);
- (d) increasing the credibility and objectivity of financial reports;
- (e) facilitating better communication between director of the Company (the “Directors”) and the external auditor;
- (f) enhancing the independence of the external auditor; and
- (g) reviewing compliance with applicable legal and regulatory requirements.

#### **III. COMPOSITION AND TERM OF OFFICE**

- (i) Members of the Committee are appointed for a one (1) year term at the first meeting of the Directors of the Company following the Annual General Meeting. Members of the Committee may be removed from office or replaced at any time by the Board. Any member shall cease to be a member upon ceasing to be a Director. Each member of the Committee shall hold office until the close of the next annual meeting of shareholders of the Company or until the member ceases to be a director, resigns or is replaced, whichever first occurs.
- (ii) The Committee is comprised of not less than a majority of independent Directors who are financially literate (i.e. have the ability to read and understand a set of financial statements such as a balance sheet, an income statement and a cash flow statement) and at least one member shall have an accounting designation or related financial expertise.
- (iii) The Chair of the Committee shall be appointed by the Board of Directors. In the absence of the appointed Chair from any meeting of the Committee, the members shall elect a Chair from those in attendance to act as Chair of the meeting.
- (iv) The Chief Financial Officer (“CFO”) will act as the management liaison for the Committee.
- (v) The Committee will meet not less than four (4) times per year.
- (vi) The quorum for the Committee is a majority of members.

#### IV. **FINANCIAL REPORTING**

The Committee will have the following duties and responsibilities:

- (i) Review and recommend to the Board the annual financial reports (AIF, MIC, N.I. 52-110F1, financial statements, MD&A, reports to shareholders and press releases) for approval.
- (ii) If so approved by the Board, review and approve the quarterly financial statements (financial statements, MD&A, reports to shareholders and press releases) and, if not so approved by the board, review and recommend the quarterly financial statements (financial statements, MD&A, reports to shareholders and press releases) to the Board for approval
- (iii) Be satisfied that for all other public disclosures or information that is extracted or derived from the financial statements, that management has procedures in place to review such information, and periodically assess the adequacy of such procedures.
- (iv) Review and approve any other press releases that relate to material financial disclosures.
- (v) Review and recommend any changes to accounting policies to the Board.
- (vi) Review with the auditors any areas of judgment or where estimates have been made, including effects of alternatives under generally accepted accounting principles.

#### V. **OTHER REVIEW PROCEDURES**

The Committee will have the following duties and responsibilities:

- (a) Review with management the opportunities and risks inherent in the business and the effectiveness of the controls thereon, including risk mitigation and management strategies.
- (b) Oversee management reporting on and review of adequacy of internal controls (while it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the Audit Committee to ensure that management has done so).
- (c) Gain reasonable assurance that the Company complies with all applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies and stock exchanges relating to financial reporting and disclosure.
- (d) Confirm or review the Company's disclosure policy.
- (e) Review material transactions (acquisitions, divestitures and funding).
- (f) Review policies and compliance with same that require significant actual or potential liabilities, contingent or otherwise, to be reported to the committee in a timely fashion.
- (g) Approve annually the reasonableness of the expenses of the Executive Chairman, President and CFO.

#### VI. **EXTERNAL AUDITORS**

The Committee will recommend to the Board, for shareholder approval, an external auditor to examine the Company's accounts, control and financial statements on the basis that the external auditor is accountable to the Board and the Committee as representatives of the shareholders of the Company.

The external auditor reports directly to the Committee with unrestricted access and will meet at least quarterly with the Committee. Matters discussed will include the annual audit, quarterly reviews, the quality of the Company's accounting policies and principles, and the adequacy and effectiveness of the Company's internal control and management information systems. In-camera sessions with the external auditors will be held quarterly or as determined by the Committee. In addition, the Committee will have the following duties and responsibilities:

- (a) Provide approval and recommend to the Board the external auditor's remuneration, or their discharge.
- (b) Provide oversight to the audit engagement by way of a direct reporting relationship with the external auditor and ensure their independence.
- (c) Evaluate the audit services provided by the external auditor;
- (d) Review external audit plans for the year.
- (e) Review with the external auditors any difficulties which arose during the course of their engagement and the ongoing relationship with management.
- (f) Obtain and review, at least annually, a written report by the external auditor setting out the auditor's internal quality-control procedures, any material issues raised by the auditor's internal quality-control reviews and the steps taken to resolve those issues.
- (g) Review, at least annually, the relationship between the Company and the external auditor in order to establish the independence of the external auditor.
- (h) Pre-approve all audit and non-audit services to be provided by the external auditor (which may be delegated to one or more members of the Committee for ratification at the next scheduled Audit Committee meeting).
- (i) Review and approve any hiring of partners/employees of the external auditors.

## VII. INTERNAL AUDIT

The Committee will have the following duties and responsibilities:

- (a) Work with management to establish the internal audit department's form and scope.
- (b) Review the internal audit staff functions, including:
  - the purpose, authority and organizational reporting lines; and
  - the annual audit plan, budget and staffing.
- (c) Review, with the CEO and the CFO and others, as appropriate, the Company's internal system of audit controls and the results of internal audits.
- (d) Review and monitor the Company's major financial risks and risk management policies, the effectiveness and efficiency of such policies, and the steps taken by management to mitigate those risks.
- (e) Review the Company's disclosure controls and procedures and internal control over financial reporting (the "Controls"), and consider whether the Controls:
  - provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, if any, is made known to the Company's CEO and CFO,



particularly during the period in which the Company's annual filings are being prepared; and

- provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.
- (f) Meet at least annually with management (including the CEO and CFO), the internal audit staff, and the external auditor in separate executive sessions and review issues and matters of concern respecting audits and financial reporting.
- (g) In connection with its review of the annual audited financial statements and interim financial statements, the Committee will also review the process for the CEO and CFO certifications (if required by law or regulation) with respect to the financial statements and the Company's disclosure and internal controls, including any material deficiencies or changes in those controls.

#### VIII. **OTHER**

The Committee will have the following duties and responsibilities:

- (a) Establish procedures for receipt, retention and treatment of complaints and concerns regarding accounting matters, internal accounting controls and auditing matters or related questionable practices, including anonymous submissions by employees.
- (b) Ensure for each meeting that minutes are recorded, drafted and circulated on a timely basis to committee members.
- (c) Confirm or amend the Committee's charter annually, for review by external auditors and legal counsel and approval by the Board.
- (d) Prior to renewals, review Director & Officer Liability insurance and other corporate insurance coverage.

#### IX. **REVIEW OF CHARTER, AMENDMENT AND WAIVER**

The Board will review and reassess the adequacy of this Charter annually or otherwise as it deems appropriate. These guidelines may be amended or modified by the Board, subject to disclosure and other policies and guidelines of the Canadian Securities Administrators.

**Approved by the Board of Directors:**  
June 25, 2019