CubicFarm Systems Corp.

Condensed Consolidated Interim Financial Statements

For The Three Months Ended March 31, 2022, and 2021

(Unaudited)

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Financial Statements	

CubicFarm Systems Corp.

Consolidated Statements of Financial Position

(Unaudited)

(Expressed in Canadian dollars)

	Notes	March 31, 2022	December 31, 2021
		$	$
Assets			
Current			
Cash and cash equivalents		12,814,993	21,381,366
Trade and other receivables	7	1,447,437	2,126,752
Inventories	8	10,995,340	8,433,461
Prepaid expenses and deposits		3,962,073	3,405,838
		29,219,843	**35,347,417**
Non-current			
Goodwill		1,852,903	1,874,879
Property, plant and equipment	9	10,508,215	9,431,561
Investment in associates		20	20
Intangible assets		5,397,030	5,371,307
Right-of-use assets	10	2,460,675	2,628,770
Prepaid expenses and deposits		23,195	23,195
		20,242,038	**19,329,732**
Total assets		**49,461,881**	**54,677,149**
Liabilities			
Current			
Trade and other payables		4,219,806	4,529,514
Earn-out payable	19	1,705,500	1,762,812
Customer deposits	11	6,099,831	2,233,946
Lease liability		433,985	493,794
Loans payable	12	371,436	371,960
Warranty provision	13	155,233	388,093
		12,985,791	**9,780,119**
Non-current			
Lease liability		1,817,424	1,887,896
Restoration provision		120,750	133,171
Loans payable	12	1,733,849	1,784,751
		3,672,023	**3,805,818**
Total liabilities		**16,657,814**	**13,585,937**
Equity			
Share capital	15	94,791,518	94,701,922
Equity reserves		6,725,969	6,125,986
Accumulated other comprehensive loss		(400,452)	(183,977)
Deficit		(68,312,968)	(59,552,719)
Total equity		**32,804,067**	**41,091,212**
Total liabilities and equity		**49,461,881**	**54,677,149**

Approved on behalf of the Board

Director

Director

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

CubicFarm Systems Corp.
Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)
(Expressed in Canadian dollars)

	Notes	For the three months ended March 31, 2022	March 31, 2021
		$	$
Revenue			
Systems		70,544	3,689,369
Consumables		155,511	152,849
Services		17,857	64,592
		243,912	**3,906,810**
Cost of sales		(133,307)	(2,983,281)
Gross margin		**110,605**	**923,529**
General and administrative expenses		(3,938,348)	(3,228,634)
Selling expenses		(1,689,693)	(629,156)
Research and development		(2,509,018)	(1,140,419)
		(8,137,059)	**(4,998,209)**
Loss before other income (expense)		**(8,026,454)**	**(4,074,680)**
Finance income		395	1,642
Finance expense		(60,683)	(65,456)
Accretion charges		(68,621)	(34,275)
Net finance income (expense)		**(128,909)**	**(98,089)**
Other income (expense)			
Other income		-	665,611
Fair value change for earn-out payments		30,277	(64,935)
Foreign exchange gain (loss)		57,701	(34,836)
Change in fair value of derivative liability		-	(34,393)
Provision for expected credit loss	7	(692,864)	(31,797)
		(604,886)	**499,650**
Loss before income taxes		**(8,760,249)**	**(3,673,119)**
Income taxes		-	(3,969)
Net loss for the period		**(8,760,249)**	**(3,677,088)**
Other comprehensive loss			
Items that may be reclassified to profit or loss:			
Foreign currency translation loss		(216,475)	(209,791)
Total comprehensive loss		**(8,976,724)**	**(3,886,879)**
Basic and diluted loss per share		**(0.05)**	**(0.03)**
Weighted average number of shares outstanding		**178,261,864**	**137,755,758**

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

(Expressed in Canadian dollars)

	Notes	*No of Shares* #	*Share capital* $	*Equity reserves* $	*Accumulated other comprehensive loss* $	*Shares Issuable* $	*Deficit* $	*Total equity* $
Balance, December 31, 2020		**137,704,536**	**49,040,308**	**2,959,756**	**(65,151)**	**-**	**(30,195,336)**	**21,739,577**
Net loss for the period							(3,677,088)	(3,677,088)
Exercise of stock options		282,000	101,420	(46,860)	-	-	-	54,560
Share issuable		-	-	-	-	1,883,250	-	1,883,250
Foreign currency translation		-	-	-	(209,791)	-	-	(209,791)
Share-based payments		-	-	568,495		-	-	568,495
Balance, March 31, 2021		**137,986,536**	**49,141,728**	**3,481,391**	**(274,942)**	**1,883,250**	**(33,872,424)**	**20,359,003**
Balance, December 31, 2021		**178,093,404**	**94,701,922**	**6,125,986**	**(183,977)**	**-**	**(59,552,719)**	**41,091,212**
Net loss for the period		-	-	-	-	-	(8,760,249)	(8,760,249)
Exercise of stock options	15	253,800	89,596	(41,373)	-	-	-	48,223
Foreign currency translation		-	-	-	(216,475)	-	-	(216,475)
Share-based payments	16	-	-	641,356	-	-	-	641,356
Balance, March 31, 2022		**178,347,204**	**94,791,518**	**6,725,969**	**(400,452)**	**-**	**(68,312,968)**	**32,804,067**

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

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(Expressed in Canadian dollars)

	Notes	For the three months ended March 31, 2022	March 31, 2021
		$	$
Cash provided by (used for) the following activities			
Operating activities			
Net loss for the period		(8,760,249)	(3,677,088)
Adjustments for:			
Depreciation - property, plant and equipment	9	220,538	153,070
Depreciation - right-of-use assets	10	172,806	131,029
Amortization of intangible assets		2,291	4,898
Loss on lease extinguishment		93,719	-
Provision for expected credit loss		692,864	31,797
Foreign exchange (gain) loss		(57,701)	34,836
Finance expense		60,683	65,456
Accretion charges		68,621	34,275
Finance income		(395)	(1,642)
Current tax expense		-	3,969
Change in fair value of earnout payable		(30,277)	64,935
Share-based payments expense	16	641,356	568,496
Change in fair value of derivative liability		-	34,393
Cash used in operations before changes in non-cash working capital		(6,895,744)	(2,551,576)
Changes in non-cash working capital:			
Trade and other receivables		(27,209)	(2,121,743)
Contract assets		-	605,279
Inventory		(2,587,370)	970,620
Prepaid expenses and deposits		(556,235)	(350,238)
Trade and other payables		(241,584)	882,973
Customer deposits		3,813,421	(2,326,396)
Warranty provision		(232,860)	39,352
Cash used in operating activities		(6,727,581)	(4,851,729)
Interest paid		(61,011)	(64,898)
Interest received		395	1,642
Income taxes paid		-	(3,969)
Net cash used in operating activities		**(6,788,197)**	**(4,918,954)**
Investing activities			
Additions to property, plant, and equipment	9	(1,474,878)	(449,985)
Additions to intangible assets		(79,399)	-
Loans to associates		-	(37,250)
Net cash used in investing activities		**(1,554,277)**	**(487,235)**
Financing activities			
Issuance of shares, net of issuance cost		-	1,883,250
Exercise of stock options	15	48,223	54,560
Principal and interest payments on lease		(187,170)	(128,778)
Proceeds from loans payable		-	47,155
Principal payment on loans		(77,248)	-
Net cash (used in)/from financing activities		**(216,195)**	**1,856,187**
Decrease in cash and cash equivalents		**(8,558,669)**	**(3,550,002)**
Effect of movements in exchange rates on cash held		(7,704)	(56,778)
Cash and cash equivalents, beginning of period		21,381,366	16,206,535
Cash and cash equivalents, end of period		**12,814,993**	**12,599,755**

The accompanying notes are an integral part of these condensed consolidated interim 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 TSXV as a Tier 1 issuer in July 2019. On September 1, 2021, the Company uplisted to the Toronto Stock Exchange and commenced trading under the symbol "CUB".

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

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. As of March 31, 2022, the Company has not observed any material impairments of its assets or a significant change in the fair value of assets due to the COVID-19 pandemic. Due to the rapid developments and uncertainty surrounding COVID-19 it is not possible to predict the impact it will have on the Company's business, financial position, and operating results in the future. It is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

2. Going concern

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

The Company incurred a total comprehensive loss of $8,976,724 for the three months ended March 31, 2022 (three months ended March 31, 2021 - $3,886,879). Net cash used in operating activities was $6,788,197 for the three months ended March 31, 2022 (three months ended March 31, 2021 - $4,918,954), and the Company has accumulated a deficit of $68,312,968 as at March 31, 2022. The Company has current assets exceeding current liabilities by $16,234,052 as at March 31, 2022, compared with $25,567,298 as at December 31, 2021.

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

2. Going concern (continued)

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

3. Basis of presentation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting.* They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (IFRSs). As such, they should be read in conjunction with the annual audited consolidated financial statements for the period ended December 31, 2021 and the notes thereto. However, selected notes are included that are significant to understanding the Company's financial position and performance since the last annual consolidated financial statements for the year ended December 31, 2021. The interim financial statements are presented in Canadian dollars, which is the Company's functional currency. The amounts in the tables are expressed in Canadian dollars and rounded to the nearest dollar, unless otherwise stated.

The Audit Committee of the Board of Directors approved these condensed consolidated interim financial statements on May 13, 2022.

Basis of measurement

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

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated upon consolidation. The principal subsidiaries of the Company and associates to which it is a party are as follows at March 31, 2022.

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

4. Significant accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements for the year ended December 31, 2021. The annual consolidated statements are available on SEDAR at www.sedar.com. These policies have been applied throughout the periods reported.

(Expressed in Canadian dollars, unless otherwise stated.)

5. Significant estimates, assumptions, and judgments

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

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

Current:	**March 31, 2022**	**December 31, 2021**
	$	**$**
Trade accounts receivable	2,328,324	2,238,447
Less: Provision for expected credit loss	(1,257,253)	(568,063)
Goods and services tax receivable	376,366	386,094
Other receivable	-	70,274
	1,447,437	**2,126,752**

Aging

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

	March 31, 2022	**December 31, 2021**
	$	**$**
Current or under 30 days	205,074	1,233,872
Past due 31 to 90 days	101,697	103,036
Past due 91 to 360 days	1,170,113	588,303
Past due more than 360 days	851,440	313,236
	2,328,324	**2,238,447**

Continuity for provision for expected credit loss on trade accounts receivable

	March 31, 2022	**December 31, 2021**
Opening	568,063	538,212
Net addition during the period	689,190	29,851
Closing balance	**1,257,253**	**568,063**

(Expressed in Canadian dollars, unless otherwise stated.)

7. Trade and other receivables (continued)

For the three months ended March 31, 2022, expected credit loss expense of $692,864 (March 31, 2021 - $31,797) was recognized and recorded under Other income (expense). There was no expected credit loss expense on amounts owing from related parties for the three months ended March 31, 2022 (March 31, 2021 - $31,797).

8. Inventories

	March 31, 2022	December 31, 2021
	$	$
Hydroponic growing systems	9,175,909	7,408,547
Work in progress	1,769,242	997,812
Seeds and other supplies	39,958	10,692
Packaging and other	10,231	16,410
	10,995,340	**8,433,461**

Hydroponic growing systems ("Systems") are finished goods on hand and available for sale by the Company. The net realizable value of inventory as of March 31, 2022, and December 31, 2021, is higher than the cost. Accordingly, the Company has reported the inventory at cost in the Consolidated Statement of Financial Position. For the three months ended March 31, 2022, inventories in the value of $82,294 have been recognized as Cost of sales in the Consolidated Statement of Loss and Comprehensive Loss (March 31, 2021 - $2,649,011).

9. Property, plant and equipment

During the three months ended March 31, 2022, the Company acquired assets with a cost of $1,474,878 (March 31, 2021 - $449,985) and disposed assets with a net book value of $93,914 (March 31, 2021 - $nil). Depreciation for the three months ended March 31, 2022, was $220,538 (March 31, 2021 - $153,070).

10. Right-of-use assets

During the three months ended March 31, 2022, the Company acquired Right-of-use assets with a cost of $146,543 (March 31, 2021 - $nil). Depreciation for the three months ended March 31, 2022, was $172,806 (March 31, 2021 - $131,029). Right-of-use assets in the period was reduced by $130,880 (March 31, 2021 - $nil) as the leases related to these assets were terminated. Loss on extinguishment of lease for the three months ended March 31, 2022, was $93,719 with $4,502 accounted for as general and administrative expenses and $89,217 accounted for as research and development expenses (March 31, 2021 - $nil).

11. Customer deposits

Customer deposits consist of funds paid by customers in advance of delivery for Systems based on the sales agreement. Unless otherwise stated, the customer may cancel the order prior to shipping of the equipment, subject to the following restocking fees. If the customer cancels the order before the manufacturing of the equipment has commenced, the customer shall pay a restocking fee of 10% of the purchase price. If the customer cancels the order thereafter but prior to shipping of the equipment, the customer shall pay a restocking fee of 20% of the purchase price. The order shall not be cancellable after shipping of the equipment. There are no external restrictions on the use of these deposits.

(Expressed in Canadian dollars, unless otherwise stated.)

11. Customer deposits (continued)

	March 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	2,233,946	4,955,509
Additions	3,883,742	1,933,340
Recognized into revenue	(17,857)	(3,328,036)
Refund of deposit	-	(1,326,867)
Balance - end of period	**6,099,831**	**2,233,946**

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

12. Loans payable

The Company received an interest free loan of $60,000 for COVID-19 relief from the Canada Emergency Business Account program; $20,000 of which was received in the twelve months ended December 31, 2021 and $40,000 during the six months ended December 31, 2020. $20,000 of the loan is forgiven if repaid by December 31, 2022, and $10,000 was recognized in other income for the twelve months ended December 31, 2021 (December 31, 2020 - $10,000). If not repaid, the loan may be extended from January 1, 2023 to December 31, 2025. The Hydrogreen subsidiary also received a COVID-19 relief loan of US$112,731 from the Paycheck Protection Program, which bears interest of 1% and is payable in 18 installments starting December 6, 2020 through May 6, 2022. The conditions for loan forgiveness were met by the Company as of December 31, 2020. Hydrogreen also has an Agriculture Loan obtained from South Dakota Value Added Finance Authority ("VAFA") for 45% of HydroGreen's Patent cost, which is payable in sixty monthly installments beginning on March 1, 2022. The loan is interest free if paid before the due date and 12% per annum if not paid when due or if the Company is in default of the terms and conditions of the loan. Currently the Company is in compliance with the loan agreement. As the Company intends to repay the loan when due, no interest has been accrued on the loan. The Company granted VAFA a first priority security interest in the feasibility study for the project proposed in the loan application and any accompanying reports, documents or other information.

	March 31, 2022	December 31, 2021
	$	$
Balance - beginning of period agriculture interest free loans	74,321	74,638
Foreign exchange adjustment	(871)	(317)
Balance - end of period agriculture interest free loans	73,450	74,321
Less: current portion	(12,242)	(12,387)
Non-current portion	**61,208**	**61,934**

(Expressed in Canadian dollars, unless otherwise stated.)

12. Loans payable (continued)

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

Business loan

On July 20, 2020, the Company signed an agreement with the Business Development Bank of Canada ("BDC") for a loan up to $5,000,000. On August 28, 2020, the Company received the first tranche payment of $2,500,000. The principal amount of loan was payable in monthly installments of $50,000 commencing on July 15, 2021, and continuing up to the maturity date of June 15, 2025, on which one balloon payment of $2,650,000 was required. There was also a provision for payment of a variable loan bonus equal to 5% of consolidated enterprise value of up to $33 million and 1% of consolidated enterprise value above $33 million in the event of maturity or payment of loan or occurrence of any other events stipulated in the loan agreement.

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

The initial fair value of the embedded derivative liability related to the variable bonus was estimated to be $595,712 and the residual amount of proceeds of $1,904,288 was allocated to the loan. As a result of debt modification, the Company derecognized the derivative liability in April of 2021.

Business loan continuity

	March 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	2,009,283	1,930,197
Accretion	27,408	85,984
Accrued interest	9,973	10,301
Accrued interest paid	(10,301)	(10,616)
Principal payment	(75,000)	(150,000)
Loss on debt modification	-	568,417
Cash payment of loan bonus	-	(225,000)
Issuance of shares on settlement of loan bonus	-	(200,000)
Loan payable - end of period	1,961,363	2,009,283
Less: current portion	(309,973)	(310,301)
Non-current portion	**1,651,390**	**1,698,982**

(Expressed in Canadian dollars, unless otherwise stated.)

12. Loans payable (continued)

Vehicle Loan

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

	March 31, 2022	**December 31, 2021**
	$	**$**
Balance- beginning of period	33,108	-
Loan payable – Initial recognition	-	39,570
Principal payment	(2,248)	(6,440)
Foreign exchange adjustment	(387)	(22)
Loan payable - end of period	30,473	33,108
Less: current portion	(9,221)	(9,273)
Non-current portion	**21,252**	**23,835**

Continuity for all the loans

	March 31, 2022	**December 31, 2021**
	$	**$**
Balance - beginning of period	2,156,711	2,034,835
Addition	-	59,570
Loan forgiven transferred to other income	-	(10,000)
Accretion	27,408	85,984
Accrued interest	9,973	10,301
Principal payments	(77,248)	(156,440)
Interest paid	(10,301)	(10,616)
Loss on debt modification	-	568,417
Cash payment of loan bonus	-	(225,000)
Issuance of shares on settlement of loan bonus	-	(200,000)
Foreign exchange adjustment	(1,258)	(340)
Balance - end of period	2,105,285	2,156,711
Less: current portion	(371,436)	(371,960)
Non-current portion	**1,733,849**	**1,784,751**

(Expressed in Canadian dollars, unless otherwise stated.)

13. Warranty Provision

	March 31, 2022	December 31, 2021
	$	$
Opening balance	388,093	191,342
Additions	-	276,530
Fulfillment	(232,860)	(79,779)
Ending balance	**155,233**	**388,093**

14. Related party transactions

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

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

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
	$	$
Short term leases	14,562	31,561
Lease payments	31,900	5,000
Office expenses	11,411	37,570

	As on March 31, 2022	As on December 31, 2021
	$	$
Lease liability	363,350	382,930

Key management compensation

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

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
	$	$
Wages and salaries	352,250	382,083
Consulting fees	444,144	301,183
Share-based compensation	315,746	578,433
Total	**1,112,140**	**1,261,699**

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

(Expressed in Canadian dollars, unless otherwise stated.)

14. Related party transactions (continued)

Other related party balances as at March 31, 2022:

	As at March 31, 2022	As at December 31, 2021
	$	$
Accounts payable:		
Bevo Farms	5,819	18,291
Total Accounts payable	5,819	18,291

15. Share capital

The Company has authorized share capital consisting of: (i) an unlimited number of Common Shares without par value or special rights or restrictions attached; (ii) an unlimited number of Class A Preferred Shares without par value and with certain rights and restrictions attached; and (iii) an unlimited number of Class B Preferred Shares without par value and with certain rights and restrictions attached. As of March 31, 2022, the Company has no Class A Preferred Shares or Class B Preferred shares issued and outstanding (December 31, 2021 – Nil).

	Number of common shares	Impact on share capital
	#	$
Balance December 31, 2020	**137,704,536**	**49,040,308**
Issuance of shares (i)	36,205,364	47,189,365
Share issuance costs (i)	-	(3,240,024)
Shares issued to settle liability (ii)	128,205	200,000
Options and warrants exercised (iii)	4,055,299	772,153
Transfer from equity reserves	-	740,120
Balance December 31, 2021	**178,093,404**	**94,701,922**
Options and warrants exercised (iii)	253,800	48,223
Transfer from equity reserves	-	41,373
Balance March 31, 2022	**178,347,204**	**94,791,518**

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

16. Share based compensation

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

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

(Expressed in Canadian dollars, unless otherwise stated.)

16. Share based compensation (continued)

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

Share purchase options and warrants continuity schedule:

	Number of share purchase options and warrants	Weighted average exercise price
	#	$
Balance December 31, 2021	**24,977,042**	**0.66**
Granted	70,000	1.13
Exercised	(253,800)	0.19
Forfeited	(333,204)	0.70
Balance March 31, 2022	**24,980,038**	**0.68**

Share purchase options outstanding at March 31, 2022:

Range of Exercise Price	Options Outstanding	Weighted average remaining contractual life	Weighted Average Exercise price	Options Exercisable
$	#		$	#
$0.01-$0.50	1,755,667	3.89	0.19	1,272,333
$0.51-$1.00	12,621,000	4.02	0.79	10,966,667
$1.01-$1.50	3,700,666	4.27	1.30	866,666
$1.51-$2.00	350,000	4.00	1.59	-
	18,427,333			**13,105,666**

Share purchase warrants outstanding at March 31, 2022:

Range of Exercise Price	Warrants Outstanding	Weighted average remaining contractual life	Weighted Average Exercise price	Warrants Exercisable
$	#		$	#
$0.19	6,552,705	2.71	0.19	6,552,705
	6,552,705			**6,552,705**

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

	Options	
	Three Months Ended March 31, 2022	**Three Months Ended March 31, 2021**
Share price volatility	63%	113%
Expected dividend yield	$nil	$nil
Employee forfeiture rate	27%	20%
Board of Directors forfeiture rate	13%	25%
Risk free interest rate	1.41%	0.26% & 0.40%

(Expressed in Canadian dollars, unless otherwise stated.)

16. Share based compensation (continued)

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

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
	$	$
SBC for vendors	71,583	(25,587)
SBC for employees & directors	569,773	594,082
Total	**641,356**	**568,496**

17. Operating segments

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

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

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

(c) for which discrete financial information is available.

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

Three months ended March 31, 2022.

	Fresh	Feed	Total
	$	$	$
Revenue	225,848	18,064	243,912
Gross margin	100,519	10,086	110,605
Net loss	(6,590,254)	(2,169,995)	(8,760,249)
Total assets	27,942,323	21,519,558	49,461,881

During the three months ended March 31, 2022, The Company earned a significant portion of its sales revenue from three customers in the amount of $194,327. The three customers are located in Canada, with each having their entire revenue reported in the Fresh reportable segment.

Three months ended March 31, 2021.

	Fresh	Feed	Total
	$	$	$
Revenue	3,832,639	74,171	3,906,810
Gross margin	924,695	(1,166)	923,529
Net loss	(2,855,494)	(821,594)	(3,677,088)
Total assets (December 31, 2021)	35,388,719	19,288,430	54,677,149

(Expressed in Canadian dollars, unless otherwise stated.)

17. Operating segments (continued)

During the three months ended March 31, 2021, The Company earned a significant portion of its sales revenue from one customer in the amount of $3,506,561. The customer was located in Canada, with its entire revenue reported in the Fresh reportable segment.

18. Capital management

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

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

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

During the period, the Company's strategy, which was unchanged from the prior year, was to maintain net equity at a positive amount. The net equity at March 31, 2022 and December 31, 2021 was as follows:

	March 31, 2022	December 31, 2021
	$	$
Total Assets	49,461,881	54,677,149
Total Liabilities	(16,657,814)	(13,585,937)
Net Equity	**32,804,067**	**41,091,212**

19. Financial instruments

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

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

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

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

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

The fair value of the Company's loans payable is the sum of expected future cash flows discounted at the market interest rate.

(Expressed in Canadian dollars, unless otherwise stated.)

19. Financial instruments (continued)

The earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at March 31, 2022, the discount rate was estimated to be 17% (December 31, 2021 – 17%).

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

As at March 31, 2022

	FVTPL	Amortized Cost	Fair Value	
Asset (Liability)			**Level 2**	**Level 3**
Cash and cash equivalents	-	12,814,993	-	-
Trade and other receivables	-	1,447,437	-	-
Trade and other payables	-	(4,219,806)	-	-
Earn out payable	(1,705,500)	-	-	(1,705,500)
Loans payable	-	(2,105,285)	(2,076,411)	-

As at December 31, 2021

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

Earn-out payable continuity

	March 31, 2022	December 31, 2021
	$	$
Balance – beginning of period	1,762,812	1,643,033
Foreign exchange	(27,035)	1,466
Fair value change during the year	(30,277)	118,313
Balance – end of period	**1,705,500**	**1,762,812**
Comprised of:		
Current earn-out payments	1,705,500	1,762,812
Non-current earn-out payments	-	-

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at March 31, 2022, the primary risks relating to the use of financial instruments were as follows:

19. Financial instruments (continued)

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 March 31, 2022, one customer accounted for 45% (December 31, 2021 – 27%) of the trade accounts receivable.

Liquidity risk

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

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

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

Market risk

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

Interest rate risk

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

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As at March 31, 2022, the following monetary items are denominated in US dollars:

(Expressed in Canadian dollars, unless otherwise stated.)

19. Financial instruments (continued)

	March 31, 2022	December 31, 2021
	$	$
Cash	859,160	166,656
Trade and other receivables	872,600	1,129,064
Trade and other payables	(1,162,800)	(1,039,306)
Customer deposits	(3,105,036)	(661,602)
Earn-out payable	(1,361,198)	(1,385,363)
Loans payable	(82,943)	(84,736)
Net exposure	**(3,980,217)**	**(1,875,287)**

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

A 10% increase in the value of the US dollar relative to the Canadian dollar would increase the Company's comprehensive loss by approximately $398,000 (December 31, 2021 – increase of $188,000). A 10% decrease in the value of the US dollar relative to the Canadian dollar would decrease comprehensive loss by the same amount.

cubicfarms

TECHNOLOGY TO FEED
A CHANGING WORLD

Management's Discussion and Analysis

For the three months ended March 31, 2022

Dated: May 13, 2022

The following Management's Discussion and Analysis ("MD&A") is prepared as of May 13, 2022, and reports on the operating results and financial condition of CubicFarm Systems Corp., (the "Company" or "CubicFarms") for the three months ended March 31, 2022. This MD&A is prepared by management and should be read in conjunction with the condensed consolidated interim financial statements for the three months ended March 31, 2022, as well as the consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts herein are expressed in Canadian dollars unless stated otherwise.

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

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

Forward-Looking Statements

Certain statements contained in the following MD&A constitute forward-looking statements. These statements are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "plans", "forecasts", "budgets", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or management, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements related to future modules (in particular under the heading "Forward-Looking Guidance"), statements regarding the Company's ability to close sales in the current sales pipeline, continue generating revenues, scale its operations, available funds and use and principal purpose of available funds, and its ability to raise sufficient financing, if and when necessary, to continue its operations. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors including, but not limited to, financial, operational, environmental and political risks, general equity and market conditions. The outcome of these factors may cause the actual results and performance of the Company to be materially different from any plans or results expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements. The Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, however, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward looking information will not be updated unless required by law or securities regulations. For a comprehensive list of the risks and uncertainties applicable to the Company, refer to pages 1-3, and 38-48 of the Company's annual information form available at www.sedar.com.

About the Company and Nature of Business

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

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

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

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

Fresh Division

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

As of March 31, 2022, the Fresh division had 126 employees and full-time contractors, an increase of 77% from 71 as of March 31, 2021.

Production

In September 2020, CubicFarms signed an agreement with Shandong Yuxin Mechanical & Electrical Manufacturing Co., Ltd., ("Shandong Yuxin") (Jining, China) and Viking West Engineered Products Ltd. (Langley, BC, Canada) to establish additional manufacturing capability in China. This additional manufacturing capability increases production capacity to approximately 40 CubicFarms modules per month inside the approximate 320,000 sq. ft. facility operated by Shandong Yuxin.

Research and Development

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

With 14 CubicFarm System modules currently in operation at the Alberta Grow Centre, the Company's R&D plans will be accelerated, and the Company will use this expansion to further test its farm standard operating procedures and improve technological advancements for its indoor growing technologies. While the CubicFarms Innovation Centre facility will focus on leafy green produce such as different varieties of lettuce products, the Alberta Grow Centre will focus on the growing of both herbs and microgreens, as well as testing commercial quantities of various leafy green produce in the final stages of product testing.

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

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

The new software platform is based on enterprise cloud architecture, offering the highest standard of protection and security for customers. This will allow for integrations with 3rd party custom apps and extend into business systems such as ERP or CRM. The fundamental architecture of the platform is based on digital twinning and internet of things (IoT) allowing for 1:1 representation of physical machines enabling simulations, reducing testing times, and enabling complex scenario planning. This coupled with a full data warehouse ensures data integrity by collecting and processing data, enabling robust ML (machine learning) and AI (artificial intelligence) models for production. As data accumulates, the system will become more advanced. This will be a Software as a Service (SaaS) application that runs both CubicFarm and HydroGreen indoor growing technologies.

During the three months ended March 31, 2022, the Company launched Beta, a functioning app that the grow team is using and testing. Key features of the app include:

- Application built on CubicFarms' new enterprise-grade platform.
- Clean, simple design allows users to focus on growing, not learning complex software.
- Farm overview for at-a-glance understanding of status across all modules.
- Simple, yet powerful management of grow protocols with phase-specific controls and guidance.
- Detailed monitoring of grow cycles presented cleanly to highlight insight and highlight required action.
- Manage system access for diverse user roles.
- Receive alerts for action when measures cross defined thresholds that users define.
- Offline control allows for uninterrupted farm operation when an internet connection goes down.
- Access to documentation directly from within the software application.
- Tray-specific dosing.

The Company has also partnered with Microsoft using cloud services such as Azure IoT Hub.

<u>Feed Division</u>

The Company's Feed Division operates using CubicFarms' HydroGreen Grow System, the Company's technology for growing nutritious livestock feed. The HydroGreen Grow System was originally invented by Dihl Grohs, a rancher with operations in South Dakota, Utah and Missouri, and was acquired by the Company along with the acquisition of HydroGreen Inc. on January 2, 2020. Since the acquisition, CubicFarms has improved upon the original

HydroGreen technology and has commercialized two Automated Vertical Pastures™, the DG66 (designed for small family farms of 100 – 500 animals) and the GLS808 (designed for larger commercial farms of 500 – 15,000 + animals).

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

As of March 31, 2022, the Feed Division had 42 employees and full-time contractors, an increase of 83% from 23 as of March 31, 2021.

Manufacturing

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

Research and Development

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

The Company's R&D efforts over the last three months have continued around the commercial development of a larger size of HydroGreen Vertical Pastures™, a combination of several HydroGreen GLS808 machines typically arranged in multiples of six. HydroGreen Vertical Pastures™ operate in a climate-controlled environment where consistent and high-quality crops of fresh feed can be grown automatically year-round.

A dozen of the larger HydroGreen Vertical Pastures™ replaces 500 acres of farmland and uses 95% less water than is used in traditional livestock feed grown in irrigated fields. With up to 25 million pounds of fresh nutritious feed grown per year, it can be added to the feed ration for large cattle herds numbering in the thousands of animals. At the time of this report, a HydroGreen Vertical Pastures™ consisting of 12 GLS808 machines is being constructed for Burnett Land & Livestock Ltd., LLLP ("Burnett"), operating as the Burnett Dairy Cooperative (www.burnettdairy.com) in Carpenter, Wyoming. As announced by the Company on April 6, 2021, this HydroGreen Vertical Pastures™, a beta-test project, is the first installation of the larger commercial scale machines on a large-scale farm. The 12 HydroGreen GLS808 machines, once installed, can produce 80% more fresh livestock feed than HydroGreen's smaller Automated Vertical Pastures™, providing Burnett with up to 72,000lbs of feed daily. As part of the feed ration, that's enough to feed 2,000 animals daily. Burnett will purchase all the daily feed production supply with the option to purchase the modules and expand to accommodate Burnett Dairy's full operational needs. Burnett Land & Livestock Ltd. LLP operations include over 17,000 cattle located on 35,000 acres across the Midwestern and Western United States.

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

Corporate and operational highlights for the three months ended March 31, 2022

On January 12, 2022, the Company announced that Real Leaders® has named CubicFarms as one of the newly selected winners of its 2022 Top Impact Companies from around the world. The 2022 list features a mix of respected impact brands of all sizes and from a variety of industries.

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

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

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

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

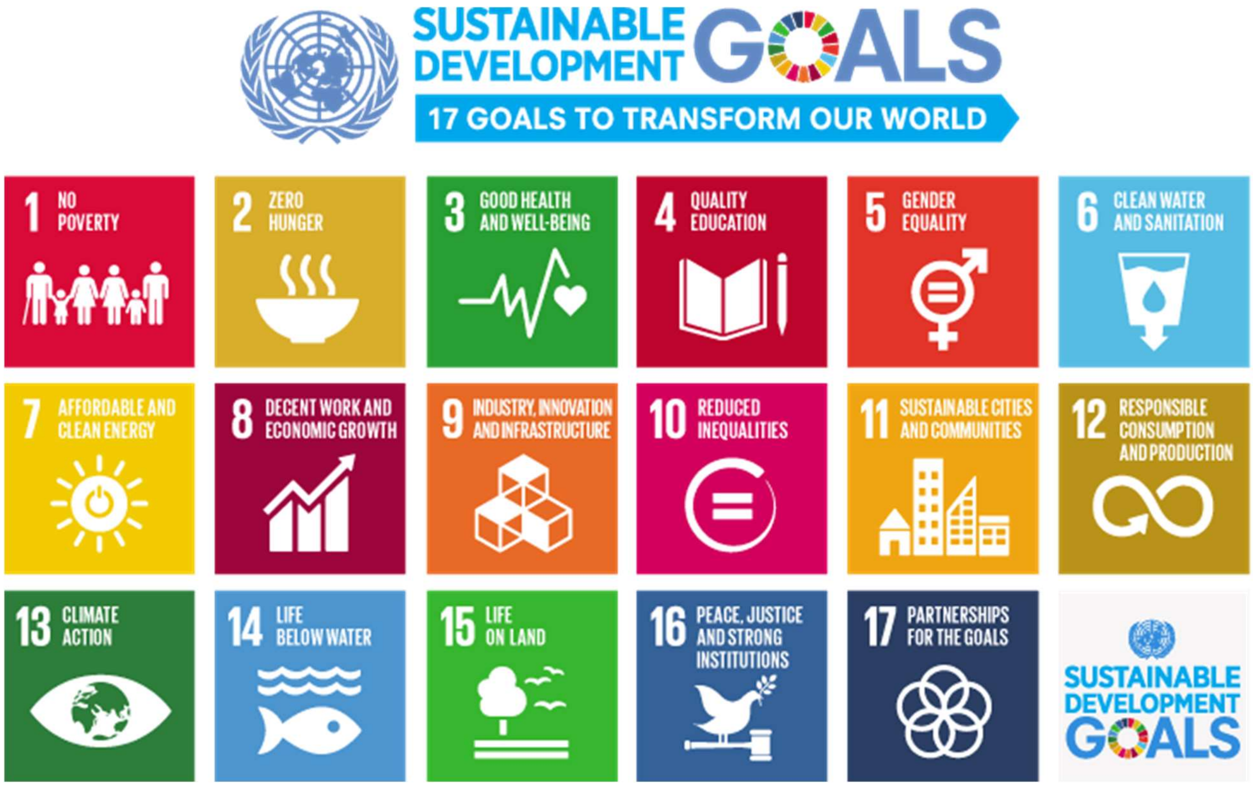
On March 10, 2022, the Company announced that it has appointed Daniel Burns, a member of the Company's Board of Directors, as interim Chief Financial Officer ("CFO"). He will step down as Chair of the Company's Audit Committee to serve as interim CFO, effective April 1, 2022. Burns replaces Tim Fernback,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

On March 11, 2022, the Company announced that South by Southwest® ("SXSW") has recognized the Company's HydroGreen Automated Vertical Pastures™ as one of five finalists in the "New Economy" category of the 2022 SXSW Innovation Awards.

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

Environmental, Social, and Governance (ESG)

The Company is committed to contributing to the Sustainable Development Goals outlined by the United Nations and will expand its reporting in future quarters to include ESG.



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

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

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

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

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

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

CubicFarms ESG Disclosure

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

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

Environmental Commitments

Sustainability

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

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

Climate change

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

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

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

The journal article explores the potential for hydroponic fodder production for contributing to climate mitigation in fodder agriculture. Case studies compare GHG emissions and the carbon sequestration potential of hydroponically grown sprouted barley fodder to conventional barley grain fodder. The case study analyzed fresh livestock feed grown in the controlled environment using a HydroGreen Grow System when compared to traditional farming methods. Results of this published case study indicate that incorporating hydroponic systems into barley production has the potential to reduce GHG emissions. Results also show that hydroponic farming can provide greater carbon sequestration opportunities than simply shifting to no-tillage farming.

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

Social Commitments

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

CubicFarms team members feel a sense of responsibility for care of the planet and the people who live in communities all over.

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

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

Local labour

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

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

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

Diversity

CubicFarms embraces different perspectives and values the contributions of the company team members. One of the Company's core values is respect, and CubicFarms takes that a step further by creating a culture celebrating diversity and allowing individuals to do their best work and thrive. The Company's goal is to foster an inclusive workplace where people feel they belong, that their unique talents matter, and that their needs are cared for by the company's leaders and team members. CubicFarms is a growing company with talented people working toward a common goal. The Company is actively engaging with local communities by giving back and getting involved. CubicFarms has an engaged workforce with a mission to transform agriculture, using curiosity and resourcefulness with the company's teams.

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

Animal welfare

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

Governance Commitments

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

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

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

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

<u>Highlights subsequent to the three months ended March 31, 2022</u>

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

On April 27, 2022, the Company announced the appointment of Carlos Yam as CFO of the Company, effective June 27, 2022. Yam served for three years as CFO of Agora Wealth Corp., a company offering a digital wealth platform and services for investment dealers and financial advisors in Canada. Prior to that, he served for over a decade until 2018 as CFO of publicly-traded WesternOne Inc., where he led deals in the construction and infrastructure services sectors and executed related financing. He also helped integrate the operations of new acquisitions for its global operations in Canada, the United States, and Australia. In his role as Director of Financial Planning at Intrawest ULC, held until 2007, Yam was part of the finance team that successfully steered its US$2.8B privatization.

Forward-Looking Guidance

Sales and deposits

As of the date of this MD&A, the Company has a total of 204 modules under binding contract and deposit. The amount of CubicFarm System sales orders that are pending manufacturing and installation is approximately USD$27.6 million. The table below shows the projects under contract:

Geographic Territory	Project Name	Number of Modules	Contract Value, USD
Canada	Abbotsford	16	$2,129,815
Canada	Surrey	100	$12,561,538
Canada	Winnipeg	27	$4,039,764
USA	Indiana	20	$2,969,500
USA	Montana	21	$2,930,816
Australia	New South Wales	19	$2,746,000
USA	Idaho	1	$173,500
Total		204	**$27,550,933**

Based on discussions with the Company's clients and the expected readiness of each building site, the Abbotsford project is expected to be substantially completed by the end of the second quarter of fiscal year 2022 while the Indiana and New South Wales project installations are expected to be substantially completed by the end of the third and fourth quarter of fiscal year 2022 respectively. Delays in the installation for these projects are primarily due to the effects of COVID-19 and related supply chain delays, and a CubicFarms version upgrade for its equipment which concluded in the three months ended March 31, 2022. The Montana Project installation has been delayed until late 2022 or early 2023, and as mentioned in previous disclosures from the Company, the project in Surrey, British Columbia, is expected to be installed in 2023. This is due to the expected time for the chosen project site to be filled, pre-loaded and prepared for installation.

Revenue from System sales is dependent on the transfer of legal title upon the completion of the sales and delivery process – consisting of signing the purchase agreement, customer deposit, manufacture of modules, customer's site preparation, shipping, and installation of the System. Unforeseen delays attributable to the COVID-19 pandemic and the global recovery efforts employed by both individual companies and countries may delay the Company's completion of the module sales and delivery process.

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

Additional Systems Sales

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

Fresh Division

CubicFarms has received a non-binding letter of intent to deliver 96 CubicFarm System modules in an innovative two-level cost-effective building design and controlled environment called a FreshHub, to be installed in the Lower Mainland area of Vancouver, BC. This next generation high-density system is the next level of indoor growing aiming to significantly localize food production. Leveraging the land and water efficiencies of the CubicFarm System technology, the new stacked configuration of this FreshHub will include 96 modules occupying one acre of land.

New features of this FreshHub include a new agricultural building design that reduces capital costs, new farm infrastructure, workflow design, automation components, and proprietary software. The Company anticipates that the installation of this first FreshHub project will commence in the late part of the 2022 calendar year and be substantially completed by the end of the 2023 calendar year.

Geographic Territory	Project Name	Number of Modules	Value, CAD
Canada	FreshHub	96	$20,000,000

Feed Division

The Company continues to notice a "halo effect" involving heightened interest from neighbouring farms of recently completed HydroGreen installations. The effect of this positive nearby reference appears to accelerate the HydroGreen business development cycle in the immediate area of the Company's current HydroGreen customers. In the three months ended March 31, 2022, the Company has continued to add to the Hydrogreen Dealer Network, signing an additional Certified Dealer LOI with a Nebraska-based dealer, Central Confinement Service LLC, which has forecasted to have 12 HydroGreen machines valued at $2.25 million under contract in 2022. In the first quarter of 2022, representatives of each dealer attended sales and product training at the HydroGreen Innovation Center to support third party sales efforts. HydroGreen Certified Dealers will support local sales, installations, and customer experience.

Discussion of Operations

Three months ended March 31, 2022, and 2021.

Revenue

Fresh Division		March 31, 2022		March 31, 2021		Change	%
Three months ended	$	225,848	$	3,832,639	$	(3,606,791)	-94%

Feed Division		March 31, 2022		March 31, 2021		Change	%
Three months ended	$	18,064	$	74,171	$	(56,107)	-76%

Total		March 31, 2022		March 31, 2021		Change	%
Three months ended	$	243,912	$	3,906,810	$	(3,662,898)	-94%

The Company is still in its early stages of operations which has resulted in fluctuating sales on a quarter-by-quarter basis. As such, the Company expects financial results to continue to fluctuate from period to period in the near term. The Company has three main sources of revenue – revenue from sales of indoor growing technologies, revenue from services, and revenue from consumables. Consumables include produce sales, parts, seeds, nutrients, fertilizers, and substrates, and services include customer support subscriptions and consulting. As the Company matures, management expects to receive a larger percentage of overall sales as recurring revenue. Sales within the Fresh Division for the three months ended March 31, 2022, included consumables revenue of $155,511, and consulting revenue of $17,857. No modules were sold in the Fresh or Feed division in the three months ended March 31, 2022.

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

Supply chain issues caused shipping delays for Fresh Division modules manufactured in China, as both delivery times and freight forwarding shipping costs have increased primarily due to the increased volume from China's shipping ports as global economies start to emerge from a post-pandemic economy. CubicFarms customers pay for the increased shipping costs which increases the overall project costs of a CubicFarm. Towards the end of the first quarter, there was also a lockdown imposed on major cities in China which affected the shipping ports. HydroGreen equipment is manufactured exclusively in South Dakota, USA, and was not directly affected by the same shipping delays experienced by the Fresh Division.

Gross margin

Fresh Division	March 31, 2022	March 31, 2021	Change	%
Three months ended	$ 100,519	$ 924,695	$ (824,176)	-89%

Feed Division	March 31, 2022	March 31, 2021	Change	%
Three months ended	$ 10,086	$ (1,166)	$ 11,252	n.a.

Total	March 31, 2022	March 31, 2021	Change	%
Three months ended	$ 110,605	$ 923,529	$ (812,924)	-88%

Gross margin for the three months ended March 31, 2022, was $110,605 or 45% of revenue, primarily from consumables, parts sales, and consulting.

General and administrative expenses

	March 31, 2022	March 31, 2021	Change	%
Three months ended	$ 3,938,348	$ 3,228,634	$ 709,714	22%

The increase in general and administrative expenses is in line with the Company's continued expansion of its business and staffing additions. General and administrative staffing expense and consulting fees for the three months ended March 31, 2022, was $2,982,289 (an increase of 31% compared to $2,276,781 for the three months ended March 31, 2021) which reflects the Company's additional headcount. Professional fees for the three months ended March 31, 2022, was $48,041 (a decrease of 49% compared to $93,330 for the three months ended March 31, 2021). The Company hired in-house legal counsel which has reduced the need for external counsel.

Selling expenses

		March 31, 2022		March 31, 2021		Change	%
Three months ended	$	1,689,693	$	629,156	$	1,060,537	169%

Advertising and promotions expense increased slightly from $207,711 for the three months ended March 31, 2021, to $243,112 for the three months ended March 31, 2022, as the Company continues to define its brand. Staffing expense and consulting fees for the three months ended March 31, 2022, were $1,229,179, compared to $388,035 and for the three months ended March 31, 2021, due to the expansion of the overall sales and marketing team and marketing capabilities.

Research and development

		March 31, 2022		March 31, 2021		Change	%
Three months ended	$	2,509,018	$	1,140,419	$	1,368,599	120%

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

Staffing expense and consulting fees increased from $621,853 for the three months ended March 31, 2021, to $1,645,956 for the three months ended March 31, 2022. Materials and supplies used for R&D increased from $363,722 for the three months ended March 31, 2021, to $376,065 for the three months ended March 31, 2022.

Net finance income (expense)

		March 31, 2022		March 31, 2021		Change	%
Three months ended	$	(128,909)	$	(98,089)	$	(30,820)	-31%

The net finance expense relates to finance expenses and accretion charges incurred in the period.

Net loss

		March 31, 2022		March 31, 2021		Change	%
Three months ended	$	(8,760,249)	$	(3,677,088)	$	(5,083,161)	-138%

The Company's net loss in the three months ended March 31, 2022, reflect the Company's continued expansion of its business and staffing additions that management believes are necessary to both develop and sell its manufactured products within the global controlled-environment agricultural market. The Company has significantly increased its workforce, going to 168 full-time employees and contractors at March 31, 2022, from 94 full-time employees and contractors at March 31, 2021. The net loss in the period also includes a provision for expected credit loss of $692,864.

Use of Proceeds

The following table outlines the use of proceeds from the Company's financing activities as of March 31, 2022:

Month	Expected Amount per Prospectus	Actual Amount Received	Use of Proceeds	Expected	%	Actual	%
May-21	$23,532,000	$23,549,133	Sales and marketing	$7,765,560	33.0%	$4,621,906	19.6%
			R&D	$7,765,560	33.0%	$3,690,033	15.7%
			Working capital and general corporate purposes	$8,000,880	34.0%	$15,237,194	64.7%
Nov-21	$18,550,000	$18,550,000	Sales and marketing	$7,420,000	40.0%	$1,067,581	5.8%
			R&D	$9,275,000	50.0%	$1,527,718	8.2%
			Working capital and general corporate purposes	$1,855,000	10.0%	$3,139,708	16.9%

Summary of Quarterly Results

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

Period	Revenue $	Net income (loss) for the period $	Basic and fully diluted income (loss) per share $
April 1, 2020 - June 30, 2020	4,063,022	(2,336,745)	(0.02)
July 1, 2020 - September 30, 2020	400,525	(3,768,293)	(0.03)
October 1, 2020 - December 31, 2020	224,249	(6,357,270)	(0.05)
January 1, 2021 - March 31, 2021	3,906,810	(3,677,088)	(0.03)
April 1, 2021 - June 30, 2021	356,005	(6,472,041)	(0.04)
July 1, 2021 - September 30, 2021	191,157	(7,964,949)	(0.05)
October 1, 2021 - December 31, 2021	819,195	(11,243,309)	(0.07)
January 1, 2022 - March 31, 2022	243,912	(8,760,249)	(0.05)

There is no established seasonality trend at this stage of the Company's development. Revenue from the sale of goods is recognized when the Company transfers the risk and control to the customer, which generally occurs upon delivery or transfer of title. Revenue from services is recognized when the related service is provided, and completion sign off is obtained from the customer. License and subscription revenue is recognized over the period covered by the license or subscription. There are two quarters over the last eight with significantly higher revenue, where the Company recorded revenue from the transfer of title for the Armstrong project (March 2021), and transfer of title for the Calgary project (June 2020).

The Company does not recognize revenue until customers have either accepted ownership or the Company has delivered and fully installed CubicFarms modules at customer sites. There are factors beyond the Company's control, such as the customer's ability to secure permitting, complete site preparations, ocean freight/shipping delays, COVID-19-related delays, as well as weather and other transportation delays, which could affect the timing of the delivery of the modules. As such, the Company expects it would need to complete an additional year of sales and installation activities to achieve smoother and more predictable sales cycles.

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

During the three months ended September 30, 2020, the Company recorded revenue of shipping income and an irrigation system sold to a Calgary customer, plus the first revenue from consulting services of approximately $27,000.

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

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

During the three months ended June 30, 2021, the Company recorded revenue from one HydroGreen machine sale, as well as consulting services and consumables.

During the three months ended September 30, 2021, the Company recorded revenue from consumables, and revenue from consulting services.

During the three months ended December 31, 2021, the Company recorded revenue from 12 HydroGreen system sales, offset by the consideration paid to a customer of the Fresh Division.

During the three months ended March 31, 2022, the Company recorded revenue from parts sales, consumables, and consulting services.

Liquidity and Capital Resources

Current assets in excess of current liabilities decreased from $25,567,298 as at December 31, 2021, to $16,234,052 as at March 31, 2022, a decrease of 37%. The decrease in current assets in excess of current liabilities is primarily due to a decrease in cash and increase in inventory, offset by an increase in customer deposits. The Company's objective is to maintain liquidity so as to meet financial obligations when they come due, while actioning its strategic plan. The Company ensures its current assets exceed its current liabilities by monitoring operational and cash flow forecasts to identify cash flow needs for general corporate and working capital purposes.

Operating Activities

Cash used in operating activities changed from an outflow of $4,918,954 during the three months ended March 31, 2021, to an outflow of $6,788,197 during the three months ended March 31, 2022, a 38% increase. This is mainly driven by a larger net loss incurred by the Company, and an outflow related to inventory, and prepaid expenses and deposits.

Investing Activities

Cash used in investing activities changed from an inflow of $487,235 during the three months ended March 31, 2021, to an outflow of $1,554,277 during the three months ended March 31, 2022. The increase in cash outflow is primarily due to increased capital expenditures related to the Burnett project.

Financing Activities

Cash from financing activities changed from an inflow of $1,856,187 during the three months ended March 31, 2021, to an outflow of $216,195 during the three months ended March 31, 2022, a 112% decrease. The outflow during the three months ended March 31, 2022 relates to payments of loan and principal and interest payments on leases while the inflow during the three months ended March 31, 2021 relates to the issuance of shares in the period.

Contractual Amounts Payable

At March 31, 2022, the Company has financial liabilities which are due on a fiscal year basis as follows:

	Carrying Amount	< 1 Year	1-5 Years	5+ Years	Total
	$	$	$	$	$
Trade and other payables	4,219,806	4,219,806	-	-	4,219,806
Earn-out payable	1,705,500	1,705,500	-	-	1,705,500
Lease liability	2,251,409	562,241	1,523,653	2,199,461	4,285,355
Loans payable	2,105,285	543,941	2,481,664	-	3,025,605
Total	**10,282,000**	**7,031,488**	**4,005,317**	**2,199,461**	**13,236,266**

Capital Management

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

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

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

Transactions with Related Parties

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

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

	Three months ended March 31, 2022 $	Three months ended March 31, 2021 $
Short term leases	14,562	31,561
Lease payments	31,900	5,000
Office expenses	11,411	37,570

	As at March 31, 2022 $	As at December 31, 2021 $
Lease liability	363,350	382,930

Key management compensation

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

	Three months ended March 31, 2022 $	Three months ended March 31, 2021 $
Wages and salaries	352,250	382,083
Consulting fees	444,144	301,183
Share-based compensation	315,746	578,433
Total	**1,112,140**	**1,261,699**

All related party balances

	As at March 31, 2022 $	As at December 31, 2021 $
Accounts payable:		
Bevo Farms	5,819	18,291
Total Accounts payable	**5,819**	**18,291**

Outstanding Share Data

The Company has authorized share capital consisting of: (i) an unlimited number of common shares without par value or special rights or restrictions attached; (ii) an unlimited number of Class A preferred shares without par value and with certain rights and restrictions attached; and (iii) an unlimited number of Class B preferred shares without par value and with certain rights and restrictions attached. As of May 13, 2022, the Company has no Class A preferred shares or Class B preferred shares issued and outstanding.

As at March 31, 2022, and May 13, 2022, the Company had the following number of common shares, options, and warrants outstanding:

	March 31, 2022	May 13, 2022
Common shares issued and outstanding	178,347,204	178,347,204
Options	18,427,333	18,960,333
Warrants	6,552,705	6,552,705
Total fully diluted shares	**203,327,242**	**203,860,242**

Off-Balance Sheet Arrangements

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

Contingent Liability

The Company is party to a claim that arose in the ordinary course of business on November 21, 2021, asserting that the Company was in breach of a consulting agreement by failing to make required payments and by purporting to terminate the services of the Plaintiff, contrary to the terms that were agreed.

As of the March 31, 2022, the potential exposure the Company faces cannot be measured reliably, and the claim is not expected to have a material effect on the Consolidated Financial Statements.

Financial Instruments

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

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

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

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

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

The earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at March 31, 2022, the discount rate was estimated to be 17% (December 31, 2021 – 17%).

The fair value of the Company's Loans payable is the carrying value discounted at the effective interest rate. As at March 31, 2022 the fair value of the Loans payable is $2,076,411 and the carrying value is $2,105,285. As at December 31, 2021 the fair value of the Loans payable was $2,126,980 and the carrying value was $2,156,711.

There has been no change between levels during the year.

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

As at March 31, 2022				
	FVTPL	Amortized Cost	Fair Value	
Asset (Liability)			Level 2	Level 3
Cash and cash equivalents	-	12,814,993	-	-
Trade and other receivables	-	1,447,437	-	-
Trade and other payables	-	(4,219,806)	-	-
Earnout payable	(1,705,500)	-	-	(1,705,500)
Loans payable	-	(2,105,285)	(2,076,411)	-

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

The continuity for earn out payable is as follows:

	March 31, 2022	**December 31, 2021**
	$	**$**
Balance – beginning of period	1,762,812	1,643,033
Foreign exchange	(27,035)	1,466
Fair value change during the year	(30,277)	118,313
Balance – end of period	**1,705,500**	**1,762,812**
Comprised of:		
Current earn-out payments	1,705,500	1,762,812
Non-current earn-out payments	-	-

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at March 31, 2022, the primary risks were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. The Company provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at March 31, 2022, one customer accounted for 45% (December 31, 2021 - 27%) of the trade accounts receivable.

Liquidity risk

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

Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. Accounts payable and accrued liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms. Management is continuing efforts to increase sales and attract additional equity and capital investors to continue R&D activities, and, from the other side, implement effective cost control measures to maintain adequate levels of current assets and current liabilities.

Market risk

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

Interest rate risk

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

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As of March 31, 2022, the following items are denominated in US dollars:

	March 31, 2022 $	December 31, 2021 $
Cash	859,160	166,656
Trade and other receivables	872,600	1,129,064
Trade and other payables	(1,162,800)	(1,039,306)
Customer deposits	(3,105,036)	(661,602)
Earn out payable	(1,361,198)	(1,385,363)
Loans payable	(82,943)	(84,736)
Net exposure	**(3,980,217)**	**(1,875,287)**

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

As at March 31, 2022, a 10% increase in the US dollar exchange rate would increase the Company's comprehensive loss by approximately $390,000 (December 31, 2021 – increase of $188,000). A 10% decrease in the exchange rate would decrease comprehensive loss by the same amount.

Critical Accounting Estimates

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

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

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

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

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

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

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

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

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

Disclosure Controls and Internal Controls over Financial Reporting

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

For the three months ended March 31, 2022, there were no material changes in the Company's internal controls over financial reporting or changes to disclosure controls and procedures that materially affect, or would be reasonably likely to affect, the Company's internal control systems.

COVID-19 Disclosure

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19," has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. As of March 31, 2022, the Company has not observed any material impairments of its assets or a significant change in the fair value of assets due to the COVID-19 pandemic. Due to the rapid developments and uncertainty surrounding COVID-19 it is not possible to predict the impact it will have on the Company's business, financial position, and operating results in the future. It is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

Additional Information & Approval

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

The Audit Committee of the Board of Directors has approved the disclosures contained in this MD&A as of May 13, 2022.