CubicFarm Systems Corp.

Consolidated Financial Statements

For the years ended December 31, 2022, and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CubicFarm Systems Corp.

Opinion

We have audited the consolidated financial statements of CubicFarm Systems Corp. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' deficiency for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

  (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Entity continues to experience net losses and negative cash flows from operations.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of the impairment assessment of the Feed cash generating unit ("CGU")

Description of the matter

We draw attention to Notes 4 and 9 of the financial statements. The Entity assesses at each reporting date, whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Entity estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset or CGU's fair value less costs to sell and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. The Entity has calculated the recoverable amount of its CGUs based on the value in use, which is determined using a discounted cash flow model that contains significant assumptions including the discount rate, growth rate and terminal growth rate. When a CGU is considered impaired, the Company allocates amounts first to goodwill and then to other assets in the CGU, on the basis of the carrying amount of each asset. If the recoverable amount of an individual asset is determinable, the Company limits the impairment to the recoverable amount of the individual asset.

Why the matter is a key audit matter

We identified the evaluation of the impairment assessment of the Feed cash generating unit as a key audit matter. Significant auditor judgment was required to evaluate the results of our procedures, including the conclusions on the value in use model and the recoverable amount of the individual assets comprising of inventory and right-of-use assets. Further, specialized skills and knowledge were required in evaluating the discount rate, terminal growth rate and methodology used in evaluating the recoverable amount of individual assets.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- evaluating the appropriateness of the discount rate by comparing it to a discount rate range that was independently developed using publicly available information for comparable entities
- evaluating the appropriateness of the terminal growth rate by considering the growth profile and conditions and events affecting the CGU
- evaluating the recoverable amount of a selection of right-of-use assets by comparing them to market rate data that was independently developed using publicly available information.

In determining the recoverable amount for inventory, we compared sales forecast information to the value in use model to ensure consistency in the expected sales. We also obtained and inspected the inventory subledger and compared a selection of inventory costs at December 31, 2022 to the Entity's estimate of the net realizable value. For a selection of items, we compared the estimated net realizable value used by management in its assessment of the lower of cost, including cost to complete, and net realizable value to:

- The sale price of the selected inventory realized subsequent to year-end, and
- The realized sale price of the last sales invoice of the selected inventory sold in 2022.

To develop an expectation regarding forecasted sales in 2023 in order to assess the net realizable value of inventory on hand at year end not covered by subsequent contracted sales:

- we inquired with management regarding the likelihood and pricing of future non-contracted sales in negotiation subsequent to year end; and
- inspected non-binding letters of intent for certain future non-contracted sales.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Alexandre Farrell.

Vancouver, Canada
May 2, 2023

CubicFarm Systems Corp.
Consolidated Statements of Financial Position

(Amounts expressed in Canadian dollars)

	Notes	December 31, 2022	December 31, 2021
		$	$
Assets			
Current			
Cash		2,944,924	21,381,366
Trade and other receivables	6	1,986,579	2,126,752
Inventory	7,9	13,310,727	8,433,461
Prepaid expenses and deposits	8,9	2,575,580	3,405,838
		20,817,810	**35,347,417**
Non-current			
Goodwill	14	-	1,874,879
Property, plant and equipment	9,10	1,006,044	9,431,561
Investment in associates	11	20	20
Intangible assets	9,12	-	5,371,307
Right-of-use assets	9,13	1,944,643	2,628,770
Prepaid expenses and deposits	8	9,367	23,195
		2,960,074	**19,329,732**
Total assets		**23,777,884**	**54,677,149**
Liabilities			
Current			
Trade and other payables	15	7,514,621	4,529,514
Earn-out payable	25	1,386,396	1,762,812
Customer deposits	16	10,931,330	2,233,946
Lease liability	13	709,228	493,794
Loans and borrowings	17	2,081,125	371,960
Warranty provision	18	123,784	388,093
		22,746,484	**9,780,119**
Non-current			
Lease liability	13	2,249,940	1,887,896
Restoration provision	13	123,032	133,171
Loans and borrowings	17	8,626,506	1,784,751
		10,999,478	**3,805,818**
Total liabilities		**33,745,962**	**13,585,937**
Shareholders' equity (deficiency)			
Share capital	21	99,045,198	94,701,922
Equity reserves	21	10,269,041	6,125,986
Accumulated other comprehensive income/(loss)		640,691	(183,977)
Deficit		(119,923,008)	(59,552,719)
Total equity (deficiency)		**(9,968,078)**	**41,091,212**
Total liabilities and shareholders' equity		**23,777,884**	**54,677,149**

Going Concern (Note 2)
Contingent liability (Note 28)

Approved on behalf of the Board

Director **Director**

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

CubicFarm Systems Corp.
Consolidated Statements of Loss and Comprehensive Loss

(Amounts expressed in Canadian dollars)

	Notes	December 31, 2022	For the years ended December 31, 2021
		$	$
Revenue	24		
Systems		2,951,070	4,765,818
Consumables		583,268	341,056
Services		101,467	166,292
		3,635,805	**5,273,166**
Cost of sales	7,8,19	(10,097,776)	(5,263,872)
Gross margin		**(6,461,971)**	**9,294**
General and administrative expenses	19	(15,203,156)	(16,644,987)
Selling expenses	19	(6,022,487)	(6,307,982)
Research and development	19	(10,420,196)	(7,518,489)
Impairment loss	9	(20,447,236)	-
		(52,093,075)	**(30,471,458)**
Loss before other income (expense)		**(58,555,046)**	**(30,462,164)**
Gain (Loss) on debt modification	17	(242,842)	497,287
Finance income		13,201	3,323
Finance expense	17	(713,844)	(265,960)
Accretion expense	13,17	(649,106)	(226,439)
Net finance (expense) income		**(1,592,591)**	**8,211**
Other income (expense)			
Other income	23	7,452	868,043
Fair value change for earn-out payments	26	144,402	(118,313)
Foreign exchange loss		(544,070)	(91,451)
Change in fair value of derivative liability		-	(63,576)
Loss on disposal of property, plant and equipment		(49,230)	-
Provision for expected credit gain (loss)	6	(574,558)	505,836
		(1,016,004)	**1,100,539**
Loss before income taxes		**(61,163,641)**	**(29,353,414)**
Income taxes recovery (expense)	17,27	793,352	(3,969)
Net loss for the period		**(60,370,289)**	**(29,357,383)**
Other comprehensive loss			
Items that may be reclassified to profit or loss:			
Foreign currency translation income (loss)		824,668	(118,826)
Total comprehensive loss		**(59,545,621)**	**(29,476,209)**
Basic and diluted loss per share	28	**(0.33)**	**(0.19)**
Weighted average number of shares outstanding		**183,540,231**	**154,480,753**

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

(Amounts expressed in Canadian dollars)

	Notes	*Number of shares* #	*Share capital* $	*Equity reserves* $	*Accumulated other comprehensive income (loss)* $	*Deficit* $	*Total equity (deficiency)* $
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		-	-	-	-	(29,357,383)	(29,357,383)
Exercise of stock options		4,055,299	1,512,273	(740,120)	-	-	772,153
Issuance of shares, net of share issuance costs		36,205,364	43,949,341	-	-	-	43,949,341
Issuance of shares on settlement of loan bonus		128,205	200,000	-	-	-	200,000
Foreign currency translation		-	-	-	(118,826)	-	(118,826)
Share-based payments		-	-	3,906,350	-	-	3,906,350
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		-	-	-	-	(60,370,289)	(60,370,289)
Exercise of stock options	21	253,800	89,596	(41,373)	-	-	48,223
Issuance of shares, net of share issuance costs	21	28,789,570	4,253,680	-	-	-	4,253,680
Equity component of convertible debenture	18	-	-	1,029,071	-	-	1,029,071
Warrants issued	22	-	-	1,617,663	-	-	1,617,663
Foreign currency translation		-	-	-	824,668	-	824,668
Share-based payments	22	-	-	1,537,694	-	-	1,537,694
Balance, December 31, 2022		**207,136,774**	**99,045,198**	**10,269,041**	**640,691**	**(119,923,008)**	**(9,968,078)**

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

CubicFarm Systems Corp.
Consolidated Statements of Cash Flows

(Amounts expressed in Canadian dollars)

		For the years ended
	December 31, 2022	**December 31, 2021**
	$	$
Cash provided by (used for) the following activities		
Operating activities		
Net loss for the period	(60,370,289)	(29,357,383)
Adjustments for:		
Depreciation and amortization	1,914,605	1,653,595
Transfer and loss on disposal of property, plant and equipment	167,829	-
Loss on lease extinguishment	74,678	-
Provision for expected credit loss	574,558	(505,836)
Foreign exchange loss	486,667	91,451
Finance expense	713,844	265,960
Accretion expense	649,106	226,439
Finance income	(13,201)	(3,323)
Impairment loss	20,447,236	-
Income tax (recovery)/expense	(793,352)	3,969
Change in fair value of earnout payable	(144,402)	118,313
Earnout payment	(325,104)	-
Share-based payments expense	1,537,694	3,906,350
Loss/(Gain) on debt modification	242,842	(497,287)
Change in fair value of derivative liability	-	63,576
	-	
Cash used in operations before changes in non-cash working capital	(34,837,289)	(24,034,176)
Changes in non-cash working capital:		
Trade and other receivables	(457,029)	(1,718,015)
Contract assets	-	605,279
Inventories	(2,096,588)	(3,576,928)
Prepaid expenses and deposits	844,086	(2,072,657)
Trade and other payables	639,343	3,046,837
Customer deposits	9,058,774	(2,657,991)
Warranty provision	(264,544)	196,751
Cash used in operating activities	(27,113,247)	(30,210,900)
Interest paid	(906,388)	(255,659)
Interest received	13,201	3,323
Income taxes paid	-	(3,969)
Net cash used in operating activities	**(28,006,434)**	**(30,467,205)**
Investing activities		
Additions to property, plant, and equipment	(4,845,242)	(7,169,290)
Proceeds from sale of property, plant, and equipment	37,020	-
Additions to intangible assets	(399,753)	(603,830)
Loans to associates	-	(37,250)
Net cash used in investing activities	**(5,207,975)**	**(7,810,370)**
Financing activities		
Issuance of shares, net of issuance cost	5,021,140	43,949,341
Exercise of stock options	48,223	772,153
Principal payments on lease	(797,674)	(864,795)
Proceeds from loans and borrowings, net of financing fees	11,794,562	59,570
Principal payments on loans	(1,276,548)	(156,440)
Cash payment of loan bonus	-	(225,000)
Net cash from financing activities	**14,789,703**	**43,534,829**
Increase (Decrease) in cash and cash equivalents	**(18,424,706)**	**5,257,254**
Effect of movements in exchange rates on cash held	(11,736)	(82,423)
Cash and cash equivalents, beginning of period	21,381,366	16,206,535
Cash and cash equivalents, end of period	**2,944,924**	**21,381,366**

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

1. Reporting entity

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

The Company listed its common shares on the TSX Venture Exchange 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.

2. Going concern

To date, the Company has financed its operations primarily through share issuances and debt. The development of modular growing systems and animal feed systems, as well as the production 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 $59,545,621 for the year ended December 31, 2022 (December 31, 2021 - $29,476,209). Net cash used in operating activities was $28,006,434 for the year ended December 31, 2022 (December 31, 2021 - $30,467,205). As at December 31, 2022, the Company has accumulated deficit of $119,923,008. The Company's current liabilities exceed current assets by $1,928,674 as of December 31, 2022, compared with current assets exceeding current liabilities $25,567,298 as of December 31, 2021.

The Company is dependent on external sources of funding to continue operations. These conditions cast significant doubt on the Company's ability to continue as a going concern. These audited consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than normal course of business and at amounts different from those in the accompanying audited consolidated financial statements. These adjustments could be material.

3. Basis of presentation

These consolidated financial statements for the years ended December 31, 2022, and 2021, have been prepared in accordance with International Financial Reporting Standard (IFRS). The 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 Board of Directors approved these consolidated financial statements on May 2, 2023.

Basis of measurement

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

(Expressed in Canadian dollars, unless otherwise stated)

3. Basis of presentation (continued)

Basis of consolidation

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

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

4. Significant accounting policies

Cash

Cash held at financial institutions.

Inventory

Inventories are valued at the lower of cost and net realizable value. Cost is determined by the weighted average method. Cost comprises all costs of purchases, cost of conversion and other costs incurred in bringing inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and selling costs.

Property, plant, and equipment

Property, plant, and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. All assets having limited useful lives are depreciated using either the declining balance method or the straight-line method over their estimated useful lives. Internally constructed assets are depreciated from the time an asset is available for use.

The methods of depreciation and depreciation rates applicable to each class of asset during the current and comparative period are as follows:

	Method	Rate
Production equipment (containers and non-containers)	Straight line	3 - 10 years
Vehicles	Straight line	5 years
Other equipment	Declining balance	15%
Leasehold improvements	Straight line	Term of leases
Furniture and fixtures	Declining balance	20%
Computer equipment	Declining balance	30%

4. Significant accounting policies (continued)

Intangible assets

Intangible assets with definite useful lives consist of patents that are the licenses conferring a right or title for a set period, especially the sole right to exclude others from making, using or selling inventions of the Company. Development assets are the capitalized development costs of modular growing systems while Intellectual property include ideas, designs, techniques, developments and discoveries held as patents, and know-how arising from acquisition of a subsidiary. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Patent fees paid are amortized over the period covered by the registration fee period, ranging between 13 and 16 years. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Development assets are amortized over 500 units of production and Intellectual property is amortized over 1000 units of production.

The estimated useful lives, residual values and amortization methods are reviewed annually and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life or not yet available for use are not subject to amortization.

Development Costs

Research costs are expensed as incurred. Development costs are also expensed unless they meet specific criteria related to technical, market and financial feasibility, in which case they are deferred and amortized to operations using units of production method over the economic life of the product from the date of completion of the project.

Impairment of long-lived assets

The Company assesses at each reporting date, whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset or cash generating unit's ("CGU") fair value less costs to sell and its value in use.

A CGU is defined under IAS36 as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. The Company generates cash inflows under two CGUs: Fresh (Canada) and Feed (U.S.A.).

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in the Consolidated Statements of Loss and Comprehensive Loss.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are considered. If no such transactions can be identified, an appropriate valuation model is used.

The Company bases its impairment calculation on most recent budgets and forecasts, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such an indication exists, the Company estimates the assets or CGUs recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

4. Significant accounting policies (continued)

Impairment of long-lived assets *(continued)*

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.

When a CGU is considered impaired, the Company allocates amounts first to goodwill and then to other assets in the CGU, based on the carrying amount of each asset. If the recoverable amount of an individual asset is determinable, the Company limits the impairment to the recoverable amount of the individual asset.

Intangible assets with indefinite useful lives are tested for impairment annually, and when circumstances indicate that the carrying value may be impaired.

Leases

The Company applies a single recognition and measurement approach for all leases, except for short-term leases (with terms of less than 12 months) and leases of low-value assets. The Company recognizes right-of-use assets representing the right to use the underlying asset and lease liabilities representing its obligation to make lease payments.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant, and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased to reflect the accretion of interest and reduced for the lease payments made.

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option), as well as any assets that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

Restoration provision

A provision for site restoration with respect to the expected dismantle cost on Right of Use assets, and the related expense, is recognized at the beginning of the lease. The cost is recognized at the present value of the future cashflow and then unwound as interest over the life of the asset.

Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers provides a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. This model features a contract based five step analysis of transactions to determine whether, how much and when revenue is recognized, as shown below:

- Identify the contract(s) with the customer
- Identify the performance obligations in the contract(s)
- Determine the transaction price
- Allocate the transaction price to the identified performance obligations
- Recognize revenue when the identified performance obligations are satisfied.

4. Significant accounting policies (continued)

Revenue from contracts with customers *(continued)*

The Company recognizes revenue from the sale of goods when it transfers the risks 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 proper completion sign off is obtained from the customer. The Company recognizes license and subscription over the period covered by the license or subscription.

Revenue for bill and hold arrangements is recognized when performance obligations under the terms of a contract with a customer are satisfied, which is upon the transfer of risk and control of the contracted product. The Company employs bill and hold arrangements for some of the customers where the customer is billed for the product, that are ready for delivery, but the company does not ship the product to the customer until a later date - control typically transfers when the product is ready for physical transfer to the customer, and the Company has satisfied the performance obligation. In these sales transactions, the Company fulfils its obligations and bills the customer for the work performed but does not ship the goods until a later date. These transactions are designed this way at the request of the customer and are typically due to the customer's lack of available storage space for the product, or due to delays in the customer's construction schedules.

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.

Customer deposits

Customer deposits consist of funds paid by customers for Systems based on the sales agreement. The customer may cancel the order prior to shipping of the equipment, subject to the following restocking fees. Unless otherwise stated, 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. These are accounted for as current liabilities in the Consolidated Statements of Financial Position.

Income tax and deferred tax

Taxation on the profit or loss for the year comprises of current and deferred tax. Taxation is recognized in profit or loss except to the extent that the tax arises from a transaction or even which is recognized either in other comprehensive income or directly in equity, or a business combination.

Current tax is the expected tax payable on the taxable income for the year using rates enacted or substantially enacted at the year end and includes any adjustments to tax payable in respect of previous years.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Where an asset has no deductible or depreciable amount for income tax purposes but has a deductible amount on sale or abandonment for capital gains purposes, the amount is included in the determination of temporary differences.

Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantially enacted by the end of the reporting period.

4. Significant accounting policies (continued)

Income tax and deferred tax *(continued)*

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets are reviewed at each financial reporting date and adjusted to the extent that it is no longer probable that the related tax benefit will be realized.

Any changes in deferred tax assets or liabilities are recognized as part of tax expense or income in profit or loss, except where they relate to items that are recognized in other comprehensive income (loss) or directly in equity in which case the related deferred tax is also recognized in other comprehensive income (loss) or equity, respectively.

Foreign exchange

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and each of its subsidiaries except for CubicFarm Systems U.S. Corp and Hydrogreen Inc. for which it is the US dollar and CubicFarm Systems (Shanghai) Corp for which it is the RMB. All financial information presented in Canadian dollars has been rounded to the nearest dollar.

Foreign currency transactions are translated into the functional currency at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate applicable at each reporting period. Realized and unrealized exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of transaction. Foreign currency gains and losses are reported on a net basis.

The assets and liabilities of foreign operations are translated into the presentation currency at the period end exchange rates. The income and expenses of foreign operations are translated to the presentation currency using average exchange rates. Exchange differences resulting from the translation of foreign operations into the presentation currency are recognized in other comprehensive loss and accumulated in equity.

Share-based compensation

The Company records all share-based payments at their fair value. Share based payments to employees are measured at the fair value of the instruments issued and amortized over the relevant vesting periods. Share based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The fair value of options is determined using a Black Scholes option pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Financial instruments

Financial assets

The Company uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income, or (iii) at fair value through profit and loss.

4. Significant accounting policies (continued)

Financial instruments *(continued)*

Financial assets (continued)

(i) Amortized cost:

Financial assets classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are measured using the effective interest method.

(ii) Fair value through other comprehensive income ("FVTOCI"):

Financial assets classified and measured at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are SPPI. The classification includes certain equity instruments where an irrevocable election was made to classify the equity instruments as FVTOCI. Equity investments require a designation, on an instrument-by-instrument basis, between recording both unrealized and realized gains and losses either through (i) other comprehensive income ("OCI") with no recycling to profit and loss or (ii) profit and loss.

(iii) Fair value through profit or loss ("FVTPL"):

Financial assets classified and measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not SPPI or are not held within a business model whose objective is either to collect contractual cash flows and sell the financial asset, and equity instruments not classified at FVTOCI.

Financial liabilities

Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Loans are derecognized from the Consolidated Statement of Financial Position when the obligation specified in the contract is discharged, cancelled, or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as finance costs. Loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.
Financial liabilities also include derivative financial instruments that are entered into by the Company that are not designated as hedging instruments as defined by IFRS 9. Embedded derivatives are classified as held for trading and any gains and losses are recognized in profit or loss.

An embedded derivative is separated from its host contract and accounted for separately as a stand-alone derivative if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- A separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- The hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

4. Significant accounting policies (continued)

***Financial instruments** (continued)*

Impairment of financial assets

The Company recognizes an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Company recognizes expected credit losses for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Finance and investment income (expense) and interest expense

Finance income comprises of interest and other income on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance expenses include interest payments (cash) on borrowings and the accretion expenses (non-cash) on debt and leases. Borrowing costs are recognized in profit or loss using the effective interest method.

Loss per share

The Company calculates basic loss per share by dividing the loss for the year by the weighted average number of common shares outstanding during the year. It calculates diluted loss per share in a similar manner to include common shares potentially issuable from the assumed exercise of stock options and other instruments, if dilutive. In the Company's case, these potential issuances are "anti-dilutive" as they would decrease the loss per share; consequently, the amounts calculated for basic and diluted loss per share are the same.

Related party transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control; related parties may be individuals or corporate entities. A transaction is a related party transaction when there is a transfer of resources or obligations between related parties.

Government grants

The Company accounts for government grants when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received. The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Non-monetary grants, such as land or other resources, are usually accounted for at fair value. A grant receivable as compensation for costs already incurred or for immediate financial support, with no future related costs, is recognized as income in the period in which it is receivable. A grant relating to assets is reported by deducting the grant from the asset's carrying amount. A grant relating to income is separately reported as 'other income' or deducted from the related expense. If a grant becomes repayable, it will be treated as a change in estimate. Where the original grant relates to income, its repayment will be applied first against any related unamortized deferred credit, and any excess is dealt with as an expense. Where the original grant relates to an asset, its repayment will be treated as increasing the carrying amount of the asset or reducing the deferred income balance. The cumulative depreciation which would have been charged had the grant not been received is charged as an expense.

4. Significant accounting policies (continued)

Significant estimates, assumptions, and judgments

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

Going concern

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

Useful lives and impairment of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgment. Determining whether an impairment has occurred requires the valuation of the respective CGUs, which management estimates using a discounted cash flow method. When available and as appropriate, management uses comparative market multiples to corroborate discounted cash flow results. In applying this methodology, management makes estimates on approximate discount rates, revenue growth rates, and terminal growth rates.

Useful lives of intangible assets and Impairment of goodwill and intangible assets

Amortization of intangible assets is dependent upon estimates of useful lives which are determined through the exercise of judgment. Determining whether an impairment has occurred requires the valuation of the respective CGUs, which management estimates using a discounted cash flow method. When available and as appropriate, management uses comparative market multiples to corroborate discounted cash flow results. In applying this methodology, management makes estimates on approximate discount rates, revenue growth rates, and terminal growth rates.

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.

CGU

A CGU is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets. The identification of the CGUs requires judgement. The identified CGUs may also change due to changes in an entity's operations and the way it conducts them.

Impairment assessment

At the end of each fiscal year or when there is an indicator of impairment, the Company performs an impairment assessment by comparing the carrying amount to the recoverable amount. The recoverable amount is the higher of the value in use and the fair value less cost to sell. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other group of assets. The determination of the value in use and the fair value less cost to sell requires management to apply some judgement and estimates. These include the pre-tax discount rate, the terminal growth rate, the duration of cash flows to be used, the cost to sell and the market value.

4. Significant accounting policies (continued)

***Significant estimates, assumptions, and judgments** (continued)*

Inventory provision

The Company measures inventory at the lower of cost and net realizable value, and in the event cost exceeds net realizable value, an impairment charge is recorded. Reserves for potentially obsolete or slow-moving inventory are estimated periodically based on an analysis of inventory levels and projected demand.

If there is a subsequent increase in the value of inventory on hand, reversals of previous write-downs to net realizable value are made. Unforeseen changes in these factors could result in additional inventory provisions, or reversals of previous provisions being required.

Warranty provision

Warranty provision is based on industry average. Factors that could impact on the estimated claim include the quality of the equipment, spare parts, and labour costs.

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.

5. New accounting standards issued and not yet effective

Below are new standards, amendments to existing standards and interpretations that have been issued and are not yet effective. The Company plans to apply the new standards or interpretations in the annual period for which they are effective.

Classification of liabilities as current or non-current

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

The amendments are effective for annual periods beginning on or after January 1, 2023, and applied retrospectively. The Company will adopt the narrow scope amendments on the date they become effective and is currently evaluating the impact of the amendments on its consolidated financial statements.

Deferred tax related to assets and liabilities arising from a single transaction

In May 2021, the IASB published a narrow scope amendment to IAS 12 Income taxes. In September 2021, IAS 12 was revised to reflect this amendment. The amendment narrowed the scope of the recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences such as deferred taxes on leases and decommissioning obligations. The amendment is effective for annual periods beginning on or after January 1, 2023, and applied retrospectively. The Company will adopt the amendment on the date it becomes effective and is currently evaluating the impact of the amendment on its consolidated financial statements.

(Expressed in Canadian dollars, unless otherwise stated)

5. New accounting standards issued and not yet effective (continued)

Disclosure of accounting policies

In February 2021, the IASB published a narrow scope amendment to IAS 1 Presentation of financial statements and IFRS Practice Statement 2. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information', requiring companies to disclose their material accounting policies rather than their significant accounting policies. The amendment is effective for annual periods beginning on or after January 1, 2023, and applied prospectively. The Company does not expect the adoption of this amendment to have a material impact on its consolidated financial statements.

Non-current liabilities with covenants

In October 2022, the IASB published a narrow scope amendment to IAS 1 Presentation of financial statements. After reconsidering certain aspects of the 2020 amendments, noted above in 'Classification of liabilities as current or non-current', the IASB reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which the company must comply after the reporting date do not affect a liability's classification at that date. The amendment is effective for annual periods beginning on or after January 1, 2024, and applied retrospectively. The Company is currently evaluating the impact of the amendment on its consolidated financial statements.

6. Trade and other receivables

	December 31, 2022	December 31, 2021
	$	$
Trade accounts receivable	2,274,591	2,238,447
Less: Provision for expected credit loss	(1,144,106)	(568,063)
Goods and services tax receivable	722,515	386,094
Other receivable	133,579	70,274
	1,986,579	**2,126,752**

Aging

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

	December 31, 2022	December 31, 2021
	$	$
Current or under 30 days	193,269	1,233,869
Past due 31 to 90 days	41,081	103,036
Past due 91 to 360 days	537,234	588,303
Past due more than 360 days	1,503,007	313,239
	2,274,591	**2,238,447**

(Expressed in Canadian dollars, unless otherwise stated)

6. Trade and other receivables (continued)

Continuity for provision for expected credit loss on trade accounts receivables

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	568,063	538,212
Net addition during the period	576,043	29,851
	1,144,106	**568,063**

For the year ended December 31, 2022, expected credit loss of $574,558 and for the year ended December 31, 2021, a credit recovery of $505,836 was recognized and recorded under other income (expense) in the consolidated statements of loss and comprehensive loss. None of the expected credit losses was related to related parties.

7. Inventory

	December 31, 2022	December 31, 2021
	$	$
Hydroponic growing systems	8,979,946	7,408,547
Work in progress	4,253,166	997,812
Seeds and other supplies	56,845	10,692
Packaging and other	20,770	16,410
	13,310,727	**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 December 31, 2022, and 2021, is higher than the cost. Accordingly, the Company has reported the inventory at cost in the consolidated statements of financial position. Inventory in the value of $10,097,776 relating to Systems has been recognized as cost of sales in the consolidated statement of loss and comprehensive loss for the year ended in 2022 (December 31, 2021 - $4,669,815). Included in the cost of goods, the Company has written down inventory of $102,728 during the year ended December 31, 2022 (December 31, 2021 - $207,334) due to obsolescence. In addition, the Company has recorded a write down in inventory of $3,427,517 during the year ended December 31, 2022 (December 31, 2021 - $nil). The write down is a result of management’s assessment of inventory deemed as excess inventory based on current and projected market demands. In addition, the Company has transferred $2,780,678 from property, plant and equipment to inventory in relation to a halted project in construction (Note 9 and 10).

8. Prepaid expenses and deposits

	December 31, 2022	December 31, 2021
	$	$
Deposits for inventories[1]	2,169,141	2,818,718
Prepaid expenses and other	415,806	610,315
	2,584,947	**3,429,033**
Current portion	2,575,580	3,405,838
Non-current portion	9,367	23,195

[1] In most instances, the Company is required to pay a deposit for inventories relating to systems and shipped once they are paid in full.

In addition, the Company has recognized a write down of $2,660,483 in deposits for inventory cost of sales in the consolidated statement of loss and comprehensive loss during the year ended December 31, 2022 (December 31, 2021 - $nil). The write down is a result of management’s assessment of inventory deemed as excess inventory based on current and projected market demands (Note 7).

(Expressed in Canadian dollars, unless otherwise stated)

9. Impairment loss in relation to non-current assets

During the year ended December 31, 2022, the Company assessed indicators for impairment and observed that there was a significant decline in the Company's market value due to a general decline in the stock market, and the carrying amount of the Company's net asset exceeded its market capitalization. As at December 31, 2022, the Company also realized a higher net loss than forecasted. It was therefore concluded that indicators of impairment exist which resulted in testing for impairment in the period. The Company has identified two CGUs, which are the Fresh division and the Feed division.

During the year ended December 31, 2022, the carrying amount of the Fresh division was determined to be higher than its recoverable amount and an impairment loss of $4,053,527 (December 31, 2021 - $nil) was recognized. An impairment loss of $2,703,049 was allocated to property, plant and equipment, $1,202,650 to intangible assets, and $147,828 to right of use assets, while ensuring the carrying amount of each asset remained greater than or equal to its recoverable amount. The Company assessed the recoverable amount of the Fresh division as the fair value less cost to sell using level 3 inputs. The fair value of the Fresh division was determined by obtaining the market value of the Company's containers based on recent sales market data and estimating the market price for other fixed assets based on the limited expected resale value.

During the year ended December 31, 2022, the carrying amount of the Feed division was determined to be higher than its recoverable amount and therefore an impairment loss of $16,393,709 (December 31, 2021 - $nil) was recognized. An impairment loss of $9,192,575 was allocated to property, plant and equipment, $5,019,558 allocated to intangible assets, $2,006,570 was allocated to goodwill, $877,625 to right of use assets, and offset of $702,619 in foreign exchange adjustments. The recoverable amount of the Feed division CGU was determined based on value in use, using a discounted cash flow analysis. The significant assumptions applied in the determination of the recoverable amount is the pre-tax discount rate. The pre-tax discount rate is reflective of the Company's Weighted Average Cost of Capital ("WACC"). The WACC was estimated based on the risk-free rate, equity risk premium, beta adjustment to the equity risk premium using a direct comparison approach, an unsystematic risk premium, and after-tax cost of debt based on actual debt costs available to the Company.

The discounted cash flow for the Fresh and Feed division CGU used the following assumptions:

Significant assumption	December 31, 2022	December 31, 2021
	%	%
Revenue growth	-3 to 73	44 to 281
Terminal value growth rate	2	2
Pre-tax discount rate	31	17
Tax-rate	27	27

Following the impairment loss recognized in the Company's CGUs, the recoverable amount was equal to the carrying amount. Therefore, any adverse change in key assumptions may result in further impairment.

(Expressed in Canadian dollars, unless otherwise stated)

10. Property, plant and equipment

	Production equipment	Vehicle	Leasehold improvements	Furniture and fixtures	Other equipment	Construction In progress	Computer equipment	Total
Cost	$	$	$	$	$	$	$	$
Balance December 31, 2020	2,134,262	-	314,134	72,081	538,717	-	212,478	3,271,672
Additions	-	78,432	365,942	62,202	2,178,469	4,873,580	442,961	8,001,586
Foreign exchange adjustment	-	-	(628)	(176)	(288)	-	580	(512)
Balance December 31, 2021	2,134,262	78,432	679,448	134,107	2,716,898	4,873,580	656,019	11,272,746
Additions	226,716	-	307,149	138,790	348,168	5,760,055	166,855	6,947,733
Transfer	-	-	-	-	(14,434)	-	-	(14,434)
Transfer to inventory	-	-	-	-	-	(2,780,678)	-	(2,780,678)
Disposal	-	-	(54,765)	-	(92,688)	-	(102,029)	(249,482)
Foreign exchange adjustment	-	2,524	33,719	7,248	37,604	342,318	9,463	432,876
Balance December 31, 2022	2,360,978	80,956	965,551	280,145	2,995,548	8,195,275	730,308	15,608,761
Accumulated Depreciation	$	$	$	$	$	$	$	$
Balance December 31, 2020	683,815	-	111,909	17,025	126,999	-	75,111	1,014,859
Depreciation	343,829	13,206	119,451	25,260	206,072	-	114,060	821,878
Foreign exchange adjustment	-	215	3,295	194	726	-	18	4,448
Balance December 31, 2021	1,027,644	13,421	234,655	42,479	333,797	-	189,189	1,841,185
Depreciation	152,949	14,970	207,122	61,536	276,368	-	181,802	894,747
Disposal	-	-	(34,980)	-	(15,971)	-	(8,116)	(59,067)
Impairment (Note 9)	725,753	43,686	544,006	124,811	1,953,570	8,195,275	308,523	11,895,624
Foreign exchange adjustment	-	847	14,748	3,000	7,759	-	3,874	30,228
Balance December 31, 2022	1,906,346	72,924	965,551	231,826	2,555,523	8,195,275	675,272	14,602,717
Net book value	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
December 31, 2021	**1,106,618**	**65,011**	**444,793**	**91,628**	**2,383,101**	**4,873,580**	**466,830**	**9,431,561**
December 31, 2022	**454,632**	**8,032**	**-**	**48,319**	**440,025**	**-**	**55,036**	**1,006,044**

During the year ended December 31, 2022, the Company halted a construction project which is an indicator of impairment. As a result, the Company recognized $8,195,275 of impairment loss for the year ended December 31, 2022 (December 31, 2021 - $nil). The project and the corresponding impairment loss were allocated to the Feed CGU (Note 9). An amount of $2,102,491 related to purchase of property, plant and equipment is included under Trade and other payables (December 31, 2021 - $nil).

11. Investment in associates

Swiss Leaf Farms Ltd. ("Swiss Leaf")

On August 31, 2021, the Company acquired certain assets for $1,582,296 and paid $750,000 in cash and the balance being offset with Swiss Leaf's debt to the Company of $832,296. Swiss Leaf was a farming operation in Alberta committed to growing fresh, clean, pesticide-free produce.

All investments and receivable from Swiss Leaf were provided for by the Company, the balance as recorded as recovery of bad debt expense under provision for expected credit loss. The Company performed the concentration test as per IFRS 3 and given substantially all the fair value of the gross assets are concentrated in a group of similar identifiable assets, the Company accounted for the purchase as an acquisition of assets and recognized the assets in the financial statements.

Prior to the dissolution of Swiss Leaf, $1,740,779 was provided for. On November 8, 2021, Swiss Leaf was dissolved, and the Company owned 50% of the common shares of Swiss Leaf, and the full bad debt recovery was written off as other income (expenses) on the consolidated statement of loss and comprehensive loss.

(Expressed in Canadian dollars, unless otherwise stated)

11. Investment in associates (continued)

Joint Venture ("JV")

The Company owns 20% of 1241876 B.C. Ltd which is a JV with Pacific Maple Enterprise Group Ltd "PME" and Canada High-Tech Investment Group Co. Ltd "CHTI". The Company contributed $20 in share capital. There is a commitment to provide a $342,857 shareholder loan as per the shareholder agreement; however, the condition of this loan which is the timing to advance has not been met. As at December 31, 2021 and 2022, the investment in 1241876 B.C. Ltd has a carrying amount of $20. There have been no transactions since incorporation.

12. Intangible assets

	Patents	Development Assets	Intellectual Property	Total
Cost	**$**	**$**	**$**	**$**
Balance December 31, 2020	50,000	1,136,810	4,143,683	5,330,493
Additions	199,462	-	404,368	603,830
Foreign exchange adjustment	-	-	(94,509)	(94,509)
Balance December 31, 2021	249,462	1,136,810	4,453,542	5,839,814
Additions	175,561	21,281	458,007	654,849
Foreign exchange adjustment	-	-	334,575	334,575
Balance December 31, 2022	425,023	1,158,091	5,246,124	6,829,238
Accumulated Depreciation	**$**	**$**	**$**	**$**
Balance December 31, 2020	11,797	277,381	8,410	297,588
Amortization	6,620	31,831	131,291	169,742
Foreign exchange adjustment	-	-	1,177	1,177
Balance December 31, 2021	18,417	309,212	140,878	468,507
Amortization	27,825	25,010	72,678	125,513
Impairment (Note 9)	378,781	823,869	5,019,558	6,222,208
Foreign exchange adjustment	-	-	13,010	13,010
Balance December 31, 2022	425,023	1,158,091	5,246,124	6,829,238
Net book value	**$**	**$**	**$**	**$**
December 31, 2021	**231,045**	**827,598**	**4,312,664**	**5,371,307**
December 31, 2022	**-**	**-**	**-**	**-**

(Expressed in Canadian dollars, unless otherwise stated)

13. Leases

Right-of-use assets

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	2,628,770	1,758,473
Amendments	330,954	-
Additions	2,015,828	1,539,285
Termination of lease	(1,209,727)	-
Impairment (Note 9)	(1,025,453)	-
Depreciation	(894,345)	(661,975)
Foreign exchange adjustment	98,616	(7,013)
	1,944,643	**2,628,770**

Lease liabilities

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	2,381,690	1,573,319
Amendments	333,086	-
Additions	2,015,828	1,538,916
Termination of lease	(1,124,506)	-
Accretion expense	191,360	138,627
Payments	(989,034)	(864,795)
Foreign exchange adjustment	150,744	(4,377)
	2,959,168	**2,381,690**
Current portion	709,228	493,794
Non-current portion	2,249,940	1,887,896

Restoration provision

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	133,171	131,446
Termination of lease	(12,675)	-
Accretion	1,640	1,827
Foreign exchange adjustment	896	(102)
	123,032	**133,171**

14. Goodwill

The Company's feed segment HydroGreen Inc. ("HydroGreen") was identified as a Cash Generating Unit ("CGU") for impairment testing purposes. In assessing if an impairment loss was evident, the recoverable amount of the HydroGreen CGU was determined to be equal to its VIU. As at December 31, 2022, the carrying amount of the HydroGreen CGU was determined to be higher than the recoverable amount, and impairment was recorded (Note 9).

(Expressed in Canadian dollars, unless otherwise stated)

14. Goodwill (continued)

The Company's goodwill is presented in the consolidated statements of financial position as follows:

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	1,874,879	1,920,826
Foreign exchange adjustment	131,691	(45,947)
Impairment	(2,006,570)	-
	-	**1,874,879**

15. Trade and other payables

	December 31, 2022	December 31, 2021
	$	$
Trade payable[2]	5,583,411	1,387,539
Payroll payable	394,341	1,280,820
Sales and payroll tax payable	59,808	136,537
Accrued expenses	1,477,061	1,724,618
	7,514,621	**4,529,514**

[2] Related party trade payables (Note 20)

16. Customer deposits

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	2,233,946	4,955,509
Additions	11,350,418	1,941,999
Recognized into revenue	(2,809,612)	(3,328,036)
Refund of deposit	-	(1,326,867)
Foreign exchange adjustment	156,578	(8,659)
	10,931,330	**2,233,946**

Customer deposits consist of funds paid by customers in advance of delivery for Systems based on the sales agreement. The customers may cancel the order prior to shipping of the equipment, subject to certain restocking fees as set in the sales agreement. The order is non-cancellable after shipping of the equipment. There are no external restrictions on the use of these deposits.

As at December 31, 2022, customer deposits of $2,237,188 were received more than twelve months ago (December 31, 2021 - $1,866,673).

(Expressed in Canadian dollars, unless otherwise stated)

17. Loans and borrowings

Continuity for all loans and borrowings

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	2,156,711	2,034,835
Additions	9,121,936	59,570
Loan forgiven transferred to other income	-	(10,000)
Accretion expense	456,106	85,984
Interest expense	703,811	10,301
Interest paid	(704,997)	(10,616)
Principal payment	(1,276,548)	(156,440)
Loss on debt modification	242,842	568,417
Cash payment of loan bonus	-	(225,000)
Issuance of shares on settlement of loan bonus	-	(200,000)
Foreign exchange adjustment	7,770	(340)
	10,707,631	**2,156,711**
Current portion	2,081,125	371,960
Non-current portion	8,626,506	1,784,751

Agriculture interest-free loan

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	74,321	74,638
Foreign exchange adjustment	5,220	(317)
	79,541	**74,321**
Current portion	79,541	12,387
Non-current portion	-	61,934

Government relief loan

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	40,000	30,000
Addition	-	20,000
Loan forgiven transferred to other income	-	(10,000)
	40,000	**40,000**
Current portion	40,000	40,000
Non-current portion	-	-

The Company received an interest free loan in total of $60,000 for COVID-19 relief from the Canada Emergency Business Account program. If the loan is repaid by December 31, 2023, $20,000 of the loan is forgiven. The loan is interest free until December 31, 2023, and 5% interest thereafter from January 1, 2024, until the loan is repaid in full. The loan is to be repaid by interest only payments beginning on January 1, 2024, and the balance by December 31, 2025.

(Expressed in Canadian dollars, unless otherwise stated)

17. Loans and borrowings (continued)

Business loan

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	2,009,283	1,930,197
Accretion expense	114,670	85,984
Interest expense	253,524	10,301
Interest paid	(242,104)	(10,616)
Principal payment	(250,000)	(150,000)
Loss on debt modification	242,842	568,417
Cash payment of loan bonus	-	(225,000)
Issuance of shares on settlement of loan bonus	-	(200,000)
	2,128,215	**2,009,283**
Current portion	1,951,598	310,301
Non-current portion	176,617	1,698,982

On August 28, 2020, the Company obtained a business loan of $2,500,000. The interest is payable monthly and is currently at a fixed rate of 10%, which is set at a base rate of 4.9% plus a variance of 5.1% per year. The variance will be decreased by 1% for the remaining term once the Company is able to complete two consecutive fiscal quarters with positive consolidated earnings before interest, taxes, depreciation, and amortization ("EBITDA") results. The loan is payable over 47 monthly instalments of $25,000 commencing July 15, 2021, with a balloon payment of $1,325,000 payable on June 15, 2025.

On September 16, 2022, the Company modified the loan agreement where the principal payment for October 2022 to January 2023 was modified to $12,500 and the remaining balance is to be paid over 12 equal payments until the revised maturity date of January 15, 2024. The interest rate on the loan changes to 18% per annum from February 2023. The loss on debt modification for the year ended December 31, 2022, is $242,842 (December 31, 2021- $568,417).

Vehicle Loan

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	33,107	-
Initial recognition	-	39,570
Interest expense	2,265	-
Interest paid	(2,307)	-
Principal payment	(10,133)	(6,440)
Foreign exchange adjustment	2,550	(23)
	25,482	**33,107**
Current portion	9,986	9,273
Non-current portion	15,496	23,834

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

(Expressed in Canadian dollars, unless otherwise stated)

17. Loans and borrowings (continued)

Convertible debentures

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	-	-
Initial recognition, net of transaction costs	4,048,157	-
Accretion expense	178,247	-
Interest expense	302,264	-
Interest paid	(301,736)	-
	4,226,932	**-**
Current portion	-	-
Non-current portion	4,226,932	-

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

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

The fair value of the liability component of the convertible debentures on the date of issuance was assessed to be $4,464,329 based on an estimated market discount rate of 18.7% less the pro-rata portion of transaction costs of $416,172 and will be accreted to the full-face value over the term of the convertible debentures. The liability component will be measured at amortized cost using the effective interest rate method. The residual value of $2,075,670 was allocated to the equity component less the pro-rata portion of transaction costs of $193,497. Income tax recovery of $560,431 associated with the conversion feature and warrants included in the convertible debenture was recognized, resulting in a net increase of $1,321,742 in equity. As of December 31, 2022, and 2021, the Company has accrued interest payable of $nil on these convertible debentures.

(Expressed in Canadian dollars, unless otherwise stated)

17. Loans and borrowings (continued)

Senior secured term loan

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	-	-
Initial recognition, net of transaction costs	5,073,779	-
Accretion expense	150,097	-
Interest expense	178,849	-
Interest paid	(178,849)	-
Principal payment	(1,016,415)	-
	4,207,461	**-**
Current portion	-	-
Non-current portion	4,207,461	-

On September 20, 2022, the Company entered a 2-year senior secured revolving term loan agreement of $6,400,000, which bears interest at a rate of 10.0% per annum from the date of issue and payable monthly in arrears on the last day of each month. At any time prior to the maturity date, and so long as no event of default has occurred and is continuing, the Company has the option to request an additional amount up to a total principal amount of $8,000,000. As of December 31, 2022, the Company is in compliance with all the terms of the agreement.

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

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

18. Warranty provision

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	388,093	191,342
Additions	69,096	276,530
Fulfillment	(333,405)	(79,779)
	123,784	**388,093**

(Expressed in Canadian dollars, unless otherwise stated)

19. Total expenses by nature

		For the years ended
	December 31, 2022	**December 31, 2021**
	$	**$**
Consulting and professional fees	3,491,045	3,709,250
Depreciation and amortization	1,914,605	1,653,595
Other expenses	10,118,286	11,547,598
Salary, wages, and benefits	18,593,985	14,918,537
Share based compensation	1,537,694	3,906,350
Impairment loss	20,447,236	-
Inventory and prepaid expense and deposit impairment	6,088,000	-
	62,190,851	**35,735,330**

20. Related party transactions

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

Key management compensation

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

		For the years ended
	December 31, 2022	**December 31, 2021**
	$	**$**
Wages and salaries	1,340,911	1,596,583
Consulting fees	840,061	1,280,873
Share-based compensation	680,573	1,782,606
	2,861,545	**4,660,062**

Bevo Farms Ltd.

Bevo Farms Ltd. was a related party through the Chief Innovation Officer of the Company, and director of the Company who resigned in November 2022 and hence Bevo Farms is no longer a related party as at December 31, 2022. The following summary of transactions occurred in the years ended:

		For the years ended
	December 31, 2022	**December 31, 2021**
	$	**$**
Short term lease payments	55,062	71,561
Lease payments	386,985	313,800
Office expenses	44,102	93,213

(Expressed in Canadian dollars, unless otherwise stated)

20. Related party transactions (continued)

Bevo Farms Ltd. *(continued)*

	December 31, 2022	December 31, 2021
	$	$
Accounts payable	173,586	18,291
Lease liabilities	1,165,147	382,930
	1,338,733	**401,221**

21. Share capital

The Company has authorized share capital consisting of:

- an unlimited number of Common Shares without par value or special rights or restrictions attached;
- an unlimited number of Class A Preferred Shares without par value and with certain rights and restrictions attached; and
- an unlimited number of Class B Preferred Shares without par value and with certain rights and restrictions attached. As of December 31, 2022, the Company has no Class A Preferred Shares or Class B Preferred shares issued and outstanding (December 31, 2021 – Nil).

	Common Shares	Share Capital
	#	$
Balance December 31, 2020	137,704,536	49,040,308
Issuance of shares[3]	36,205,364	47,189,365
Share issuance costs[3]	-	(3,240,024)
Shares issued to settle liability[4]	128,205	200,000
Options and warrants exercised[5]	4,055,299	772,153
Transfer from equity reserves	-	740,120
Balance December 31, 2021	**178,093,404**	**94,701,922**
Issuance of shares[6]	28,789,570	4,631,091
Share issuance costs[6]	-	(377,411)
Options and warrants exercised[7]	253,800	48,223
Transfer from equity reserves	-	41,373
Balance December 31, 2022	**207,136,774**	**99,045,198**

[3] 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.

[4] Shares issued for settlement of loan bonus component of Business Loan (Note 17).

[5] Options and warrants exercised at average price of $0.19 per share.

[6] Public offering and private placement of shares at net average price of $0.17 per share. Share issuance costs of $377,411 were accounted for as a deduction from equity.

[7] Options and warrants exercised at average price of $0.19 per share.

(Expressed in Canadian dollars, unless otherwise stated)

22. Share based compensation

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

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

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

Share purchase options and warrants continuity schedule:

	Options and warrants	Weighted average exercise price
	#	$
Balance December 31, 2020	28,456,100	0.43
Granted	4,738,000	1.26
Cancelled	(4,055,299)	0.19
Exercised	(4,067,759)	0.19
Forfeited	(94,000)	1.14
Balance December 31, 2021	24,977,042	0.66
Granted	25,546,570	0.78
Exercised	(299,800)	0.19
Forfeited	(11,534,537)	1.01
Balance December 31, 2022	**38,689,275**	**0.70**

Share purchase options outstanding as of December 31, 2022:

Range of Exercise Price	Outstanding	Exercisable	Average remaining life	Weighted average exercise price
$	#	#	Years	$
0.01 - 0.50	1,457,000	1,384,000	2.64	0.20
0.51 - 1.00	4,845,000	3,628,000	3.61	0.80
1.01 - 1.50	1,490,000	790,833	3.13	1.26
1.51 - 2.00	300,000	70,000	6.84	1.59
	8,092,000	**5,872,833**		

Share purchase warrants outstanding as of December 31, 2022:

Range of Exercise Price	Outstanding	Exercisable	Weighted average remaining life	Weighted average exercise price
$	#	#	Years	$
0.01 - 0.50	27,981,275	27,981,275	2.15	0.10
0.51 - 1.00	2,616,000	2,616,000	2.42	0.71
	30,597,275	**30,597,275**		

(Expressed in Canadian dollars, unless otherwise stated)

22. Share based compensation (continued)

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:

The details of share-based compensation expense is as follows:

		For the years ended
	December 31, 2022	**December 31, 2021**
Share price volatility	58% - 116%	171%
Expected dividend yield	$nil	$nil
Employees forfeiture rate	27%	20%
Board of Directors forfeiture rate	13%	25%
Risk free interest rate	1.41% - 3.41%	0.17% - 0.40%

		For the years ended
	December 31, 2022	**December 31, 2021**
	$	**$**
Vendors	281,814	1,669,054
Employees and directors	1,255,880	2,237,296
	1,537,694	**3,906,350**
General and administrative expenses	1,142,951	3,528,268
Selling expenses	200,775	342,129
Research and development	193,968	35,953
	1,537,694	**3,906,350**

23. Other income (expense)

		For the years ended
	December 31, 2022	**December 31, 2021**
	$	**$**
Other income	7,452	-
Loan forgiveness	-	10,000
Government grants	-	858,043
	7,452	**868,043**

(Expressed in Canadian dollars, unless otherwise stated)

24. Operating segments

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

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

For the year ended December 31, 2022	Fresh	Feed	Total
	$	$	$
Revenue	3,331,866	303,939	3,635,805
Gross margin	(6,386,738)	(75,233)	(6,461,971)
Impairment loss	(4,053,527)	(16,393,709)	(20,447,236)
Net loss	(35,592,150)	(24,778,139)	(60,370,289)
Total assets	11,489,839	12,288,045	23,777,884
Total liabilities	28,011,904	5,734,058	33,745,962

For the year ended December 31, 2021	Fresh	Feed	Total
	$	$	$
Revenue	3,611,093	1,662,073	5,273,166
Gross margin	(293,652)	302,946	9,294
Net loss	(22,371,484)	(6,985,899)	(29,357,383)
Total assets	35,388,719	19,288,430	54,677,149
Total liabilities	10,779,978	2,805,959	13,585,937

25. Capital management

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

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

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

The net equity ending balance as of December 31, 2022, and 2021:

	December 31, 2022	December 31, 2021
	$	$
Total Assets	23,777,884	54,677,149
Total Liabilities	(33,745,962)	(13,585,937)
Net Equity (Deficit)	**(9,968,078)**	**41,091,212**

(Expressed in Canadian dollars, unless otherwise stated)

26. Financial instruments and risk management

Fair value measurement

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

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

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

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

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

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

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

	Level 1	Level 1	Level 2	Level 3
Balance December 31, 2022	**FVTPL**	**Amortized cost**	**Fair value**	**Fair value**
	$	$	$	$
Cash	-	2,944,924	-	-
Trade and other receivables	-	1,986,579	-	-
Trade and other payables	-	(7,514,621)	-	-
Earn out payable	(1,386,396)	-	-	(1,386,396)
Loans and borrowings	-	(10,707,631)	(11,687,978)	-

	Level 1	Level 1	Level 2	Level 3
Balance December 31, 2021	**FVTPL**	**Amortized cost**	**Fair value**	**Fair value**
	$	$	$	$
Cash	-	21,381,366	-	-
Trade and other receivables	-	2,126,752	-	-
Trade and other payables	-	(4,529,514)	-	-
Earn out payable	(1,762,812)	-	-	(1,762,812)
Loans and borrowings	-	(2,156,711)	(2,126,980)	-

(Expressed in Canadian dollars, unless otherwise stated)

26. Financial instruments and risk management (continued)

Earn-out payable continuity

	December 31, 2022	December 31, 2021
	$	$
Balance - beginning of period	1,762,812	1,643,033
Payments	(325,104)	-
Foreign exchange	93,090	1,466
Fair value change during the period	(144,402)	118,313
	1,386,396	**1,762,812**
Current portion	1,386,396	1,762,812
Non-current portion	-	-

Financial risk management objectives and policies

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and 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 December 31, 2022, three customers accounted for 40%, 27%, and 11% of gross trade accounts receivable, respectively (December 31, 2021 - 48%, 27%, and 12%).

Liquidity risk

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

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

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

(Expressed in Canadian dollars, unless otherwise stated)

26. Financial instruments and risk management (continued)

***Financial risk management objectives and policies** (continued)*

As at December 31, 2022, and 2021, the Company's financial liabilities have contractual maturities as summarized below:

Balance December 31, 2022	**< 1 Year**	**1 - 5 Years**	**5+ Years**	**Total**
	$	**$**	**$**	**$**
Trade and other payables	7,514,621	-	-	7,514,621
Earn out payable	1,696,063	-	-	1,696,063
Lease liabilities	933,498	1,869,722	1,000,320	3,803,540
Loan liabilities	3,121,127	15,484,775	-	18,605,902
	13,265,309	**17,354,497**	**1,000,320**	**31,620,126**

Balance December 31, 2021	**< 1 Year**	**1 - 5 Years**	**5+ Years**	**Total**
	$	**$**	**$**	**$**
Trade and other payables	4,529,514	-	-	4,529,514
Earn out payable	1,908,683	-	-	1,908,683
Lease liabilities	633,771	1,540,705	2,274,951	4,449,427
Loan liabilities	550,118	2,613,775	1,577	3,165,470
	7,622,086	**4,154,480**	**2,276,528**	**14,053,094**

Market risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

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

The Company's cash, accounts receivable, marketable securities, non-current assets, accounts payable and accrued liabilities and other current and non-current liabilities are denominated in several currencies and are therefore subject to fluctuation against the Canadian dollar.

(Expressed in Canadian dollars, unless otherwise stated)

26. Financial instruments and risk management (continued)

Financial risk management objectives and policies *(continued)*

(ii) Foreign currency risk (continued)

The table below summarizes the Company's exposure to the various currencies denominated in the foreign currency as at December 31, 2022, and 2021, as listed below.

	December 31, 2022		December 31, 2021	
	US dollar	**Chinese renminbi**	**US dollar**	**Chinese renminbi**
	$	**¥**	**$**	**¥**
Cash	500,276	8,627,405	166,656	1,601,433
Trade and other receivables	825,032	-	1,129,064	-
Trade and other payables	(2,866,745)	(11,739)	(1,039,306)	(63,669)
Customer deposits	(4,346,496)	(15,759,855)	(661,602)	-
Earn out payable	(1,021,775)	-	(1,385,363)	-
Loan payable	(77,402)	-	(84,736)	-
	(6,987,110)	**(7,144,189)**	**(1,875,287)**	**1,537,764**

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

Based on the balances as at December 31, 2022, a 1% increase or decrease in the value of the Canadian dollar exchange rate against all of the other currencies on that date would result in an increase or decrease of approximately $108,846 (December 31, 2021 – $20,707) in loss before taxes.

(Expressed in Canadian dollars, unless otherwise stated)

27. Income taxes

A reconciliation between the effective tax rate on losses from the years ended of continuing operations and the statutory tax rate is as follows:

	December 31, 2022	December 31, 2021
	$	$
Loss before income tax	(61,163,641)	(29,353,414)
Statutory tax rate	27%	27%
Expected income tax (recovery)	(16,514,183)	(7,925,422)
Increase (decrease) in income tax recovery resulting from:		
Non-deductible items	5,255	(65,486)
Share based compensation	415,177	1,053,811
Change in deferred tax assets not recognized	14,468,860	7,438,674
Financing fees capitalized to equity	(173,644)	(874,806)
Changes in estimates	(162,791)	(25,082)
Difference in tax rates in foreign jurisdictions	1,509,546	414,332
Tax effect of foreign exchange and other	(341,572)	(12,052)
Total income tax expense (recovery)	**(793,352)**	**3,969**
Current income taxes	-	3,969
Deferred income taxes (recovery)	(793,352)	-
Total income tax expense (recovery)	(793,352)	3,969

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. Deferred tax assets (liabilities) are comprised of the following as at years end:

	December 31, 2022	December 31, 2021
	$	$
Non-capital losses carry forward	1,324,324	1,577,263
Promissory note and investment in associate	(937,662)	-
Share issuance and financing costs	-	-
Property, plant and equipment	67,193	(279,438)
Intangible assets	-	(650,670)
Right-of-use assets	(655,766)	(647,155)
Lease liabilities and restoration provision	201,911	-
	-	-

(Expressed in Canadian dollars, unless otherwise stated)

27. Income taxes (continued)

The unrecognized deductible temporary differences as at years end are comprised of the following:

	December 31, 2022	December 31, 2021
	$	$
Non-capital losses	87,599,530	47,908,323
Share issuance and financing costs	3,756,465	3,264,381
Fixed assets	13,013,098	272,908
Intangibles	3,134,805	
Inventory obolescence	3,422,165	
Warranty provision	123,784	388,093
Lease liabilities and restoration provision	2,347,944	2,514,860
Scientific research and experimental development and other	1,040,529	1,056,905
	114,438,320	**55,405,470**

As at December 31, 2022, the Company has non-capital loss carry forwards of approximately $70,847,703 (December 31, 2021 - $42,910,613) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry	December 31, 2022	December 31, 2021
	$	$
2034	46,950	46,950
2035	838,250	838,250
2036	3,224,346	1,491,182
2037	4,623,640	6,355,721
2038	386,838	9,606
2039	6,049,681	6,027,289
2040	8,105,724	6,874,601
2041	19,923,189	21,267,014
2042	27,649,085	-
	70,847,703	**42,910,613**

As of December 31, 2022, the Company has net operating loss carry forwards of approximately $20,325,062 (December 31, 2021 - $11,547,088) in the United States which can be applied to reduce future US taxable income which have an unlimited expiry period.

As of December 31, 2022, the Company has tax loss carry forwards of approximately $1,396,326 (December 31, 2021 - $142,783) in China which can be applied to reduce future Chinese taxable income which expires in 2027.

(Expressed in Canadian dollars, unless otherwise stated)

28. Earnings per share

Basic earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year adjusting for the effect of dilutive convertible preferred shares and share options. The earnings used in the calculation for all diluted earnings per share measures are the same as those for the equivalent basic earnings per share measures, as outlined below. As at December 31, 2022 and 2021, the diluted earnings per share is reported at the same value as basic earnings per share due to the anti-dilutive effect as the company is in a loss position.

The weighted average numbers of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

		For the years ended
	December 31, 2022	**December 31, 2021**
	$	**$**
Numerator		
Net loss for the period	(60,370,289)	(29,357,383)
Denominator	-	
Weighted-average basic shares outstanding	183,540,231	154,480,753
Effect of dilutive securities (nil due to anti-dilutive nature)	-	-
Weighted-average diluted shares	183,540,231	154,480,753
Basic loss per share	(0.33)	(0.19)
Diluted loss per share	(0.33)	(0.19)

29. 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. Pleadings have closed and the Company's legal counsel is awaiting the date for discovery. As at December 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.

The Company is also party to a claim that arose in the ordinary course of business in May 2022, asserting that the Company was in breach of certain obligations pursuant to a manufacturing agreement. In June 2022, the Company's legal counsel submitted a response to the notice of civil claim and a counterclaim against the firm and its directors in their personal capacity. As of the period end, the potential exposure the Company faces cannot be measured reliably.

The Company is party to a claim that arose in the ordinary course of business in August 2022, asserting that the Company was in breach of certain obligations pursuant to a purchase agreement. The Company's legal counsel has submitted a response to the notice of civil claim and awaits a response from the plaintiff. As of the period end, the potential exposure the Company faces cannot be measured reliably.

30. Subsequent events

On March 17, 2023, the Company announced that it has closed its previously announced overnight marketed public offering (the "Offering") of units (the "Units") of the Company. Each Unit consists of one common share of the Company (a "Common Share") and one common share purchase warrant (the "Warrant"). Each Warrant entitles the holder thereof to acquire one Common Share of the Company at an exercise price of C$0.10 (the "Exercise Price") per Common Share for a period of 36 months from March 17, 2023 (the "Closing Date").

Pursuant to the Offering, the Company issued a total of 56,027,000 Units at a price of C$0.05 per Unit (the "Offering Price") for gross proceeds of C$2,801,350, including 10,261,000 Units issued to reduce working capital obligations of the Company for C$513,050 in payables ("Debt-for-Equity Swap"). In addition, the Company has agreed to pay a cash commission equal to 6% of the aggregate gross proceeds of the Offering, including the amounts raised in the Debt-for-Equity Swap. As an additional compensation, the Company issued 3,061,620 non-transferable compensation warrants (the "Compensation Warrants"). Each Compensation Warrant will be exercisable to acquire one Common Share of the Company at the Offering Price for a period of 36 months from the Closing Date, subject to adjustment in certain events.

Management's Discussion and Analysis

For the years ended December 31, 2022 and 2021

Dated: May 2, 2023

The following Management's Discussion and Analysis ("MD&A") is prepared as of May 2, 2023, and reports on the operating results and financial condition of CubicFarm Systems Corp., (the "Company" or "CubicFarms") for the year ended December 31, 2022. This MD&A is prepared by management and should be read in conjunction with the consolidated financial statements for the year ended December 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. ("HydroGreen"), and CubicFarm Systems (Shanghai) Corp.

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

Forward-Looking Statements

Certain statements contained in the following MD&A constitute forward-looking statements. These statements are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "plans", "forecasts", "budgets", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or management, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements related to the Company's ability to: raise sufficient capital to meet its obligations as and when they come due, meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business, enter into sales agreements with new customers, secure incremental cashflow, and secure debt and equity financing and achieve profitable operations. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors including, but not limited to, financial, operational, environmental and political risks, general equity and market conditions. The outcome of these factors may cause the actual results and performance of the Company to be materially different from any plans or results expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements. The Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, however, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward looking information will not be updated unless required by law or securities regulations. For a comprehensive list of the risks and uncertainties applicable to the Company, refer to pages 1-3, and 39-49 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 in two segments, which are its Feed Division and Fresh Division. The Feed Division (selling hydroponic equipment and services to promote live green animal feed production in a controlled environment) and Fresh Division (selling hydroponic equipment and services to promote leafy green production in a controlled environment) use two distinct technologies that address two distinct markets.

Feed Division

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

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

As of December 31, 2022, the Feed Division had 31 employees and full-time contractors, a decrease of 26% from 39 as of December 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.

Research and Development

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

Fresh Division

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

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

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

As of December 31, 2022, the Fresh division had 38 employees and full-time contractors, a decrease of 68% from 120 as of December 31, 2021.

Research and Development

CubicFarms operated R&D facilities in Pitt Meadows, British Columbia, and in Busby, Alberta. These facilities were used for plant science R&D, development of farm operating protocols, and both hardware and software testing. The Company has exited both of these facilities to bring all research and development activities into Langley, BC.

Corporate and operational highlights for the year ended December 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 the appointment of Tom Wiltrout 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 the appointment of 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") 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.

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. With over 15 years of senior finance executive experience, Yam has served as CFO of both publicly traded and private companies with responsibilities ranging from strategic growth, capital markets, mergers and acquisitions, business integration, risk management, banking and treasury, to financial reporting and analysis and operational finance.

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

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

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

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

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

On August 15, 2022, the Company announced a comprehensive review of its internal cost structure to optimize operating efficiency and accelerate its path to profitability. The Company provided notice to approximately 16.5% of its workforce and reduced other non-payroll related overhead expenditures.

On September 9, 2022, the Company announced management and strategic transitions. Dave Dinesen and Jeff Booth both resigned from the Board of Directors, and Daniel Burns was appointed Chair of the Board. Edoardo De

Martin was also appointed Interim Chief Executive Officer following the retirement of Dave Dinesen. Additionally, a Special Committee comprising independent Board directors was appointed to review strategic and tactical opportunities for the Company.

On September 12, 2022, the Company announced additional cost reduction measures to optimize operating efficiency and accelerate its path to profitability. These measures included reducing payroll related expenses by $6.4 million annually and non-payroll related expenses by $2.6 million annually. Combined with previously announced cost reduction measures on August 15, 2022, the Company provided notice to 87 employees or 50.4% of its workforce.

On September 20, 2022, the Company announced that it completed the closing of a $6.4 million secured revolving term loan to support the business operations (the "Term Loan"). The Term Loan has a term of two years, subject to prepayment obligations upon the Company achieving certain milestones or disposing of assets outside of the ordinary course of business and bears and pays interest at a rate of 10.0% per annum. The lender of the Term Loan also received share purchase warrants (the "Warrants") in HydroGreen, Inc. ("HGI"), to purchase, in aggregate, approximately 4.8 million of HGI shares.

On October 24, 2022, the Company announced key leadership changes and appointed John de Jonge as Interim Chief Executive Officer of CubicFarms and President of HydroGreen following the departure of prior Interim Chief Executive Officer Edoardo De Martin at CubicFarms and of former President Dan Schmidt at HydroGreen.

On November 23, 2022, the Company announced its Feed division has entered into a wholesale program and support agreement with DLL Finance LLC ("DLL") to provide floor plan financing for the sales of Automated Vertical Pastures™ to HydroGreen's dealership network. DLL is a division of Rabobank Group, a European-based international financial services provider specializing in the food and agriculture industries. The Company also announced that Leo Benne, Head of Innovation and member of the Board of Directors, has resigned from his roles.

On December 19, 2022, the Company announced that it has completed the closing of offering of units (each, a "Unit") by issuing a total of 21,428,570 Units at a price of CAD$0.063 per Unit for the gross proceeds of USD$1 million (the "Offering"), pursuant to the listed issuer financing exemption under Part 5A of National Instrument NI 45-106 – Prospectus Exemptions.

Each Unit is comprised of one common share ("Common Share") in the capital of the Company and one Common Share purchase warrant ("Warrant") of the Company. Each Warrant shall entitle the holder thereof to acquire one additional Common Share at a price of $0.078 for a period of two (2) years from the closing date of the Offering.

Environmental, Social, and Governance (ESG)

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

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

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

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

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

CubicFarms ESG Disclosure

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

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

Environmental Commitments

Sustainability

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

Social Commitments

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

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

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

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. Furthermore, the Corporate Governance Committee has a general mandate to assess all issues that may affect the Company in the areas of corporate governance and to recommend appropriate governance policies to the Board.

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

Highlights subsequent to the year ended December 31, 2022

On March 17, 2023, the Company announced that it has closed its previously announced overnight marketed public offering (the "Offering") of units (the "Units") of the Company. Each Unit consists of one common share of the Company (a "Common Share") and one common share purchase warrant (the "Warrant"). Each Warrant entitles the holder thereof to acquire one Common Share of the Company at an exercise price of C$0.10 (the "Exercise Price") per Common Share for a period of 36 months from March 17, 2023 (the "Closing Date").

Pursuant to the Offering, the Company issued a total of 56,027,000 Units at a price of C$0.05 per Unit (the "Offering Price") for gross proceeds of C$2,801,350, including 10,261,000 Units issued to reduce working capital obligations of the Company for C$513,050 in payables ("Debt-for-Equity Swap"). In addition, the Company has agreed to pay a cash commission equal up to 6% of the aggregate gross proceeds of the Offering, including the amounts raised in the Debt-for-Equity Swap. As an additional compensation, the Company issued 3,061,620 of non-transferable compensation warrants (the "Compensation Warrants"). Each Compensation Warrant will be exercisable to acquire one Common Share of the Company at the Offering Price for a period of 36 months from the Closing Date, subject to adjustment in certain events.

Discussion of Operations

Three and twelve months ended December 31, 2022, and 2021

Revenue

Fresh Division	December 31, 2022	December 31, 2021	Change	%
Three months ended	$ 118,572	$ (657,797)	$ 776,369	n.a.
Twelve months ended	$ 3,331,866	$ 3,611,093	$ (279,227)	-8%

Feed Division	December 31, 2022	December 31, 2021	Change	%
Three months ended	$ 57,348	$ 1,476,992	$ (1,419,644)	-96%
Twelve months ended	$ 303,939	$ 1,662,073	$ (1,358,134)	-82%

Total	December 31, 2022	December 31, 2021	Change	%
Three months ended	$ 175,920	$ 819,195	$ (643,275)	-79%
Twelve months ended	$ 3,635,805	$ 5,273,166	$ (1,637,361)	-31%

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

Sales within the Fresh Division for the three months ended December 31, 2022, included supply of parts of $67,576, and consumable revenue of $50,996. Sales within the Fresh Division for the year ended December 31, 2022, included system sales of $2.6 million, consumable revenue of $583,268 and services revenue of $101,467. Sales within the Feed division for the three months ended December 31, 2022, included part sales of $57,348. Sales within the Feed Division for the year ended December 31, 2022, included system sales of $303,939.

For the year ended December 31, 2022, sales within the Fresh division decreased by 8%, primarily due to lower system sales as fewer projects were completed and commissioned compared to the prior year. Systems sales were $2.6 million in FY2022 versus $3.1 million in FY2021. The decrease was partially offset by higher consumable revenues, which was $0.6 million in FY2022 versus $0.3 million in FY2021. For the year ended December 31, 2022, sales within the Feed division decreased by 31%. This decrease is due to lower system sales.

Gross margin

Fresh Division	December 31, 2022	December 31, 2021	Change	%
Three months ended	$ (6,547,221)	$ (937,512)	$ (5,609,709)	-598%
Twelve months ended	$ (6,386,738)	$ (293,652)	$ (6,093,086)	-2075%

Feed Division	December 31, 2022	December 31, 2021	Change	%
Three months ended	$ (145,724)	$ 325,696	$ (471,420)	n.a.
Twelve months ended	$ (75,233)	$ 302,946	$ (378,179)	n.a.

Total	December 31, 2022	December 31, 2021	Change	%
Three months ended	$ (6,692,945)	$ (611,816)	$ (6,081,129)	-994%
Twelve months ended	$ (6,461,971)	$ 9,294	$ (6,471,265)	n.a.

Gross margin for the three months ended December 31, 2022, was $(6,692,945). Gross margin for the twelve months ended December 31, 2022, was $(6,461,971). In addition to the regular course of business for cost of sales, the Company incurred approximately $102,727 in inventory obsolescence, $367,533 to retrofitting, $2,660,483 write down in deposits for inventory, and $3,427,517 of inventory write down for the twelve months ended December 31, 2022. The write downs are a result of management's assessment of inventory deemed as excess inventory based on current and projected market demands.

Gross margin for the three months ended December 31, 2021, was $(611,816). The Company continues to invest in retrofitting certain existing customer equipment to the newest version of the equipment available, and while improving the throughput, reliability, and capabilities, it negatively affects the Company's gross margins. The Company made this decision to ensure these customers achieve the highest possible productivity and efficiency from its systems. The Company incurred approximately $744,000 related to retrofitting during the three months ended December 31, 2021. The Company also wrote down $207,334 of inventory due to engineering changes.

Gross margin for the twelve months ended December 31, 2021, was $9,294 or 0.2% of revenue. The Company incurred approximately $1.31 million related to retrofitting, and $207,334 of inventory write downs for the twelve months ended December 31, 2021.

General and administrative expenses

	December 31, 2022	December 31, 2021	Change	%
Three months ended	$ 3,078,954	$ 5,145,416	$ (2,066,462)	-40%
Twelve months ended	$ 15,203,156	$ 16,644,987	$ (1,441,831)	-9%

The decrease in general and administrative expenses is in line with the Company's cost reduction plan to optimize operating efficiency. For the three months ended December 31, 2022, general and administrative expenses were reduced by $2.07 million or 40%. The reduction was primarily due to reduced headcount and related operating expenses as a result of the cost reduction plan. General and administrative staffing expense and consulting fees for the three months ended December 31, 2022, was $2,407,160 (compared to $4,061,244 for the three months ended December 31, 2021).

For the twelve months ended December 31, 2022, general and administrative expenses decreased by $1.44 million or 9%. This decrease was due mostly to a decrease in staffing, office expenses and supplies, subscriptions, software licenses, shipping and logistics costs, and operational supplies.

Selling expenses

	December 31, 2022	December 31, 2021	Change	%
Three months ended	$ 808,077	$ 1,981,118	$ (1,173,041)	-59%
Twelve months ended	$ 6,022,487	$ 6,307,982	$ (285,495)	-5%

For the three months ended December 31, 2022, selling expenses decreased by $1.17 million or 59%. This was due to a decrease in staffing and consulting fees of $608,994, as well as marketing and promotions of $451,463.

For the twelve months ended December 31, 2022, selling expenses decreased by $285,495 or 5%. This was due to the cost reduction measures were implemented in the last half of the year and to continue into the subsequent periods.

Research and development

		December 31, 2022		December 31, 2021		Change	%
Three months ended	$	1,831,170	$	3,232,038	$	(1,400,868)	-43%
Twelve months ended	$	10,410,196	$	7,518,489	$	2,891,707	38%

For the three months ended December 31, 2022, research and development expenses decreased by approximately $1.40 million or 43%. This was mostly due to a decrease in headcount and consulting fees implemented in the second half of 2022, and the Company's overall approach to refocusing on the Feed division, which required a lower activity level with R&D.

For the twelve months ended December 31, 2022, research and development expenses increased by $2.89 million or 38%. This was mostly due to an increase in R&D staffing expenses and consulting fees, and an increase in office expenses and supplies, subscriptions, software licenses, shipping and logistics costs, and operational supplies in the first half of the year.

Impairment loss

		December 31, 2022		December 31, 2021		Change	%
Three months ended	$	16,991,153	$	-	$	16,991,153	n.a.
Twelve months ended	$	20,447,236	$	-	$	20,447,236	n.a.

During the three and twelve months ended December 31, 2022, the Company assessed indicators for impairment and concluded that indicators of impairment exist which resulted in testing for impairment in the period. The Company has identified two Cash Generating Units (CGU's), which are the Fresh division and the Feed division.

In the twelve months ended December 31, 2022, the Fresh division was impaired by $4,053,527 and the Feed division was impaired by $16,393,709. The impairment loss was allocated to property, plant and equipment, intangible assets, right of use assets, and goodwill.

Net finance expense (income)

		December 31, 2022		December 31, 2021		Change	%
Three months ended	$	665,697	$	152,838	$	512,859	336%
Twelve months ended	$	1,592,591	$	(8,211)	$	1,600,802	n.a.

The net finance expense relates to finance expenses and accretion charges incurred in the period. The net finance expense in the three and twelve months ended December 31, 2022, also included the interest on the convertible debentures issued in the second quarter, interest on the senior term loan issued in the third quarter, and a loss on debt modification. The twelve months ended December 31, 2021, included a gain on debt modification of $497,287.

Net loss

		December 31, 2022		December 31, 2021		Change	%
Three months ended	$	(29,842,639)	$	(11,243,309)	$	(18,599,330)	-165%
Twelve months ended	$	(60,370,289)	$	(29,357,383)	$	(31,012,906)	-106%

The Company's net loss in the three and twelve months ended December 31, 2022, reflects the Company's prior expansion of its business and staffing additions that were necessary to both develop and sell its manufactured products within the global controlled-environment agricultural market. Cost reduction measures were put in place in the third quarter. The net loss also reflects the impairment loss recognized in the period.

Use of Proceeds

The following table provides a comparison between the expected and actual use of proceeds from the Company's financing activities as of December 31, 2022:

Month	Expected Amount per Prospectus	Actual Amount Received	Use of Proceeds	Expected	%	Actual	%
Nov-21	$18,550,000	$18,550,000	Sales and marketing	$ 7,420,000	40.0%	$ 2,978,662	16.1%
			R&D	$ 9,275,000	50.0%	$ 4,477,816	24.1%
			Working capital and general corporate purposes	$ 1,855,000	10.0%	$ 11,093,522	59.8%
Jun-22	$10,560,000	$10,588,550	Sales and marketing	$ 1,056,000	5.7%	$ 1,579,609	15.0%
			R&D	$ 6,336,000	34.2%	$ 2,824,938	26.8%
			Working capital and general corporate purposes	$ 3,168,000	17.1%	$ 6,184,003	58.6%
Sep-22	$ 6,400,000	$ 6,400,000	Working capital and general corporate purposes	$ 6,400,000	100.0%	$ 4,805,076	75.1%
Dec-22	$ 1,350,000	$ 1,350,000	Working capital and general corporate purposes	$ 1,350,000	100.0%	$ -	0.0%

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

Summary of Quarterly Results

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

Period	Revenue $	Net income (loss) for the period $	Basic and fully diluted income (loss) per share $
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	191,156	(7,964,945)	(0.05)
October 1, 2021 - December 31, 2021	819,195	(11,243,309)	(0.07)
January 1, 2022 - March 31, 2022	243,912	(8,760,249)	(0.05)
April 1, 2022 - June 30, 2022	2,890,493	(9,091,846)	(0.05)
July 1, 2022 - September 30, 2022	325,480	(12,675,555)	(0.06)
September 01, 2022 - December 31, 2022	175,920	(29,842,639)	(0.16)

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

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

During the three months ended December 31, 2022, the Company's revenues were primarily derived from consumables sales.

Liquidity and Capital Resources

As at December 31, 2022, current assets less current liabilities was negative $1,928,674 compared to positive $25,567,298 as at December 31, 2021. The decrease is primarily due to a reduction of cash, impairment charges on current assets, as well as an increase in trade and other payables, customer deposits, and loan and borrowings.

Operating Activities

Cash outflow from operating activities for the three months ended December 31, 2022, was $4,068,743, a decrease in cash outflow by 57% compared to $9,534,173 in the prior year. The cost reduction measures implemented commenced in the third quarter 2022.

Cash outflow from operating activities for the twelve months ended December 31, 2022, was $28,006,434, which is a decrease of 8% compared to $30,467,205 in the prior year. The decrease in cash outflow was due to the cost reduction measures in the third quarter of 2022 and higher customer deposits received.

Investing Activities

Cash outflow from investing activities for the twelve months ended December 31, 2022, was $5,207,975, a decrease of 33% compared to $7,810,370 in the prior year. The decrease in cash outflow was primarily due to lower property, plant and equipment and intangible asset investments compared to the prior year.

Financing Activities

Cash inflow from financing activities was $14,789,703, a decrease of 66% compared to $43,534,829 in the prior year. The decrease was due to less equity financing.

Contractual Amounts Payable

As at December 31, 2022, the Company has financial liabilities which are due on a fiscal year basis as follows:

As at December 31, 2022	Carrying Amount	< 1 Year	1-5 years	5+ Years	Total
	$	$	$	$	$
Trade and other payables	7,514,621	7,514,621	-	-	7,514,621
Earn out payable	1,696,063	1,696,063	-	-	1,696,063
Lease liabilities	2,959,168	933,498	1,869,722	1,000,320	3,803,540
Loans liabilities	10,707,631	3,121,127	15,484,775	-	18,605,902
Total	**22,877,483**	**13,265,309**	**17,354,497**	**1,000,320**	**31,620,126**

Capital Management

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

The losses and deficits incurred by the Company indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. As of December 31, 2022, the Company had cash and cash equivalents of $2,944,924. Although reduced in recent months as a result of the Company's implementation of cost reduction measures, the Company continues to maintain a certain level of non-discretionary monthly expenditures. Combined with slower-than-expected product sales, this results in a reduction in the Company's cash position and short-term liquidity. As of the date of this MD&A, the Company had cash on hand and credit room from its existing credit facilities, provided certain draw conditions are met, totaling approximately $2.7 million. The Company expects incremental cash inflow and thus improve its cash position upon signing of sale agreements with new customers through receipt of progress payments as they arise. The Company is also seeking other strategic options in order to extend its cash runway. There is no guarantee that the Company will be able to raise sufficient capital to extend its cash runway or on terms that will not be detrimental to its current shareholders. These conditions cast significant doubt on the Company's ability to continue as a going concern. The Company's consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than normal course of business and at amounts different from those in the accompanying audited consolidated financial statements. These adjustments could be material.

Transactions with Related Parties

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

Transactions with Bevo Farms Ltd.

Bevo Farms Ltd. was a related party through the Chief Innovation Officer, who was also a director of the Company, resigned in November 2022 and hence Bevo Farms is no longer a related party as at December 31, 2022.

The following summary of transactions occurred during the reporting periods:

	Twleve months ended December 31, 2022 $	Twleve months ended December 31, 2021 $
Short term leases	55,062	71,561
Lease payments	386,985	313,800
Office expenses	44,102	93,213

	December 31, 2022 $	December 31, 2021 $
Accounts payable	173,586	18,291
Lease liabilities	1,165,147	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:

	Twelve months ended December 31, 2022 $	Twelve months ended December 31, 2021 $
Wages and salaries	1,340,911	1,596,583
Consulting fees	840,061	1,280,873
Share-based compensation	862,642	1,782,606
Total	**3,043,614**	**4,660,062**

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 2, 2023, the Company has no Class A preferred shares or Class B preferred shares issued and outstanding.

As at December 31, 2022, and May 2, 2023, the Company had the following number of common shares, options, and warrants outstanding:

	December 31, 2022	May 2, 2023
Common shares issued and outstanding	207,136,774	263,163,774
Options	8,432,000	15,676,202
Warrants	30,597,275	86,624,275
Total fully diluted shares	**246,166,049**	**365,464,251**

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. Pleadings have closed and the Company's legal counsel is awaiting the date for discovery. As at December 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.

The Company is also party to a claim that arose in the ordinary course of business in May 2022, asserting that the Company was in breach of certain obligations pursuant to a manufacturing agreement. In June 2022, the Company's legal counsel submitted a response to the notice of civil claim and a counterclaim against the firm and its directors in their personal capacity. As of the period end, the potential exposure the Company faces cannot be measured reliably.

The Company is party to a claim that arose in the ordinary course of business in August 2022, asserting that the Company was in breach of certain obligations pursuant to a purchase agreement. The Company's legal counsel has submitted a response to the notice of civil claim and awaits a response from the plaintiff. As of the period end, the potential exposure the Company faces cannot be measured reliably.

Financial Instruments

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

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

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

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

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

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

The earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at December 31, 2022, the discount rate was estimated to be 31% (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 December 31, 2022				
	FVTPL	Amortized Cost	Fair Value	
Asset (Liability)			Level 2	Level 3
Cash	-	2,944,924	-	-
Trade and other receivables	-	1,986,579	-	-
Trade and other payables	-	(7,514,621)	-	-
Earnout payable	(1,386,396)	-	-	(1,386,396)
Loans payable	-	(10,707,631)	(11,687,978)	-

As at December 31, 2021				
	FVTPL	Amortized Cost	Fair Value	
Asset (Liability)			Level 2	Level 3
Cash	-	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:

	December 31, 2022 $	December 31, 2021 $
Balance – beginning of period	1,762,812	1,643,033
Less: payment	(325,104)	-
Foreign exchange	93,090	1,466
Fair value change during the year	(144,402)	118,313
Balance – end of period	**1,386,396**	**1,762,812**
Current portion	1,386,396	1,762,812
Non-current portion	-	-

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at December 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 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 December 31, 2022, three customers accounted for 40%, 27% and 11% of gross trade accounts receivable, respectively (December 31, 2021 - 48%, 27% and 12%).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. Accounts payable and accrued liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms. Management is continuing efforts to increase sales and attract additional equity and capital investors to continue research and development activities, while implementing effective cost control measures to maintain adequate levels of working capital.

Market risk

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

Interest rate risk

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

Foreign currency risk

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

The Company's cash and cash equivalents, accounts receivable, marketable securities, non-current assets, accounts payable and accrued liabilities and other current and non-current liabilities are denominated in several currencies and are therefore subject to fluctuation against the Canadian dollar.

The table below summarizes the Company's exposure to the various currencies denominated in the foreign currency as at December 31, 2022, and 2021, as listed below:

	December 31, 2022		December 31, 2021	
	US dollar	Chinese renminbi	US dollar	Chinese renminbi
	$	¥	$	¥
Cash	500,276	8,627,405	166,656	1,601,433
Trade and other receivables	825,032	-	1,129,064	-
Trade and other payables	(2,866,745)	(11,739)	(1,039,306)	(63,669)
Customer deposits	(4,346,496)	(15,759,855)	(661,602)	-
Earn-out payable	(1,021,775)	-	(1,385,363)	-
Loans payable	(77,402)	-	(84,736)	-
Net exposure	**(6,987,110)**	**(7,144,189)**	**(1,875,287)**	**1,537,764**

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

Based on the balances as at December 31, 2022, a 1% increase or decrease in the value of the Canadian dollar exchange rate against all of the other currencies on that date would result in an increase or decrease of approximately $108,846 (December 31, 2021 – $20,707) in earnings (losses) before taxes.

Critical Accounting Estimates

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

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

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

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

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

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

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

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

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

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

Disclosure Controls and Internal Controls over Financial Reporting

The Company takes all necessary steps to ensure that material information regarding the Company's reports filed or submitted under securities legislation fairly presents the financial information of the Company. Responsibility for this resides with management, 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. In the fiscal year 2022, the Company employed an external consultant to evaluate the disclosure controls and internal controls over financial reporting.

The evaluation of the effectiveness of the Company's disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 Certification of Disclosures in Issuers' Annual and Interim Filings, was performed under the supervision of the Chief Executive Officer and the Chief Financial Officer. Management has also designed the Company's internal control over financial reporting ("ICFR") to provide reasonable assurance that the Company's financial reporting is reliable and that the Company's consolidated financial statements were prepared in accordance with IFRS. The design and effectiveness of ICFR was evaluated as defined in National Instrument 52-109 under the supervision of the Chief Executive Officer and the Chief Financial Officer. The design of ICFR is undertaken in accordance with the 2013 COSO framework.

Based on an evaluation completed by the management, it was concluded that certain weaknesses existed as of December 31, 2022, as described below, and due to these material weaknesses, the design and operational effectiveness of the Company's DC&IP and ICFR were not effective as of December 31, 2022.

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

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

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

For the twelve months ended December 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.

Additional Information & Approval

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

The Board of Directors has approved the disclosures contained in this MD&A as of May 2, 2023.