cubicfarms

TECHNOLOGY TO FEED
A CHANGING WORLD

Management's Discussion and Analysis

For the three and nine months ended September 30, 2024

Dated: December 17, 2024

The following Management's Discussion and Analysis ("MD&A") is prepared as of December 17, 2024, and reports on the operating results and financial condition of CubicFarm Systems Corp., (the "Company" or "CubicFarms") for the three and nine months ended September 30, 2024. This MD&A is prepared by management and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2023, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts herein are expressed in Canadian dollars unless stated otherwise.

In this discussion, unless otherwise indicated, a reference to the business and operations of the Company includes the business and operations of CubicFarm Systems Corp. and its wholly owned subsidiaries: CubicFarm Manufacturing Corp., CubicFarm Produce (Canada) Corp., CubicFarm Systems U.S. Corp., HydroGreen Inc. ("HydroGreen"), and CubicFarm Systems (Shanghai) Corp.

The Company's most recent annual information form and other documents and information have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available under the Company's profile at www.sedar.com.

Forward-Looking Statements

Certain statements contained in the following MD&A constitute forward-looking statements. These statements are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "plans", "forecasts", "budgets", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or management, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements related to the Company's ability to: raise sufficient capital to meet its obligations as and when they come due, meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business, enter into sales agreements with new customers, secure incremental cashflow, and secure debt and equity financing and achieve profitable operations. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors including, but not limited to, financial, operational, environmental and political risks, general equity and market conditions. The outcome of these factors may cause the actual results and performance of the Company to be materially different from any plans or results expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements. The Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, however, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward looking information will not be updated unless required by law or securities regulations. For a comprehensive list of the risks and uncertainties applicable to the Company, refer to the Company's annual information form available at www.sedar.com.

The following Management's Discussion and Analysis ("MD&A") is prepared as of December 17, 2024, and reports on the operating results and financial condition of CubicFarm Systems Corp., (the "Company" or "CubicFarms") for the three months ended September 30, 2024. This MD&A is prepared by management and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2023, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts herein are expressed in Canadian dollars unless stated otherwise.

In this discussion, unless otherwise indicated, a reference to the business and operations of the Company includes the business and operations of CubicFarm Systems Corp. and its wholly owned subsidiaries: CubicFarm Manufacturing Corp., CubicFarm Produce (Canada) Corp., CubicFarm Systems U.S. Corp., HydroGreen, Inc. ("HydroGreen"), and CubicFarm Systems (Shanghai) Corp.

The Company's most recent annual information form and other documents and information have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available under the Company's profile at www.sedar.com.

Forward-Looking Statements

Certain statements contained in the following MD&A constitute forward-looking statements. These statements are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "plans", "forecasts", "budgets", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or management, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements related to the Company's ability to: raise sufficient capital to meet its obligations as and when they come due, meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business, enter into sales agreements with new customers, secure incremental cashflow, and secure debt and equity financing and achieve profitable operations. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors including, but not limited to, financial, operational, environmental, and political risks, general equity and market conditions. The outcome of these factors may cause the actual results and performance of the Company to be materially different from any plans or results expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements. The Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, however, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward looking information will not be updated unless required by law or securities regulations. For a comprehensive list of the risks and uncertainties applicable to the Company, refer to the Company's annual information form available at www.sedar.com.

About the Company and Nature of Business

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

The Company listed its common shares on the Toronto Stock Exchange Venture Exchange ("TSXV") as a Tier 1 issuer in July 2019. On September 1, 2021, the Company graduated to Toronto Stock Exchange ("TSX") and commenced trading under the symbol "CUB." 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.

CubicFarms is a local chain agricultural technology company that provides unique automated on-site commercial scale food and livestock feed technologies. CubicFarms' technologies localize food production and convert wasteful long supply chains within the agriculture industry into a more local supply chain. This improves the consumer's access to quality food and maximizes crop yield, all while reducing the environmental footprint of food and feed production. These technologies can provide independent and efficient fresh produce and livestock feed supply in any climate, 365 days a year.

The Company operates in two segments, which are its Feed Division and Fresh Division. The Feed Division (selling hydroponic equipment and services to promote live green animal feed production in a controlled environment) and Fresh Division (selling hydroponic equipment and services to promote leafy green production in a controlled environment) use two distinct technologies that address two distinct markets.

Feed Division

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

This system utilizes a unique process to sprout grains, such as barley and wheat, in a controlled environment with minimal use of land, labour, and water. Automated Vertical Pastures™ is fully automated and performs all growing functions including seeding, watering, lighting, harvesting, and re-seeding – all with the push of a button – to deliver nutritious livestock feed without the typical investment in land, fertilizer, chemicals, fuel, field equipment, and transportation. Automated Vertical Pastures™ not only provides superior nutritious feed to benefit the animal, but also enables significant environmental benefits to the farm with reduced use of land, reduced use of water, and a reduction in harmful methane emissions.

Hydrogreen has added a new stream of revenue in the year ended December 31, 2023, with the addition of Feed as a Service ("FaaS"). FaaS is an innovative agricultural model where HydroGreen builds a regional feed hub facility equipped with Automated Vertical Pastures™ and sells the sprouted-grain nutrition to livestock feeding operations in the area. Having HydroGreen run operations at the feed hub facilities guarantees optimal feed production, quality control, and enhanced animal performance outcomes for producers. The Company has subsequently announced Memorandum of Terms ("MOT") with four companies. These announcements continue to confirm the Company's belief that the FaaS model of establishing localized regional feed hubs to produce and sell feed to local dairy and beef farms is a viable opportunity for the Company.

As of September 30, 2024, the Feed Division has 15 employees and full-time contractors, a decrease of 25% from 20 as of December 31, 2023. While the division has seen a reduction in headcount, the Company has successfully retained key functions to ensure continued smooth operations.

Manufacturing

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

Research and Development

HydroGreen has developed a 12,000 square foot HydroGreen Innovation Center located in Sioux Falls, South Dakota. The HydroGreen Innovation Center currently contains three Automated Vertical Pastures™ and is used for research and development, product testing, customer visits, partner training, and feed trials. The Company has been carrying out additional research and development activities on several of its beta project customer sites.

Fresh Division

The Company's Fresh Division operates using the patented CubicFarm™ System, which contains CubicFarms' patented technology for growing leafy greens and other crops. The CubicFarm System modules address two of the most difficult challenges in the vertical farming industry, being high electricity and labour costs, using unique undulating path technology. CubicFarms' patented Crop Motion Technology™ moves plants to one layer of LED grow lights, unlike typical rack and stack layouts of other vertical farms that use multiple layers of energy-intensive LEDs.

The Company's Fresh Division previously sold small-scale, containerized systems directly to farmers but the lack of scale and the level of selling, general, and administrative expenses required made that business model for the Fresh Division unprofitable. Subsequently, CubicFarms scaled down its Fresh Division to focus on large systems ("FreshHub") to compete with field-grown lettuce.

The Company's high-density FreshHub system occupies one acre of land, and the Company believes the system can replace up to 100 acres of outdoor field growing. FreshHub systems can be located near major population centres for closer access to more reliable, year-round growing indoors with the added flexibility of less land, less water, localized transportation, and significant energy savings.

As of September 30, 2024, the Fresh division has 12 employees and full-time contractors, no change from 12 as of December 31, 2023.

Corporate and operational highlights for the nine months ended September 30, 2024

On January 3, 2024, the Company announced the sale of one HydroGreen GLS 808 machine to a leading agricultural company based in Dublin, Ireland. In this transaction, HydroGreen to supply an additional four GLS 808 machines for a future sale to facilitate a feed center in Dublin that was signed on March 25, 2024.

On January 17, 2024, the Company announced the Company's common shares began trading on the TSXV on a consolidated basis on January 19, 2024. The Board of Directors of the Company authorized the implementation of a consolidation of the Company's issued and outstanding common shares on the basis of one (1) post consolidation common share for every ten (10) pre-consolidation common shares. As at the date of the consolidation, the Company had 263,163,774 common shares issued and outstanding, and upon consolidation, there were approximately 26,316,381 common shares issued and outstanding.

On January 23, 2024, the Company announced a partnership agreement with Hansen Industries to construct two Feed Centers in Visalia, California, each equipped with 20 GLS 808 machines. This agreement is designed to fulfill the previously announced, pre-existing demand for 120 tons of fodder per day of fresh sprouted grains as part of a FaaS offering.

On February 9, 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.

On March 15, 2024, the Company reached a settlement with Burnett Land & Livestock Ltd., LLLP. in the State of Wyoming filed in 2023. The resolution allows HydroGreen to recover 12 commercial GLS 808 production units along with grain sizers, conveyor systems, grain bins, and additional ancillary equipment directly involved in the installation of a HydroGreen feed center. HydroGreen agreed to settle with Burnett Land & Livestock, Ltd., LLLP for the investment made in the physical facility construction. The inventory has subsequently been returned to HydroGreen. Management has determined that the returned inventory is not in a resaleable condition as at the reporting date.

On March 15, 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.

On March 20, 2024, the Company announced the sale of ten HydroGreen GLS 808 and two DGS machines to a leading agricultural company based in New South Wales, Australia, and New Zealand. In this transaction, HydroGreen has also signed an exclusive partnership with BoomA Food Group, a prestigious, technologically advanced food producer.

On March 25, 2024, the Company announced an exclusive sales agreement with Agrotopia for its Middle East operations. Agrotopia has committed to purchasing a minimum of two GLS 808 units in 2024 for those additional markets, followed by a minimum of five units annually from 2025 through 2027. This exclusive partnership emerges from Agrotopia's years of dedicated research and development in the cultivation of wheat and barley sprouts, setting a new standard for highly nutritional livestock feed. Agrotopia and HydroGreen are at the forefront of agricultural innovation, leveraging HydroGreen's patented hydroponic technology. By providing eco-friendly, nutrient-dense feed solutions derived from wheat and barley sprouts, this collaboration aims to transform farming practices, enhance livestock welfare, and significantly reduce environmental impact.

On April 2, 2024, the Company announced FaaS partnership with Plainview Beef Company, a leading beef farm industry based in Jenks, Oklahoma. Within this exclusive agreement, the Company will install two DGS 66 production systems in Wray, Colorado to facilitate an initial feed trial.

On April 15, 2024, the Company engaged a successor auditor, MSLL CPA LLP, to assist with the year end December 31, 2023, and related management discussion and analysis and certifications, and the CEO and CFO certificates delating to the Financial Statements beyond the prescribed filing deadlines.

On May 14, 2024, the Company announced the sale of two DGS machines to an agricultural company based in Utah, USA.

On May 23, 2024, the Company closed a subsequent 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.

On June 13, 2024, the Company announced MOT with a group of local dairy operations based in Chowchilla region in California. The feed center, to be equipped with forty GLS 808 machines and would have the capacity to produce 128 tons of fresh feed per day.

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 September 30, 2024, the related management's discussion and analysis for the three-month period ended September 30, 2024, and related filings.

Environmental, Social, and Governance (ESG)

Beyond selling products that directly and positively impact climate change and improving the use of land and water resources, by localizing food and livestock feed production, the Company and its products promote food security and equality globally.

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

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

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

- Less fresh water used by 95% than traditional farming.
- Seed to feed in 6 days that are grown on-site, reducing long supply chains and feed transport.
- Feed is highly nutritional, full of vitamins, antioxidants, and digestive enzymes.
- Zero pesticides or fertilizer used in the process.
- Significantly less land required to grow the same amount of animal feed.
- Fewer greenhouse gas emissions by about 7% using hydroponic technology.

CubicFarms ESG Disclosure

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

The Company's technologies help significantly reduce the amount of fresh water, land, and energy used by farmers. It is not just using fewer natural resources, it also eliminates the need for pesticides, herbicides, and/or fertilizer.

Environmental Commitments

Sustainability

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

Social Commitments

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

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

Animal Welfare

At CubicFarms, the Company is concerned about animal welfare and uses both animal and plant science knowledge to create technologies that support animal health and wellbeing. The Company research and development team is conducting research and data collection on dairy cattle consuming HydroGreen fresh livestock feed as part of the herd's ration. Preliminary results on a sample of dairy cattle are showing impressive health improvements for close up cows and calves, that showed much better health during the weaning and feeding periods, compared to a sample of non-HydroGreen calves. The nutritious fresh livestock feed grown in HydroGreen Automated Vertical Pastures™ contains high quality protein in the form of amino acids and simple peptides. This results in high quality energy in the form of simple sugars and starches within the feed ration, with readily available nutrients that appear critical for health, growth, production, and reproduction.

The feed palatability, as well as the higher moisture of the HydroGreen fresh feed, improves ration conditioning with less sorting of ingredients by the animals, resulting in a lower incidence of upper respiratory issues due to dust inhalation. Fresh livestock feed is both nutritious and devoid of anti-nutritional factors, such as haemagglutinins, trypsin inhibitors, tannins and pentosans, and phytic acid.

Governance Commitments

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

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

The Company is advised with governance and oversight by the Corporate Governance Committee on the CubicFarms Board of Directors which is composed solely of experienced and independent member Directors. Furthermore, the Corporate Governance Committee has a general mandate to assess all issues that may affect the Company in the areas of corporate governance and to recommend appropriate governance policies to the Board.

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

Subsequent to the period end, the Company has signed several exclusive agreements that mark several milestones in its efforts to extend its market reach internationally in collaboration with strong qualified partners, with an immediate emphasis on the European Union, Australia and New Zealand.

The EU has established a framework aimed at enhancing agricultural practices supported by strategic investment initiatives and government subsidies. These initiatives are geared towards the adoption of new technologies and equipment in agriculture. This approach is facilitating a shift towards more efficient and sustainable methods in the EU's dairy and agriculture sectors. These agreements also pave the way for future development and potential market growth such as Ireland, the United Kingdom, and Middle East. Research and development trials in conjunction with local state agencies and universities will be conducted to further enhance and tailor HydroGreen's technology to meet the agricultural needs of these regions.

HydroGreen's approach goes beyond merely fulfilling immediate feed demands; it's about fostering a sustainable, resilient agricultural landscape, characterized by reduced greenhouse gas emissions and improved animal health.

Highlights subsequent to the nine months ended September 30, 2024

On October 2, 2024, the Company filed its annual financial statements and required annual filings for the year ended December 31, 2023.

On October 17, 2024, the Company filed its first quarter financial statements.

On October 29, 2024, the Company filed its second quarter financial statements. Following the filing of the Required Interim Filings (Q2), the Company has filed a revocation application to revoke the FFCTO.

On November 18, 2024, the Company announced the Annual General Meeting will be held virtually on January 10, 2025.

Discussion of Operations

Revenue

Fresh division		September 30, 2024		September 30, 2023		Change	%
Three months ended	$	-	$	7,754	$	(7,754)	-100%
Nine months ended	$	1,429	$	3,644,494	$	(3,643,065)	-100%

Feed division		September 30, 2024		September 30, 2023		Change	%
Three months ended	$	57,312	$	51,346	$	5,966	12%
Nine months ended	$	206,745	$	192,743	$	14,002	7%

Total		September 30, 2024		September 30, 2023		Change	%
Three months ended	$	57,312	$	59,100	$	(1,788)	-3%
Nine months ended	$	208,174	$	3,837,237	$	(3,629,063)	-95%

The Company's sales fluctuate on a quarter-by-quarter basis, leading to financial results fluctuating from period to period. The Company has three main sources of revenue: sales of indoor growing technologies, services, and consumables. Consumables include produce sales, parts, seeds, nutrients, fertilizers, and substrates. Services include customer support subscriptions, consulting, and feed as a service.

There were $nil sales within the Fresh Division for the three months ended September 30, 2024. Sales within the Feed division for the three months ended September 30, 2024, were mainly from the sales of parts. In comparison, sales within the Fresh Division for the three months ended September 30, 2023, were similar in nature of parts of $7,754. Sales within the Feed division for the three months ended September 30, 2023, included systems revenue of $18,469 from sale of parts, revenue of $19,420 from the sale of feed as a service and revenue of $13,457 from services.

For the nine months ending September 30, 2024, sales in the Feed Division were primarily generated from system and parts, with a smaller contribution from feed as a service and consulting services. One sale accounted for 59% of the total revenue from the Feed division for the nine months ended September 30, 2024, resulting from the sale of one system. Additionally, one customer has accounted for 23% of the revenue for the Feed division from the sale of parts.

In comparison, for the nine months ending September 30, 2023, the Fresh Division reported systems revenue of $3,591,308 from the installation and commissioning of 20 CubicFarms systems. One customer represented 95% of the total revenue for the nine months ending September 30, 2023, from the Fresh division. In addition to the 20 systems, there was the completion of the previously delivered Abbotsford project and consumables revenue of $45,432. Sales within the Feed Division for the nine months ended September 30, 2023, included systems revenue of $91,259 and revenue of $50,138 from the sale of feed as a service. The year-over-year revenue decrease reflects the timing of capital raising efforts, which are poised to support successful completion in the coming quarters.

Gross margin

Fresh division	September 30, 2024	September 30, 2023	Change	%
Three months ended	$ 44	$ (50,351)	$ 50,395	100%
Nine months ended	$ -	$ (145,796)	$ 145,796	100%

Feed division	September 30, 2024	September 30, 2023	Change	%
Three months ended	$ 34,539	$ (21,103)	$ 55,642	264%
Nine months ended	$ 147,946	$ 15,326	$ 132,620	865%

Total	September 30, 2024	September 30, 2023	Change	%
Three months ended	$ 34,583	$ (71,454)	$ 106,037	148%
Nine months ended	$ 147,946	$ (130,470)	$ 278,416	213%

For the three months ending September 30, 2024, the gross margin was a gain of $34,583 from the sale of systems in the Feed division that had been previously impaired, with a carrying value of $nil. In contrast, for the three months ending September 30, 2023, the gross margin reflected a loss of $71,454, attributed to higher costs than initially projected on parts and feed as a service.

General and administrative expenses

	September 30, 2024	September 30, 2023	Change	%
Three months ended	$ 1,139,425	$ 1,536,689	$ (397,264)	-26%
Nine months ended	$ 4,237,618	$ 6,147,765	$ (1,910,147)	-31%

The ongoing reduction in general and administrative expenses aligns with the Company's cost-cutting strategy aimed at optimizing operational efficiency. For the three months ending September 30, 2024, general and administrative staffing costs and consulting fees totaled $853,181, marking a 14% decrease compared to the same quarter last year, highlighting the Company's commitment to enhancing efficiency.

Selling expenses

	September 30, 2024	September 30, 2023	Change	%
Three months ended	$ 278,981	$ 181,908	$ 97,073	53%
Nine months ended	$ 550,385	$ 1,128,761	$ (578,376)	-51%

For the three month ended September 30, 2024, selling expenses experienced a $97,073 increase, representing a 53% growth. Staffing costs and consulting fees increased from $161,673 to $262,802 during this period.

This rise was primarily driven by a $152,000 expense incurred from the recognition of prepaid services to a vendor with whom the Company has ceased its business relationship. Despite these expenditures, overall selling expenses remain in alignment with the Company's cost reduction strategy.

Research and development

		September 30, 2024		September 30, 2023		Change	%
Three months ended	$	280,523	$	468,857	$	(188,334)	-40%
Nine months ended	$	902,255	$	1,752,917	$	(850,662)	-49%

For the three months ended September 30, 2024, research and development expenses decreased by $188,334 or 40%. Staffing costs and consulting fees for this period totaled $211,258, down from $296,003 for the same period in 2023, reflecting a reduced headcount. The overall decline in research and development expenses aligns with the Company's ongoing strategy to refocus on the Feed division, which necessitates a lower level of research and development activity during this period.

For the nine months ended September 30, 2024, research and development expenses followed a trajectory consistent with the trend observed in the three-month period of both the current and prior year.

Impairment loss

		September 30, 2024		September 30, 2023		Change	%
Three months ended	$	1,024,478	$	-	$	1,024,478	n.a.
Nine months ended	$	1,024,478	$	-	$	1,024,478	n.a.

For the three and nine months ended September 30, 2024, the impairment loss of $1,024,478 resulted from the high-risk nature of the accounts receivable, which have remained uncollected for an extended period and are primarily from similar customers and products and mainly from the Fresh division. For the nine months ended September 30, 2024, a provision for expected credit loss has been reversed and the net impact of this impairment was a gain of $55,462.

Net finance expense

		September 30, 2024		September 30, 2023		Change	%
Three months ended	$	(682,106)	$	(652,225)	$	(29,881)	5%
Nine months ended	$	(2,163,864)	$	(2,119,086)	$	(44,778)	2%

The net finance expense relates to finance and accretion expenses incurred in the three and nine months ended September 30, 2024.

Net loss

		September 30, 2024		September 30, 2023		Change	%
Three months ended	$	(2,559,336)	$	(2,211,560)	$	(347,776)	16%
Nine months ended	$	(7,077,688)	$	(10,901,920)	$	3,824,232	-35%

The Company's net loss for the third quarter of 2024 increased by $347,776 compared to the same period in the previous year. This increase was primarily attributable to unfavorable foreign exchange rate movements. Over the first nine months of 2024, the Company successfully decreased its net loss by approximately $3.8 million or 35%. This reduction was achieved through persistent efforts to optimize operations and maximize efficiency, despite the Company's current resource limitations and operational challenges.

Use of Proceeds

The following table provides a comparison between the expected and actual use of proceeds from the Company's financing activities as of reporting date:

Month	Expected Amount per Prospectus	Actual Amount Received	Use of Proceeds	Expected	%	Actual	%
Mar-23	$ 2,551,350	$ 2,551,350	Working capital and general corporate purposes	$ 2,551,350	100.0%	$ 2,551,350	100.0%
Jun-23	$ 400,000	$ 400,000	Working capital and general corporate purposes	$ 400,000	100.0%	$ 400,000	100.0%
Mar-24	$ 2,060,000	$ 2,060,000	Working capital and general corporate purposes	$ 2,060,000	100.0%	$ 2,060,000	100.0%
May-24	$ 575,000	$ 575,000	Working capital and general corporate purposes	$ 575,000	100.0%	$ 575,000	100.0%

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

Summary of Quarterly Results

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

Period	Revenue $	Net income (loss) for the period $	Basic and fully diluted income (loss) per share $
October 01, 2022 - December 31, 2022	175,920	(29,842,639)	(1.35)
January 1, 2023 - March 31, 2023	455,392	(4,671,889)	(0.22)
April 1, 2023 - June 30, 2023	3,322,745	(4,018,471)	(0.21)
July 1, 2023 - September 30, 2023	59,100	(2,211,561)	(0.10)
October 01, 2023 - December 31, 2023	469,943	(5,549,798)	(0.26)
January 1, 2024 - March 31, 2024	20,413	(1,871,241)	(0.07)
April 1, 2024 - June 30, 2024	130,449	(2,647,111)	(0.12)
July 1, 2024 - September 30, 2024	57,312	(2,559,336)	(0.06)

There is no established seasonality trend at this stage of the Company's development. Revenue from product sales is recognized when the risk and control of the goods are transferred to the customer, typically at delivery or when title is transferred. Revenue from services is recognized upon the completion of the service and receipt of the customer's sign-off. Revenue from licenses and subscriptions is recognized over the duration of the license or subscription period.

Additionally, factors beyond the Company's control, such as the customer's ability to obtain permits, complete site preparations, and manage ocean freight and shipping delays, as well as weather and other transportation issues, may impact the timing of module deliveries.

In January 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. The calculation of basic and diluted loss per share is based on the number of shares retrospectively after the share consolidation.

During the three and nine months ended September 30, 2024, the Company's revenues were primarily derived from sales of systems and parts, and provision of services.

Liquidity and Capital Resources

As at September 30, 2024, current liabilities less current assets were $28,013,110 compared to $23,484,502 as at December 31, 2023. The decrease is primarily due to an increase in trade and other payables, customer deposits, and loans and borrowings.

Majority of the working capital is relating to loans payable that has been in default as at reporting date and trades payable due to the cash constraints the Company is facing at this time. The Company is in the process of renegotiating the maturity dates for the loans and is confident that an extension will be granted. This will greatly alleviate the short-term demands on the working capital.

Customer balances have exhibited year-over-year growth. The Company anticipates completing several major projects in the first and second quarters of FY2025. As of the reporting date for FY 2024, no customer requests for deposit refunds have been received.

The Company is also negotiating a number of sale deals which it expects to be signed by in the first quarter of FY2025. As the Company has a substantial amount of inventory, these will be used to fulfil the sales with minimal additional costs incurred. As the Company's sales network grows, and as the Feed centers are completed, the Company will be able to generate more consistent revenue.

Operating Activities

Cash outflow from operating activities for the nine months ended September 30, 2024, was $2,600,804, a decrease in cash outflow of 50% compared to $5,222,497 in the prior period.

Investing Activities

Cash inflow from investing activities for the nine months ended September 30, 2024, was $nil, a decrease of cash outflow of $460,154 in the prior period comparative. This reduction in cash outflow was mainly attributed to lower investments in property, plant, and equipment compared to the prior period.

Financing Activities

For the nine months ending September 30, 2024, cash inflow from financing activities was $2,442,532, up from $2,375,020 in the previous period. The minor increase was primarily attributed to increased private placements on equity financing, reduced debt financing and lower principal repayment on loans.

Contractual Amounts Payable

As at September 30, 2024, the Company has financial liabilities which are due on a fiscal year basis as follows:

As at September 30, 2024	Carrying Amount	< 1 Year	1-5 years	5+ Years	Total
	$	$	$	$	$
Trade and other payables	9,868,062	9,868,062	-	-	9,868,062
Earn out payable	405,657	405,657	-	-	405,657
Lease liabilities	2,369,681	1,248,593	1,747,338	1,026,328	4,022,259
Loans liabilities	16,513,443	17,337,383	68,852	-	17,406,235
Total	**29,156,843**	**28,859,695**	**1,816,190**	**1,026,328**	**31,702,213**

As at December 31, 2023	Carrying Amount	< 1 Year	1-5 years	5+ Years	Total
	$	$	$	$	$
Trade and other payables	7,655,704	7,655,704	-	-	7,655,704
Earn out payable	397,494	397,494	-	-	397,494
Lease liabilities	2,959,168	1,156,772	2,313,935	1,749,646	5,220,353
Loans liabilities	10,707,631	17,927,768	66,014	-	17,993,782
Total	**21,719,997**	**27,137,738**	**2,379,949**	**1,749,646**	**31,267,333**

Capital Management

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

The losses and deficits incurred by the Company indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. As of September 30, 2024, the Company had cash and cash equivalents of $18,793.

The Company's financial position has deteriorated in recent months as a result of the inability to raise additional capital through the market due to the FFCTO. Although cost reduction efforts and a focus on essential expenses have helped to minimize the impact, slower-than-anticipated product sales have contributed to a decrease in cash and short-term liquidity.

As of the date of this MD&A, the Company had cash on hand totaling approximately $10,000. The Company expects incremental cash inflow and thus will improve its cash position upon signing of sale agreements with new customers through receipt of progress payments as they arise. The Company is also seeking other strategic options in order to extend its cash runway. There is no guarantee that the Company will be able to raise sufficient capital to extend its cash runway or on terms that will not be detrimental to its current shareholders. These conditions cast significant doubt on the Company's ability to continue as a going concern.

The Company's consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than normal course of business and at amounts different from those in the accompanying consolidated financial statements. These adjustments could be material.

Transactions with Related Parties

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

Key management compensation

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

	For the three months ended		For the nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	$	$	$	$
Wages and salaries	50,000	137,882	175,000	281,632
Share-based compensation	45,581	295,612	137,996	337,463
Total	**95,581**	**433,494**	**312,996**	**619,095**

Other related parties

As at September 30, 2024, Mr. John de Jonge and a company wholly owned by him provided a loan of $1,288,438 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.

In January 2023, the Company issued SARs to its board members. The fair value of the eligible SARs was calculated using the Black-Scholes option valuation model at each vesting period date in the year. The vesting period is on a monthly basis and a cash commitment draw up to $2,300,000.

For the nine months ended September 30, 2024, a gain in change of fair value of $29,898 was recorded in the condensed interim consolidated statement of loss and comprehensive loss (September 30, 2023 - loss of $366,655). As of September 30, 2024, a net receivable balance of $245,941 (December 31, 2023 - $185,452) was recorded in trades and other receivable and payable due from the cash payments settled was greater than the fair value of the vested SARs.

Outstanding Share Data

The Company has authorized share capital consisting of: (i) an unlimited number of common shares without par value or special rights or restrictions attached; (ii) an unlimited number of Class A preferred shares without par value and with certain rights and restrictions attached; and (iii) an unlimited number of Class B preferred shares without par value and with certain rights and restrictions attached. As of December 17, 2024, the Company has no Class A preferred shares or Class B preferred shares issued and outstanding.

As at September 30 and December 17, 2024, the Company had the following number of common shares, options, and warrants outstanding:

	September 30, 2024	Reporting Date
Common shares issued and outstanding	39,489,571	39,489,571
Options	656,915	656,915
Warrants	9,630,989	9,630,989
Total fully diluted shares	**49,777,475**	**49,777,475**

Off-Balance Sheet Arrangements

The Company is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Financial Instruments

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

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

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

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 in the year

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 $346,163) and trade and other payables (excluding SARs amount of $100,222) 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 observable inputs and is considered a Level 2 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 September 30, 2024, the discount rate was estimated to be 30% (December 31, 2023 – 30%).

The continuity for earn out payable is as follows:

	September 30, 2024 $	December 31, 2023 $
Balance – beginning of period	397,494	1,386,396
Foreign exchange	8,163	(32,565)
Fair value change during the year	-	(956,337)
Balance – end of period	**405,657**	**397,494**
Current portion	405,657	397,494
Non-current portion	-	-

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and cash equivalents and receivables are exposed to credit risk.

The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk.

The Company establishes allowances for potentially uncollectible accounts receivable from both customers and associates. As of September 30, 2024, the provision for expected credit loss was $63,243, of which is primarily related to an outstanding rent payment from the same associate. For the year ended December 31, 2023, the provision for expected credit loss totaled $1,143,842, mainly associated with a customer base from system sales, which has since been deemed impaired, with a corresponding reversal of the provision during this quarter. Notably, 83% of this balance is attributed to transactions from the prior year. As of September 30, 2023, three customers represented 48%, 10%, and 7% of the gross trade accounts receivable (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.

Market risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates.

The Company does maintain bank accounts which earn interest at variable rates, but it does not believe it is currently subject to any significant interest rate risk.

Foreign currency risk

The Company 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 currencies as at September 30, 2024, and December 31, 2023, as listed below:

	September 30, 2024		December 31, 2023	
	US dollar	Chinese renminbi	US dollar	Chinese renminbi
	$	¥	$	¥
Cash	6,724	45,352	77,923	45,359
Trade and other receivables	89,383	1,908,293	225,714	1,908,563
Trade and other payables	(4,011,124)	(154,223)	(3,854,053)	(157,860)
Customer deposits	(5,495,144)	(15,759,854)	(4,948,656)	(15,762,083)
Earn-out payable	(300,000)	-	(300,000)	-
Loans payable	(949,100)	-	(69,444)	-
Net exposure	**(10,659,261)**	**(13,960,432)**	**(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 September 30, 2024, a 1% increase or decrease in the value of the Canadian dollar exchange rate against all the other currencies on that date would result in an increase or decrease of approximately $171,057 (December 31, 2023 - $144,165) in earnings or losses before taxes.

Critical Accounting Estimates

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

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

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

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

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

Fair value of financial instruments: When the fair values of financial assets and financial liabilities recorded in the Consolidated Statements of Financial Position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques such as the discounted cash flow (DCF) model.

The inputs to these models, such as discount rates and future cash flows, require a degree of judgment. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

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

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

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

Senior term loan: The allocation of the proceeds from the issuance of loan between the financial liability and warrants issued requires management to use estimates and judgement. In determining the fair value of the financial liability component, the Company estimates the prevailing market interest rate for an equivalent financial instrument.

Disclosure Controls and Internal Controls over Financial Reporting

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

It should be noted that the company is not required to certify the design and evaluation of its ICFR and has not completed such an evaluation, and inherent limitations on the ability of the certifying officers to design and implement, on a cost effective basis, ICFR for the company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Management Review Controls: Due to the significant downsizing in the Company's headcount as a result of its cost reduction measures implemented in 2022, the Company did not consistently have documented evidence of management review controls and did not always maintain segregation of duties between preparing and reviewing analyses and reconciliations with respect to certain processes.

With oversight from the Company's Audit Committee and assistance from a third-party service provider as necessary, management will continue to implement remediation measures related to the identified material weaknesses, including but not limited to the following:

- Review key business processes and controls to determine where further system reliance can improve segregation of duties, and reduce on manual management review controls;
- Improve control tools and templates to assist in the sufficient and consistent documentation of review controls and procedures; and
- Provide training to management and control owners on key control attributes and documentation requirements.

For the three and nine months ended September 30, 2024, there were no material changes in the Company's internal controls over financial reporting or changes to disclosure controls and procedures that materially affect, or would be reasonably likely to affect, the Company's internal control systems.

Additional Information and Approval

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

The Board of Directors has approved the disclosures contained in this MD&A as of December 17, 2024.