CubicFarm Systems Corp.

Consolidated Financial Statements

For the three and six months ended June 30, 2024, and 2023

Notice of No Auditor Review

Under National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

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

Financial Statements **Page**

CubicFarm Systems Corp.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(Amounts expressed in Canadian dollars)

	Notes	June 30, 2024	December 31, 2023
		$	$
Assets			
Current			
Cash		206,050	176,756
Trade and other receivables	7,15	913,781	930,064
Inventory	8	9,239,373	8,881,127
Prepaid expenses and deposits		1,159,388	1,104,900
		11,518,592	**11,092,847**
Non-current			
Prepaid expenses and deposits		-	1,289
Property, plant and equipment	9	14,642	15,631
Investment in associates		20	20
Right-of-use assets	10	2,145,919	2,447,776
		2,160,581	**2,464,716**
Total assets		**13,679,173**	**13,557,563**
Liabilities			
Current			
Trade and other payables	12,15	8,930,291	7,719,591
Earn-out payable	20	410,370	397,494
Customer deposits	11	11,860,422	10,943,162
Lease liability	10	500,331	771,029
Loans and borrowings	13	15,576,396	14,604,995
Warranty provision	14	136,941	141,078
		37,414,751	**34,577,349**
Non-current			
Lease liability	10	1,942,633	2,785,962
Restoration provision	10	110,009	110,009
Loans and borrowings	13	61,340	62,976
		2,113,982	**2,958,947**
Total liabilities		**39,528,733**	**37,536,296**
Shareholders' equity (deficit)			
Share capital	16	102,912,654	101,353,686
Equity reserves	16	11,703,464	10,582,594
Accumulated other comprehensive income/(loss)		427,401	459,714
Deficit		(140,893,079)	(136,374,727)
Total equity (deficit)		**(25,849,560)**	**(23,978,733)**
Total liabilities and shareholders' equity		**13,679,173**	**13,557,563**

Approved on behalf of the Board

(s) Daniel Burns
Director

(s) Michael McCarthy
Director

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

CubicFarm Systems Corp.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(Amounts expressed in Canadian dollars)

	Notes	For the three months ended June 30, 2024	For the three months ended June 30, 2023	For the six months ended June 30, 2024	For the six months ended June 30, 2023
				$	$
Revenue	18				
Systems		130,404	3,291,537	144,582	3,682,567
Consumables		-	9,805	-	45,432
Services		45	21,403	6,280	50,138
		130,449	**3,322,745**	**150,862**	**3,778,137**
Cost of sales	8	(369)	(3,451,387)	(37,499)	(3,837,153)
Gross margin		**130,080**	**(128,642)**	**113,363**	**(59,016)**
General and administrative expenses		(1,756,776)	(1,783,066)	(3,098,193)	(4,524,639)
Selling expenses		(82,346)	(548,630)	(271,404)	(946,853)
Research and development		(280,885)	(542,450)	(621,732)	(1,284,060)
		(2,120,007)	**(2,874,146)**	**(3,991,329)**	**(6,755,552)**
Loss before other income (expense)		**(1,989,927)**	**(3,002,788)**	**(3,877,966)**	**(6,814,568)**
Finance income		1,487	7,962	5,665	18,530
Finance expense	13	(360,925)	(334,661)	(818,477)	(909,590)
Accretion expense	10,13	(322,999)	(277,928)	(668,946)	(575,801)
Net finance (expense) income		**(682,437)**	**(604,627)**	**(1,481,758)**	**(1,466,861)**
Other income (expense)					
Other income		99,097	78,548	155,937	78,563
Fair value change for share appreciation rights	15	(5,236)	-	(10,433)	-
Foreign exchange gain/(loss)		(54,121)	(622,955)	(158,815)	(604,788)
Gain on lease extinguishment	10	6,196	-	859,039	-
Gain on disposal of property, plant and equipment		-	29,287	-	139,487
Provision for expected credit gain/(loss)	7	(20,683)	104,064	(4,356)	(22,193)
		25,253	**(411,056)**	**841,372**	**(408,931)**
Loss before income taxes		**(2,647,111)**	**(4,018,471)**	**(4,518,352)**	**(8,690,360)**
Income taxes recovery (expense)		-	-	-	-
Net loss for the period		**(2,647,111)**	**(4,018,471)**	**(4,518,352)**	**(8,690,360)**
Other comprehensive income (loss)					
Items that may be reclassified to profit or loss:					
Foreign currency translation income (loss)		(12,807)	730,110	(32,313)	747,958
Total comprehensive loss		**(2,659,918)**	**(3,288,361)**	**(4,550,665)**	**(7,942,402)**
Basic and diluted loss per share		**(0.12)**	**(0.17)**	**(0.18)**	**(0.42)**
Weighted average number of shares outstanding		**22,125,865**	**18,927,963**	**25,149,788**	**20,928,576**

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

(Amounts expressed in Canadian dollars)

	Notes	*Number of shares*	*Share capital*	*Equity reserves*	*Accumulated other comprehensive income (loss)*	*Deficit*	*Total equity deficit*
		#	$	$	$	$	$
Balance, December 31, 2022		**20,713,681**	**99,045,198**	**10,269,041**	**640,691**	**(119,923,008)**	**(9,968,078)**
Net loss for the period		-	-	-	-	(8,690,360)	(8,690,360)
Issuance of shares, net of share issuance costs		5,602,700	2,308,488	-	-	-	2,308,488
Warrants issued		-	-	94,234	-	-	94,234
Foreign currency translation		-	-	-	747,958	-	747,958
Share-based payments		-	-	55,985	-	-	55,985
Balance, June 30, 2023		**26,316,381**	**101,353,686**	**10,419,260**	**1,388,649**	**(128,613,368)**	**(15,451,773)**
Balance, December 31, 2023		**26,316,381**	**101,353,686**	**10,582,594**	**459,714**	**(136,374,727)**	**(23,978,733)**
Net loss for the period		-	-	-	-	(4,518,352)	(4,518,352)
Issuance of shares, net of share issuance costs	16	13,173,190	1,558,968	-	-	-	1,558,968
Warrants issued	16,17	-	-	1,075,972	-	-	1,075,972
Foreign currency translation		-	-	-	32,313	-	32,313
Share-based payments	17	-	-	44,898	-	-	44,898
Balance, June 30, 2024		**39,489,571**	**102,912,654**	**11,703,464**	**492,027**	**(140,893,079)**	**(25,784,934)**

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

CubicFarm Systems Corp.

Condensed Interim Consolidated Statements of Cash Flows

(Amounts expressed in Canadian dollars)

	For the six months ended June 30, 2024	June 30, 2023
	$	$
Cash provided by (used for) the following activities		
Operating activities		
Net loss for the period	(4,518,352)	(8,690,360)
Adjustments for:		
Depreciation and amortization	367,771	381,709
Transfer and/or gain on disposal of property, plant and equipment	-	(139,487)
(Gain) Loss on lease extinguishment	(851,363)	(110,323)
Provision for expected credit loss	4,356	22,192
Foreign exchange (gain) loss	191,213	451,365
Finance expense	818,477	909,590
Accretion expense	668,946	575,801
Other income	155,937	58,800
Finance income	(5,665)	(18,530)
Share-based compensation expense	146,041	82,184
Change in fair value for share appreciation rights	10,433	-
Cash used in operations before changes in non-cash working capital	(3,012,206)	(6,477,059)
Changes in non-cash working capital:		
Trade and other receivables	(266,964)	865,558
Inventories	(358,246)	4,182,797
Prepaid expenses and deposits	(48,392)	(1,805,857)
Trade and other payables	1,220,398	39,934
Customer deposits	783,418	(1,866,325)
Warranty provision	(4,137)	(9,498)
Cash used in operating activities	(1,686,129)	(5,070,450)
Interest paid	(577,464)	(590,395)
Interest received	5,665	5,661
Net cash used in operating activities	**(2,257,928)**	**(5,655,184)**
Investing activities		
Additions to property, plant, and equipment	-	20,578
Proceeds from sales of property, plant, and equipment	-	439,749
Net cash used in investing activities	**-**	**460,327**
Financing activities		
Issuance of shares, net of issuance cost	2,634,940	2,402,722
Principal and interest payments on lease	(470,711)	(451,699)
Proceeds from loans and borrowings, net of financing fees	162,505	1,291,141
Principal payments on loans	(5,749)	(746,603)
Net cash from financing activities	**2,320,985**	**2,495,561**
Decrease in cash and cash equivalents	**63,057**	**(2,699,296)**
Effect of movements in exchange rates on cash held	(33,763)	21,299
Cash and cash equivalents, beginning of period	176,756	2,944,924
Cash and cash equivalents, end of period	**206,050**	**266,927**

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

1. Reporting entity

CubicFarm Systems Corp. (the "Company") was incorporated under the Business Corporations Act of British Columbia on October 8, 2015. The Company is domiciled in Canada and its principal address is 7170 Glover Road, Langley, BC, V2Y 0W9.

The Company listed its common shares on the TSX Venture Exchange ("TSX-V") as a Tier 1 issuer in July 2019. On September 1, 2021, the Company uplisted to the Toronto Stock Exchange ("TSX") and commenced trading under the symbol "CUB". On December 18, 2023, the Company delisted its common shares on the TSX to TSXV and commenced trading on December 19, 2023, under the same symbol.

The Company is a local chain agricultural technology company that provides unique automated on site commercial-scale food and livestock feed technologies through research and development, manufacture, and sale of hydroponic growing systems (and ancillary products and services) that provide independent and efficient fresh produce and livestock feed supply. On January 1, 2020, the Company completed the acquisition of all the issued and outstanding shares of Hydrogreen Inc., (formerly named CubicFeed Systems U.S. Corp.), a manufacturer of fully automated hydroponic growing systems that produce live, green animal feed prioritizing animal health and performance.

2. Going concern

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

The Company incurred a total comprehensive loss of $2,659,918 for the three months and total comprehensive loss of $4,550,665 for the six months ended June 30, 2024 (June 30, 2023 - $3,288,361 and $7,942,402). Net cash used in operating activities was $2,257,928 for the six months ended June 30, 2024 (June 30, 2023 - $5,655,184). As at June 30, 2024, the Company has accumulated deficit of $140,893,079. The Company's current liabilities exceed current assets by $25,896,159 as of June 30, 2024, compared with $23,484,502 as of December 31, 2023.

The losses and deficits indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Despite the material uncertainty, these condensed interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, as management believes that the Company will be able to raise sufficient capital to meet its obligations as and when they come due. The going concern basis of accounting assumes that the Company will be able to meet its commitments, continue operations, realize its assets, and discharge its liabilities in the normal course of business. Determining if the Company has the ability to continue as a going concern is dependent on its ability to secure debt and equity financing and to achieve profitable operations. Certain judgments are made when determining if and when the Company will secure debt and equity financing and achieve profitable operations.

These condensed interim consolidated financial statements do not include any adjustments or disclosures that may result should the Company be unable to continue as a going concern. If the going concern assumptions were not found to be appropriate for these condensed interim consolidated financial statements, adjustments might be necessary to classifications and carrying values of assets and liabilities. Such adjustments could be material.

3. Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (IFRSs). As such, they should be read in conjunction with the annual audited consolidated financial statements for the period ended December 31, 2023, and the notes thereto. However, selected notes are included that are significant to understanding the Company's financial position and performance since the last annual consolidated financial statements for the year ended December 31, 2023. These condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency. The amounts in the tables are expressed in Canadian dollars and rounded to the nearest dollar, unless otherwise stated.

(Expressed in Canadian dollars, unless otherwise stated)

3. Basis of presentation (continued)

The Audit Committee of the Board of Directors approved these condensed interim consolidated financial statements on October 29, 2024.

Basis of measurement

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

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated upon consolidation. The principal subsidiaries of the Company and associates to which it is a party are as follows:

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

4. Material accounting policy information

The accounting policies applied in these condensed interim consolidated financial statements are the same as those applied in the Company's consolidated financial statements for the year ended December 31, 2023. The annual consolidated statements are available on SEDAR at www.sedar.com. These policies have been applied throughout the periods reported.

Significant estimates, assumptions, and judgments

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

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

5. New accounting standards issued and effective

Below are new standards, amendments to existing standards and interpretations that have been issued and are effective.

Classification of liabilities as current or non-current

In January 2020, the IASB published narrow scope amendments to IAS 1 Presentation of financial statements. The narrow scope amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date.

The amendments are effective for annual periods beginning on or after January 1, 2024, and applied retrospectively. There was no material impact on the Company's condensed interim consolidated financial statements.

(Expressed in Canadian dollars, unless otherwise stated)

5. New accounting standards issued and effective (continued)

Non-current liabilities with covenants

In October 2022, the IASB published a narrow scope amendment to IAS 1 Presentation of financial statements. After reconsidering certain aspects of the 2020 amendments, noted above in 'Classification of liabilities as current or non-current', the IASB reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which the company must comply after the reporting date do not affect a liability's classification at that date. The amendment is effective for annual periods beginning on or after January 1, 2024, and applied retrospectively. There was no material impact on the Company's condensed interim consolidated financial statements.

6. Cyclicality of operations

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

7. Trade and other receivables

	June 30, 2024	December 31, 2023
	$	$
Trade accounts receivable	1,393,849	1,193,384
Less: Provision for expected credit loss	(1,148,229)	(1,143,842)
Goods and services tax receivable	(17,242)	107,800
Share appreciation rights receivable[1]	379,292	249,339
Other receivable	306,111	523,383
	913,781	**930,064**

[1] Share based compensation (Note 15 & 17)

Aging

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

	June 30, 2024	December 31, 2023
	$	$
Current or under 30 days	5,581	16,966
Past due 31 to 90 days	1,141	4,806
Past due 91 to 360 days	5,556	151,432
Past due more than 360 days	1,381,571	1,020,180
	1,393,849	**1,193,384**

Continuity for provision for expected credit loss on trade accounts receivables

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	1,143,842	1,144,106
Additions/(reversals)	25,070	376,509
Provision for expected credit gain/(loss)	(20,683)	(376,773)
	1,148,229	**1,143,842**

(Expressed in Canadian dollars, unless otherwise stated)

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

Continuity for provision for expected credit loss on trade accounts receivables *(continued)*

For the three and six months ended June 30, 2024, expected credit loss of $20,683 and $4,356, respectively, (June 30, 2023 – credit gain of $104,064 and credit loss of $22,193), was recognized and recorded under other income (expense) in the condensed interim consolidated statements of loss and comprehensive loss. None of the expected credit gain or loss was related to related parties.

8. Inventories

	June 30, 2024	December 31, 2023
	$	$
Hydroponic growing systems	3,688,152	3,187,491
Work in progress	5,551,221	5,693,636
Seeds and other supplies	-	-
Packaging and other	-	-
	9,239,373	**8,881,127**

Hydroponic growing systems ("Systems") are finished goods on hand and available for sale by the Company. The net realizable value of inventory as of June 30, 2024, and December 31, 2023, is higher than the cost. Accordingly, the Company has reported the inventory at cost in the condensed interim consolidated statements of financial position. For the three and six months ended June 30, 2024, inventory in the value of $369 and $37,499 relating to Systems has been recognized as cost of sales in the condensed interim consolidated statement of loss and comprehensive loss (June 30, 2023 - $3,451,387 and $3,837,153).

9. Property, plant and equipment

During the six months ended June 30, 2024, the Company acquired assets with a cost of $nil (June 30, 2023 - $20,578) and disposed assets with a net book value of $nil (June 30, 2023 - $314,800). Depreciation for the six months ended June 30, 2024, was $866 (June 30, 2023 - $134,598).

10. Leases

Right-of-use assets

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	2,447,776	1,944,643
Amendments	-	6,153
Additions	-	2,070,123
Termination of lease	-	(863,680)
Depreciation	(366,905)	(690,506)
Foreign exchange adjustment	65,048	(18,957)
	2,145,919	**2,447,776**

(Expressed in Canadian dollars, unless otherwise stated)

10. Leases (continued)

Lease liabilities

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	3,556,991	2,959,168
Amendments	-	7,862
Additions	-	2,070,123
Termination of lease	(851,363)	(886,408)
Accretion expense	127,922	253,828
Payments	(470,711)	(808,130)
Foreign exchange adjustment	80,125	(39,452)
	2,442,964	**3,556,991**
Current portion	500,331	771,029
Non-current portion	1,942,633	2,785,962

Restoration provision

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	110,009	123,032
Termination of lease	-	(13,519)
Accretion	-	820
Foreign exchange adjustment	-	(324)
	110,009	**110,009**

11. Customer deposits

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	10,943,162	10,931,330
Additions	739,972	4,484,208
Recognized into revenue	-	(3,679,099)
Refund of deposit	-	(513,050)
Foreign exchange adjustment	177,288	(280,227)
	11,860,422	**10,943,162**

Customer deposits consist of funds paid by customers in advance of delivery for Systems based on the sales agreement. The customers may cancel the order prior to shipping of the equipment, subject to certain restocking fees as set in the sales agreement. The order is not cancellable after shipping of the equipment. There are no external restrictions on the use of these deposits. As at June 30, 2024, customer deposits of $8,713,013 were received more than twelve months ago (December 31, 2023 - $7,097,709).

(Expressed in Canadian dollars, unless otherwise stated)

12. Trade and other payables

	June 30, 2024	December 31, 2023
	$	$
Trade payable	7,084,804	6,508,232
Payroll payable	676,272	492,882
Sales and payroll tax payable	123,227	47,246
Accrued expenses	971,555	607,344
Share appreication rights payable[2]	74,433	63,887
	8,930,291	**7,719,591**

[2] Share based compensation (Note 15 & 17)

13. Loans and borrowings

Continuity for all loans and borrowings

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	14,667,971	10,707,631
Additions	162,505	1,065,251
Accretion expense	541,024	947,377
Interest expense	811,964	1,671,415
Interest paid	(577,464)	(797,685)
Principal redraw (payment)	(5,749)	661,251
Loss on debt modification	-	395,000
Reversal of loan forgiveness	-	20,000
Foreign exchange adjustment	37,485	(2,269)
	15,637,736	**14,667,971**
Current portion	15,576,396	14,604,995
Non-current portion	61,340	62,976

Agriculture interest-free loan

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	77,673	79,541
Foreign exchange adjustment	2,516	(1,868)
	80,189	**77,673**
Current portion	80,189	77,673
Non-current portion	-	-

(Expressed in Canadian dollars, unless otherwise stated)

13. Loans and borrowings (continued)

Government relief loan

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	60,000	40,000
Reversal of loan forgiveness	-	20,000
Interest	1,340	-
	61,340	**60,000**
Current portion	-	-
Non-current portion	61,340	60,000

The Company received an interest free loan in total of $60,000 for COVID-19 relief from the Canada Emergency Business Account program. Starting from January 1, 2024, the interest is 5% until the loan is repaid in full. The loan is to be repaid by interest only payments beginning on January 1, 2024, and the balance by December 31, 2025. For the three and six months ended June 30, 2024, the Company recorded $748 and $1,340, respectively, in finance expense on the condensed interim consolidated statement of loss and comprehensive loss (March 31, 2023 - $nil).

Vehicle Loan

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	14,340	25,482
Interest expense	475	1,541
Interest paid	(475)	(1,541)
Principal payment	(5,749)	(10,741)
Foreign exchange adjustment	463	(401)
	9,054	**14,340**
Current portion	9,054	11,364
Non-current portion	-	2,976

On February 16, 2021, the Company obtained a vehicle loan of $39,570 with an annual interest rate of 7.64%. The loan is payable over 48 months commencing April 10, 2021.

(Expressed in Canadian dollars, unless otherwise stated)

13. Loans and borrowings (continued)

Business loan

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	1,885,171	2,128,215
Accretion expense	(2,917)	(16,864)
Interest expense	126,700	249,008
Interest paid	(109,045)	(125,765)
Principal payment	-	(744,423)
Loss on debt modification	-	395,000
	1,899,909	**1,885,171**
Current portion	1,899,909	1,885,171
Non-current portion	-	-

On August 28, 2020, the Company obtained a business loan of $2,500,000. The interest is payable monthly and is currently at a fixed rate of 10%, which is set at a base rate of 4.9% plus a variance of 5.1% per year.

On September 16, 2022, the Company modified the loan agreement where the principal payment for October 2022 to January 2024 was modified to $12,500 and the remaining balance is to be paid over 12 equal payments until the revised maturity date of January 15, 2024, and the loan shall bear interest at the rate of 18% per annum.

In June 2023, the Company modified the loan agreement where the principal payments from October 2023 is a lump sum of $1,217,708 and remaining months will be equal payments of $45,956 until the maturity date of January 15, 2024.

In November 2023, the Company re-signed a new loan agreement, deferring the principal payments from January to July 2024. The increase in interest rates has also been deferred and will be paid in full along with the principal at the end of the agreement. In addition, due to the loan extension, the Company agreed to add an Additional Return in the approximate amount of $395,000, being 5% of the market capitalization outstanding under the financing as of the effective date, which was recorded as loss on debt modification in the consolidated statement of loss and comprehensive loss and additionally $35,000 in amendment fees was recorded under finance expense.

The Lender may elect, at any time, to convert the amount of the Additional Return into common shares of the Company or request full payment in cash.

As at the reporting date, the loan is in default and new terms of repayment are to be determined.

(Expressed in Canadian dollars, unless otherwise stated)

13. Loans and borrowings (continued)

Convertible debentures

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	5,113,219	4,226,932
Initial recognition, net of transaction costs	-	-
Accretion expense	211,372	363,087
Interest expense	261,600	523,200
Interest paid	-	-
	5,586,191	**5,113,219**
Current portion	5,586,191	5,113,219
Non-current portion	-	-

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

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

The fair value of the liability component of the convertible debentures on the date of issuance was assessed to be $4,464,329 based on an estimated market discount rate of 18.7% less the pro-rata portion of transaction costs of $416,172 and will be accreted to the full-face value over the term of the convertible debentures. The liability component will be measured at amortized cost using the effective interest rate method. The residual value of $2,075,670 was allocated to the equity component less the pro-rata portion of transaction costs of $193,497. Income tax recovery of $560,431 associated with the conversion feature and warrants included in the convertible debenture was recognized, resulting in a net increase of $1,321,742 in equity.

As at June 30, 2024, the Company has accrued interest payable of $784,800 on these convertible debentures (December 31, 2023 - $523,200). The convertible loan is in default and terms of repayment are currently in discussion.

(Expressed in Canadian dollars, unless otherwise stated)

13. Loans and borrowings (continued)

Senior secured term loan

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	6,452,317	4,207,461
Initial recognition, net of transaction costs	-	-
Accretion expense	332,569	601,154
Interest expense	421,849	897,666
Interest paid	(467,944)	(670,379)
Principal redraw	-	1,416,415
	6,738,791	**6,452,317**
Current portion	6,738,791	6,452,317
Non-current portion	-	-

On September 20, 2022, the Company entered a 2-year senior secured revolving term loan agreement of $6,400,000, which bears interest at a rate of 10.0% per annum from the date of issue and payable monthly in arrears on the last day of each month. At any time prior to the maturity date, and so long as no event of default has occurred and is continuing, the Company has the option to request an additional amount up to a total principal amount of $8,000,000.

The lender of the term loan also received share purchase warrants in HydroGreen Inc., to purchase 4,825,090 HydroGreen common shares at a purchase price of US$1.00 per common share until any time prior to September 26, 2027.

The fair value of the liability component of the loan on the date of issuance was assessed to be $5,537,329 based on an estimated market discount rate of 19.7% less the pro-rata portion of transaction costs of $463,550. The liability component will be measured at amortized cost using the effective interest rate method. The residual value of $862,671 was allocated to the equity component less the pro-rata portion of transaction costs of $72,217. Income tax recovery of $232,921 associated with the warrants included in the loan was recognized, resulting in a net increase of $557,532 in equity. As of June 30, 2024, the senior secured term loan is in default and terms of repayment are currently in discussion.

Other

As at June 30, 2024, the Company has a loan payable to an Officer of the Company $1,262,262 (December 31, 2023 - $1,065,251). The loan balance represents an unsecured and interest-free borrowing that is due on demand (Note 15).

14. Warranty provision

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	141,078	123,784
Additions	-	29,558
Fulfillment	(4,887)	(11,619)
Foreign exchange adjustment	750	(645)
	136,941	**141,078**

(Expressed in Canadian dollars, unless otherwise stated)

15. Related party transactions

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

Key management compensation

Key management of the Company are members of the board of directors and other key management personnel of the Company. Share-based compensation is equal to the estimated fair value of the instruments granted and recognized over the vesting period. The Company paid and/or accrued the following compensation to key management during the reporting periods:

	For the three months ended		For the six months ended	
	June 30, 2024	**June 30, 2023**	**June 30, 2024**	**June 30, 2023**
	$	**$**	**$**	**$**
Wages and salaries	50,000	137,882	125,000	281,632
Share-based compensation	46,684	295,612	92,416	337,463
	96,684	**433,494**	**217,416**	**619,095**

Other related parties

As at June 30, 2024, Mr. John de Jonge and a company wholly owned by him provided a loan of $1,262,262 to the Company, which is listed in Note 13 under Loans and borrowings (December 31, 2023 - $1,065,251). As the Chief Executive Officer and President of Hydrogreen, Mr. Jonge is considered a related party. This balance represents unsecured, interest-free borrowings that are due on demand. The funds were used to support the Company's working capital and operational needs.

SARs were issued to the Board members of the Company and as of June 30, 2024, a net receivable balance of $304,859 (December 31, 2023 - $185,452) was recorded in trades and other receivable and payable (Note 7 and 12) due from the cash payments settled being greater than fair value of the vested SARs. The following summary of transactions occurred in the years ended:

	June 30, 2024	**December 31, 2023**
	$	**$**
Balance - beginning of period	(185,452)	-
SARs recorded as share based compensation	80,160	653,333
Payments	(210,000)	(455,000)
Fair value change for share appreciation rights	10,433	(383,785)
	(304,859)	**(185,452)**
Trades and other receivable	379,292	249,339
Trades and other payable	(74,433)	(63,887)

(Expressed in Canadian dollars, unless otherwise stated)

16. Share capital

The Company has authorized share capital consisting of:

- an unlimited number of Common Shares without par value or special rights or restrictions attached;
- an unlimited number of Class A Preferred Shares without par value and with certain rights and restrictions attached; and
- an unlimited number of Class B Preferred Shares without par value and with certain rights and restrictions attached. As of June 30, 2024, the Company has no Class A Preferred Shares or Class B Preferred shares issued and outstanding (December 31, 2023 – Nil).

	Common Shares	Share Capital
	#	$
Balance December 31, 2023	26,316,381	101,353,686
Issuance of shares[3]	13,173,190	2,634,939
Transfer from equity reserves	-	(1,075,971)
Balance June 30, 2024	**39,489,571**	**102,912,654**

[3] Common shares issued at an average price of $0.20 per share.

On January 19, 2024, the Company's issued and outstanding common shares were consolidated on the basis of one (1) post-consolidation common share for every ten (10) pre-consolidated common shares. No fractional Common Shares were issued in connection with the Consolidation. All fractional Common Shares arising from the Consolidation were deemed to have been tendered by its registered owner to the Company for cancellation for no consideration. The exercise or conversion price and/or the number of Common Shares issuable under any of the Company's outstanding convertible securities was proportionately adjusted in connection with the Consolidation. As at the date of the consolidation, the Company had 263,163,774 common shares issued and outstanding, and upon consolidation, there were 26,316,381 common shares issued and outstanding.

17. Share based compensation

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

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

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

Share purchase options and warrants continuity schedule:

	Options and warrants	Weighted average exercise price
Balance December 31, 2023	38,445,112	0.19
Cancelled	(38,445,112)	0.19
Granted	10,431,107	0.96
Forfeited	(14,357)	1.06
Expired	(28,714)	0.94
Balance June 30, 2024	**10,388,036**	**0.86**

(Expressed in Canadian dollars, unless otherwise stated)

17. Share based compensation (continued)

Share purchase options outstanding as of June 30, 2024:

Range of Exercise Price	Outstanding	Exercisable	Average remaining life	Weighted average exercise price
$	**#**	**#**	**Years**	**$**
0.01 - 5.00	538,547	356,696	4.12	0.79
5.10 - 10.00	142,500	453,300	1.78	8.10
10.01 - 15.00	76,000	50,664	3.94	13.25
	757,047	**860,660**		

Share purchase warrants outstanding as of June 30, 2024:

Range of Exercise Price	Outstanding	Exercisable	Weighted average remaining life	Weighted average exercise price
$	**#**	**#**	**Years**	**$**
0.01 - 5.00	9,369,389	7,931,889	1.50	0.49
5.10 - 10.00	261,600	261,600	0.92	7.10
	9,630,989	**8,193,489**		

In February 2024, the Company closed the first tranche of its non-brokered private placement and issued 4,505,502 units at a price of $0.20 per unit for gross proceeds of approximately $900,000. Each unit consists of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant (the "Warrants"). Each Warrant entitles the holder thereof to acquire one Common Share of the Company at an exercise price of C$0.25 (the "Exercise Price") per Common Share for a period of 24 months from the date of issuance. The warrants were valued using the Black-Scholes model resulting in fair value of $416,997.

In March 2024, the Company closed the final tranche of its non-brokered private placement and issued 5,792,688 units at a price of $0.20 per unit for gross proceeds of approximately $1,160,000.

Each unit consists of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant (the "Warrants"). Each Warrant entitles the holder thereof to acquire one Common Share of the Company at an exercise price of C$0.25 (the "Exercise Price") per Common Share for a period of 24 months from the date of issuance. The warrants were valued using the Black-Scholes model resulting in fair value of $412,034.

In May 2024, the Company closed the first tranche of its non-brokered private placement and issued 2,875,000 units at a price of $0.20 per unit for gross proceeds of approximately $575,000. Each unit consists of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant (the "Warrants"). Each Warrant entitles the holder thereof to acquire one Common Share of the Company at an exercise price of C$0.25 (the "Exercise Price") per Common Share for a period of 24 months from the date of issuance. The warrants were valued using the Black-Scholes model resulting in fair value of $246,940.

In January 2023, the Company issued SARs to its board members. The fair value of the eligible SARs was calculated using the Black-Scholes valuation model at each vesting period. The SARs were initially recognized as SBC expense and subsequently a gain in change of fair value of $5,236 and $10,433 was recorded for the three and six months ended June 30, 2024, in the condensed interim consolidated statement of loss and comprehensive loss (June 30, 2023 - $(124,085)).

(Expressed in Canadian dollars, unless otherwise stated)

17. Share based compensation (continued)

SARs outstanding and continuity schedule as of June 30, 2024:

	Units	Weighted average exercise price
	#	$
Balance December 31, 2023	48,936,170	0.01
Cancelled	(48,936,170)	0.01
Granted	4,893,617	0.10
Balance June 30, 2024	**4,893,617**	**0.10**

Range of Exercise Price	Outstanding	Exercisable	Weighted average remaining life	Weighted average exercise price
$	#	#	Years	$
0.01 - 5.00	4,893,617	1,626,215	4.42	0.10

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

	For the six months ended June 30, 2024	June 30, 2023
Share price volatility	142 - 145%	112%
Expected dividend yield	$nil	$nil
Employees forfeiture rate	78%	27%
Board of Directors forfeiture rate	0%	0 - 13%
Risk free interest rate	2.93 - 4.25%	2.95 - 4.54%

The details of SBC expense are as follows:

Range of Exercise Price	For the three months ended June 30, 2024	June 30, 2023	For the six months ended June 30, 2024	June 30, 2023
	$	$	$	$
Vendors	-	(3,935)	-	(3,076)
Employees and directors	61,540	(145,160)	125,058	219,370
	61,540	**(149,095)**	**125,058**	**216,294**
General and administrative expenses	61,540	(134,405)	125,058	219,098
Selling expenses	-	(8,332)	-	-
Research and development	-	(6,358)	-	(2,804)
	61,540	**(149,095)**	**125,058**	**216,294**
SARs	40,556	-	80,160	-
Vested options	20,984	(149,095)	44,898	216,294
	61,540	**(149,095)**	**125,058**	**216,294**

As at June 30, 2024, there was $85,497 of total unrecognized compensation cost relating to unvested options (December 31, 2023 - $112,608).

(Expressed in Canadian dollars, unless otherwise stated)

18. Operating segments

For management purposes, the Company is organized into divisions based on its products and services and these are comprised of two separate reportable segments:

- Fresh division sells hydroponic equipment and services to promote leafy green production in a controlled environment. This division includes the head office function and operates in Canada.
- Feed Division sells hydroponic equipment and services to promote live green animal feed production in a controlled environment and operates in the United States.

For the three months ended June 30, 2024	Fresh	Feed	Total
	$	$	$
Revenue	-	130,449	130,449
Gross margin	2,532	127,548	130,080
Net earnings/(loss)	792,380	(3,439,491)	(2,647,111)
Total assets	9,792,387	3,886,786	13,679,173
Total liabilities	(28,311,186)	(11,217,547)	(39,528,733)

For the three months ended June 30, 2023	Fresh	Feed	Total
	$	$	$
Revenue	3,275,623	47,122	3,322,745
Gross margin	(117,375)	(11,267)	(128,642)
Net loss	(3,949,194)	(69,277)	(4,018,471)
Total assets	11,305,521	4,997,940	16,303,461
Total liabilities	(26,858,083)	(4,897,151)	(31,755,234)

For the six months ended June 30, 2024	Fresh	Feed	Total
	$	$	$
Revenue	1,429	149,433	150,862
Gross margin	(44)	113,407	113,363
Net loss	(2,043,479)	(2,474,873)	(4,518,352)
Total assets	9,792,387	3,886,786	13,679,173
Total liabilities	(28,311,186)	(11,217,547)	(39,528,733)

For the six months ended June 30, 2023	Fresh	Feed	Total
	$	$	$
Revenue	3,636,740	141,397	3,778,137
Gross margin	(95,445)	36,429	(59,016)
Net loss	(7,136,070)	(1,554,290)	(8,690,360)
Total assets	11,305,521	4,997,940	16,303,461
Total liabilities	(26,858,083)	(4,897,151)	(31,755,234)

(Expressed in Canadian dollars, unless otherwise stated)

19. Capital management

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

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

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

During the period, the Company's strategy was unchanged from the prior period. The net equity ending balance as of June 30, 2024, and December 31, 2023 was:

	June 30, 2024	December 31, 2023
	$	$
Total Assets	13,679,173	13,557,563
Total Liabilities	(39,528,733)	(37,536,296)
Net Equity	**(25,849,560)**	**(23,978,733)**

20. Financial instruments and risk management

Fair value measurement

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

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

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

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

The carrying value of the Company's cash & cash equivalents, trade and other receivables (excluding SARs amount of $379,292) and trade and other payables (excluding SARs amount of $74,433) approximate fair value due to their immediate and short-term nature.

The carrying amounts of loan payable, lease liabilities and long-term debt approximate their fair value as they are discounted at the current market rate of interest.

The earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at June 30, 2024, the discount rate was estimated to be 30% (December 31, 2023 – 30%).

(Expressed in Canadian dollars, unless otherwise stated)

20. Financial instruments and risk management (continued)

Earn-out payable continuity

	June 30, 2024	December 31, 2023
	$	$
Balance - beginning of period	397,494	1,386,396
Payments	-	-
Foreign exchange	12,876	(32,565)
Fair value change during the period	-	(956,337)
	410,370	**397,494**
Current portion	410,370	397,494
Non-current portion	-	-

The SARs is measured at fair value based on observable inputs and is considered a Level 2 financial instrument. The fair value of the eligible SARs was calculated using the Black-Scholes option valuation model at each vesting period date (Note 15 & 17).

Financial risk management objectives and policies

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at June 30, 2024, the primary risks relating to the use of financial instruments were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. The Company provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at June 30, 2023, three customers accounted for 29%, 25% and 22% of gross trade accounts receivable, respectively (December 31, 2023 - 30%, 26% and 23%).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities.

Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. Accounts payable and accrued liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Management is continuing efforts to increase sales and attract additional equity and capital investors to continue research and development activities, while implementing effective cost control measures to maintain adequate levels of working capital.

(Expressed in Canadian dollars, unless otherwise stated)

20. **Financial instruments and risk management** (continued)

Financial risk management objectives and policies (continued)

Market risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

The Company operates principally in Canada, United States and China, and is therefore exposed to foreign exchange risk arising from transactions denominated in foreign currencies. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the Company's functional currency.

The Company's cash, trade and other receivable, trade and other payable, customer deposits and other current and non-current liabilities are denominated in several currencies and are therefore subject to fluctuation against the Canadian dollar.

The table below summarizes the Company's exposure to the various currencies denominated in the foreign currency as at June 30, 2024, and December 31, 2023, as listed below:

	June 30, 2024		December 31, 2023	
	US dollar	**Chinese renminbi**	**US dollar**	**Chinese renminbi**
	$	**¥**	**$**	**¥**
Cash and cash equivalents	67,210	45,362	77,923	45,359
Trade and other receivables	201,036	1,581,918	225,714	1,908,563
Trade and other payables	(3,716,997)	(157,871)	(3,854,053)	(157,860)
Customer deposits	(5,356,624)	(15,763,200)	(4,948,656)	(15,762,083)
Earn out payable	(300,000)	-	(300,000)	-
Loans payable	(757,216)	-	(69,444)	-
	(9,862,591)	**(14,293,791)**	**(8,868,516)**	**(13,966,021)**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has not made any special arrangements to reduce the related currency risk.

Based on the balances as at June 30, 2024, a 1% increase or decrease in the value of the Canadian dollar exchange rate against all other currencies on this date would result in an increase or decrease of approximately $161,840 (December 31, 2023 – $144,165) in earnings or losses before taxes.

21. Subsequent events

On July 15, 2024, the British Columbia Securities Commission (the “BCSC”) as the principal regulator of the Company issued a failure-to-file case trade order (the “FFCTO”) to the Company under Multilateral Instrument 11-103 - Failure-To-File Cease Trade Orders In Multiple Jurisdictions, prohibiting the trading in or the purchasing of any securities of the Company by any person or company in Canada, including trades in the Company's common shares made through the TSX-V. The FFCTO was issued as a result of the delay in the filing of the Company’s annual audited financial statements for the fiscal year ended December 31, 2023, the related management’s discussion and analysis and annual information form for the fiscal year ended December 31, 2023 and related filings, as well as the Company’s interim financial statements for the three-month period ended March 31, 2024, the related management’s discussion and analysis for the three-month period ended March 31, 2024, and related filings.

On October 2, 2024, the Company filed its annual financial statements and required annual filings for the year ended December 31, 2023. Following the filing of the Required Interim Filings (Q1 and Q2), the Company will file a revocation application to revoke the FFCTO.

On October 17, 2024, the Company filed its first quarter financial statements. Following the filing of the Required Interim Filings (Q2), the Company will file a revocation application
to revoke the FFCTO.