



CubicFarm Systems Corp.
Condensed Consolidated Interim Financial Statements
For The Three Months and Six Months Ended June 30, 2021, and 2020
(Unaudited)

NOTICE OF NO AUDITOR REVIEW

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

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

Financial Statements

Consolidated Interim Statements of Financial Position.....	1
Consolidated Interim Statements of Loss and Comprehensive Loss.....	2
Consolidated Interim Statements of Changes in Equity.....	3
Consolidated Interim Statements of Cash Flows.....	4
Notes to the Condensed Consolidated Interim Financial Statements.....	5 to 21

CubicFarm Systems Corp.
Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

	Notes	June 30, 2021	December 31, 2020
		\$	\$
Assets			
Current			
Cash and cash equivalents		28,368,183	16,206,535
Trade and other receivables	7	1,773,751	1,338,265
Inventories	8	4,989,769	4,866,641
Prepaid expenses and deposits	9	3,876,676	1,356,376
		39,008,379	23,767,817
Non-current			
Goodwill		1,832,880	1,920,826
Property, plant and equipment	10	2,819,313	2,256,814
Investment in associates	11	20	20
Intangible assets		4,911,178	5,032,905
Right-of-use assets		2,014,784	1,758,473
		11,578,175	10,969,038
Total assets		50,586,554	34,736,855
Liabilities			
Current			
Trade and other payables		2,324,251	1,465,666
Earn-out payable	21	1,731,651	1,165,953
Customer deposits	12	3,722,528	4,955,509
Lease liability		592,565	409,122
Loans payable	13	326,395	335,615
Warranty provision	14	177,706	191,342
		8,875,096	8,523,207
Non-current			
Lease liability		1,289,742	1,164,197
Restoration provision		131,686	131,446
Loans payable	13	1,927,575	1,699,220
Derivative liability	21	-	1,002,128
Earn-out payable	21	-	477,080
		3,349,003	4,474,071
Total liabilities		12,224,099	12,997,278
Equity			
Share capital	17	74,814,238	49,040,308
Equity reserves		4,097,299	2,959,756
Accumulated other comprehensive loss		(204,617)	(65,151)
Deficit		(40,344,465)	(30,195,336)
Total equity		38,362,455	21,739,577
Total liabilities and equity		50,586,554	34,736,855

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

CubicFarm Systems Corp.
Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Notes	For the Three months ended		For the Six months ended	
		June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
		\$	\$	\$	\$
Revenue					
Systems		127,387	4,004,696	3,816,756	4,161,029
Services		97,276	-	161,868	-
Consumables		131,342	58,326	284,191	94,682
		356,005	4,063,022	4,262,815	4,255,711
Cost of sales		(543,363)	(2,670,825)	(3,526,644)	(2,999,058)
Gross margin		(187,358)	1,392,197	736,171	1,256,653
General and administrative expenses		(3,279,358)	(2,298,127)	(6,507,992)	(4,550,852)
Selling expenses		(1,744,754)	(413,956)	(2,373,910)	(646,999)
Research and development		(1,320,935)	(615,190)	(2,461,354)	(1,020,443)
Impairment of investment in associate		-	(614,364)	-	(614,364)
		(6,345,047)	(3,941,637)	(11,343,256)	(6,832,658)
Loss before other income (expense)		(6,532,405)	(2,549,440)	(10,607,085)	(5,576,005)
Gain on debt modification	13,21	497,287	-	497,287	-
Finance income		91	(52,300)	1,733	32,535
Finance expense		(66,697)	(1,483)	(132,153)	(2,795)
Accretion charges		(47,575)	(21,137)	(81,850)	(21,952)
Net finance income (expense)		383,106	(74,920)	285,017	7,788
Other income (expense)					
Other income (expense)	15	(9,500)	310,595	656,111	310,595
Fair value change for earn-out payments	21	(66,626)	32,717	(131,561)	32,717
Foreign exchange gain (loss)		(232,074)	(97,335)	(266,910)	(66,881)
Change in fair value of derivative liability	13,21	(29,183)	-	(63,576)	-
Loss on investment in associate		-	(55,542)	-	(206,177)
Public listing		-	-	-	(3,210)
Provision for expected credit loss		14,641	(138,623)	(17,156)	(559,536)
		(322,742)	51,812	176,908	(492,492)
Loss before income taxes		(6,472,041)	(2,572,548)	(10,145,160)	(6,060,709)
Income taxes		-	235,803	(3,969)	235,803
Net loss for the period		(6,472,041)	(2,336,745)	(10,149,129)	(5,824,906)
Other comprehensive loss					
Items that may be reclassified to profit or loss:					
Foreign currency translation gain (loss)		70,325	(47,308)	(139,466)	(18,651)
Total comprehensive loss		(6,401,716)	(2,384,053)	(10,288,595)	(5,843,557)
Basic and diluted loss per share		\$ (0.04)	\$ (0.02)	\$ (0.07)	\$ (0.06)
Weighted average number of shares outstanding		145,228,327	106,207,526	141,512,685	100,342,063

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

CubicFarm Systems Corp.
Consolidated Interim Statements of Changes in Equity
(Unaudited)
(Expressed in Canadian dollars)

	Notes	No of Shares	Share capital	Equity reserves	Accumulated other comprehensive loss	Shares Issuable	Deficit	Total equity
		#	\$	\$	\$	\$	\$	\$
Balance, December 31, 2019		84,456,885	22,932,279	1,836,366	-	-	(14,244,866)	10,523,779
Net loss for the period		-	-	-	-	-	(5,824,906)	(5,824,906)
Exercise of stock options		119,000	42,132	(19,522)	-	-	-	22,610
Issuance of shares, net of share issuance costs		21,739,130	4,999,986	-	-	-	-	4,999,986
Issuance of shares for acquisition of CubicFeed		10,000,000	3,851,186	-	-	270,778	-	4,121,964
Foreign currency translation		-	-	-	(18,651)	-	-	(18,651)
Share-based payments	18	-	-	559,640	-	-	-	559,640
Balance, June 30, 2020		116,315,015	31,825,583	2,376,484	(18,651)	270,778	(20,069,772)	14,384,422
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		-	-	-	-	-	(10,149,129)	(10,149,129)
Exercise of stock options	17	392,333	141,547	(65,357)	-	-	-	76,190
Issuance of shares, net of share issuance costs	17	20,205,364	25,432,383	-	-	-	-	25,432,383
Issuance of shares on settlement of loan bonus	17	128,205	200,000	-	-	-	-	200,000
Foreign currency translation		-	-	-	(139,466)	-	-	(139,466)
Share-based payments	18	-	-	1,202,900	-	-	-	1,202,900
Balance, June 30, 2021		158,430,438	74,814,238	4,097,299	(204,617)	-	(40,344,465)	38,362,455

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

CubicFarm Systems Corp.
Consolidated Interim Statements of Cash Flows

(Unaudited)
(Expressed in Canadian dollars)

	For the Six months ended	
	June 30, 2021	June 30, 2020
	\$	\$
Cash provided by (used for) the following activities		
Operating activities		
Net loss for the period	(10,149,129)	(5,824,906)
Depreciation - property, plant and equipment	10 330,762	250,848
Depreciation - right-of-use asset	272,678	78,299
Amortization	9,675	78,825
Provision for expected credit loss	17,156	559,536
Foreign exchange	266,910	66,881
Finance expense	132,153	2,795
Accretion charges	81,850	21,952
Finance income	(1,733)	(32,535)
Income taxes	3,969	(235,803)
Change in fair value of earnout payable	21 131,561	1,364,756
Share-based payments	1,202,900	559,640
Loss on investment in associate	-	206,177
Gain on debt modification	(497,287)	-
Change in fair value of derivative liability	21 63,576	-
Funds used in operations	(8,134,959)	(2,903,535)
<i>Changes in non-cash working capital:</i>		
Trade and other receivables	(971,555)	(1,850,978)
Contract assets	605,279	-
Inventory	(114,746)	(1,786,805)
Prepaid expenses and deposits	(2,520,300)	1,683,993
Trade and other payables	862,624	860,519
Customer deposits	(1,363,923)	(518,708)
Warranty provision	(13,636)	55,113
Cash used in operating activities	(11,651,216)	(4,460,400)
Interest paid	(121,722)	(2,795)
Interest received	1,733	26,359
Income taxes paid	(3,969)	-
Net cash used in operating activities	(11,775,174)	(4,436,836)
Investing activities		
Purchases of property, plant, and equipment	10 (898,799)	(353,283)
Purchase of intangible assets	(77,407)	-
Loans to associates	11 (37,250)	(322,000)
Net cash used for investing activities	(1,013,456)	(675,283)
Financing activities		
Issuance of shares	17 25,432,383	4,999,986
Exercise of stock options	76,190	22,610
Principal and interest payments on lease	(268,646)	(120,177)
Proceeds from loans payable	59,570	-
Payment of loan	(1,982)	-
Cash payment of loan bonus	13 (225,000)	-
Net cash from financing activities	25,072,514	4,902,419
Increase (decrease) in cash and cash equivalents	12,283,884	(209,701)
Effect of movements in exchange rates on cash held	(122,236)	10,625
Cash and cash equivalents, beginning of period	16,206,535	3,803,487
Cash and cash equivalents, end of period	28,368,183	3,604,412

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

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
For the three months and six months ended June 30, 2021, and 2020.
(Unaudited)
(Expressed in Canadian dollars, unless otherwise stated.)



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 19951 80A Avenue, Unit 353, Langley, BC, V2Y 0E2.

The Company listed its common shares on the TSXV as a Tier 1 issuer in July 2019. The Company’s common shares trade on the TSXV in Canada under the symbol “CUB”.

The Company is an agriculture technology and vertical farming company that develops, employs, and sells modular growing systems with patented and patent-pending technologies (the “System”) to provide high-quality, predictable crop yields for farms around the world. In addition, the Company leverages its technology by operating its own facility in Pitt Meadows, British Columbia. On January 1, 2020, the Company completed the acquisition of all of the issued and outstanding shares of Hydrogreen Inc., (formerly named CubicFeed Systems U.S. Corp.), a manufacturer of fully automated hydroponic growing systems that produce live, green animal feed prioritizing animal health and performance.

The outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. As of June 30, 2021, the Company has not observed any material impairments of its assets or a significant change in the fair value of assets due to the COVID-19 pandemic. Due to the rapid developments and uncertainty surrounding COVID-19 it is not possible to predict the impact it will have on the Company’s business, financial position, and operating results in the future. It is possible that estimates in the Company’s financial statements will change in the near term as a result of COVID-19 and the affect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

2. Going concern

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

The Company incurred a total comprehensive loss of \$6,401,716 and \$10,288,595 for the three and six months ended June 30, 2021, respectively (\$2,384,053 and \$5,843,557 for the three and six months ended June 30, 2020). The Company used cash in operating activities of \$6,856,220 and \$11,775,174 for the three and six months ended June 30, 2021, respectively (\$3,564,995 and \$4,436,836 for the six months ended June 30, 2020), and has accumulated a deficit of \$40,344,465 as at June 30, 2021. The Company has working capital of \$30,133,283 as at June 30, 2021, compared with \$15,244,610 as at December 31, 2020.

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

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
For the three months and six months ended June 30, 2021, and 2020.
(Unaudited)
(Expressed in Canadian dollars, unless otherwise stated.)



2. Going concern (continued)

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

3. Basis of presentation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (IFRSs). As such, they must be read in conjunction with the annual audited consolidated financial statements for the period ended December 31, 2020 and the notes thereto. However, selected notes are included that are significant to understanding the Company's financial position and performance since the last annual consolidated financial statements for the year ended December 31, 2020. The interim financial statements are presented in Canadian dollars, which is the Company's functional currency. The amounts in the tables are expressed in Canadian dollars and rounded to the nearest dollar, unless otherwise stated.

The Audit Committee of the Board of Directors approved these condensed consolidated interim financial statements on August 25, 2021.

Prior period reclassification

Certain prior period amounts on the condensed consolidated interim statements of loss and comprehensive loss have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Basis of measurement

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

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated upon consolidation. The principal subsidiaries of the Company and associates to which it is a party were the same as at December 31, 2020.

4. Significant accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements for the year ended December 31, 2020. The annual consolidated statements are available on SEDAR at www.sedar.com. These policies have been applied throughout the periods reported.

5. Significant estimates, assumptions, and judgments

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

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

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**6. Cyclicity of operations**

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

7. Trade and other receivables

Current:	June 30, 2021	December 31, 2020
	\$	\$
Trade accounts receivable	2,090,489	880,185
Less: Provision for expected credit loss	(517,485)	(538,212)
Note receivable ¹	340,440	437,190
Less: Provision for loss on short term receivable (Note receivable & Interest receivable)	(340,440)	(437,190)
Goods and services tax receivable	200,747	193,013
Other receivable ²	-	803,279
	1,773,751	1,338,265

Non-Current:	June 30, 2021	December 31, 2020
	\$	\$
Note receivable ¹	552,016	418,016
Interest receivable ¹	49,409	49,409
Less: Provision for loss on long term receivable (Note receivable & Interest receivable)	(601,425)	(467,425)
	-	-

Aging

The aging of trade receivable at June 30, 2021 and provision for expected credit loss is summarized as follows:

	June 30, 2021	December 31, 2020
	\$	\$
Current or under 60 days	112,222	262,696
Past due 61 to 90 days	1,340,044	3,923
Past due more than 90 days	638,223	613,566
	2,090,489	880,185

Continuity for provision for expected credit loss on trade account receivable

	Six Months Ended June 30, 2021	Six Months Ended December 31, 2020
	\$	\$
Opening	538,212	457,927
(Reduction) Addition during the period	(20,727)	80,285
Amount collected	-	-
Closing balance	517,485	538,212

¹ All Notes receivable and Interest receivable is due from Swiss Leaf.

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

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

²Other receivable consists of government grant receivable and contract assets. For the period ended June 30, 2021, there is no government grant receivable and no contract assets. For the year ended December 31, 2020, a government grant receivable amounted to \$198,000 and contract assets amounted to \$605,279. Contract assets occur when recognized revenue for the customer is higher than the amount the customer has been invoiced.

For the three months and six months ended June 30, 2021, bad debt recovery of (\$14,641) and bad debt expense of \$17,156 respectively was recognized and recorded under provision for expected credit loss which was all due from Swiss Leaf (For the three months and six months ended June 30, 2020 – expected credit loss \$138,623 and \$559,536 respectively, of which \$24,046 was due from Artex Feed Solutions and \$280,478 was due from Swiss Leaf).

8. Inventories

	June 30, 2021	December 31, 2020
	\$	\$
Systems	2,863,405	3,720,794
Work in progress	2,048,132	1,115,836
Seeds and other supplies	68,352	19,536
Packaging and other	9,880	10,475
	4,989,769	4,866,641

Systems are containers on hand and available for sale by the Company. The net realizable value of inventory as of June 30, 2021, and December 31, 2020, is higher than the cost. Accordingly, the Company has reported the inventory at cost in the consolidated interim statement of financial position. For the three months and six months ended June 30, 2021, inventories in the value of \$269,025 and \$2,918,036 respectively has been recognized as Cost of sales in the consolidated interim statement of loss and comprehensive loss (For the three months and six months ended June 30, 2020 - \$2,450,801 and \$2,596,249 respectively has been recognized as Cost of sales in the consolidated interim statement of loss and comprehensive Loss).

9. Prepaid expenses and deposits

	June 30, 2020	December 31, 2020
	\$	\$
Deposits for Systems inventory (i)	3,300,133	1,087,092
Prepaid expenses and deposits, other	576,543	269,284
	3,876,676	1,356,376

(i) In general, the Company is required to pay 100% of deposit for containers. Such containers are shipped upon the purchase being paid in full.

10. Property, plant and equipment

During the six months ended June 30, 2021, the Company acquired assets with a cost of \$898,799 (June 30, 2020 - \$353,283). There were no disposals during the period. Depreciation for the six months ended June 30, 2021 was \$330,762 (June 30, 2020 - \$250,848).

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**11. Investment in associates**

The Company owns 50% of the common shares of Swiss Leaf. Swiss Leaf is a farming operation in Alberta committed to growing fresh, clean, pesticide-free produce.

The Company has made the following contributions to Swiss Leaf:

Period	Amount of Investment
Before six months ended December 31, 2020	1,488,339
Six months ended December 31, 2020	215,190
Six months ended June 30, 2021	37,250
Total	1,740,779

The carrying amount of the investment at June 30, 2021 was determined to be \$Nil (December 31, 2020 - \$Nil) due to 100% expected credit loss applied. The Swiss Leaf equipment is currently being upgraded and the Company continues to work with Swiss Leaf on produce research and development.

12. 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. If the customer cancels the order before the manufacturing of the equipment has commenced, the customer shall pay a restocking fee of 10% of the purchase price. If the customer cancels the order thereafter but prior to shipping of the equipment, the customer shall pay a restocking fee of 20% of the purchase price. The order shall not be cancellable after shipping of the equipment.

There are no external restrictions on the use of these deposits.

	June 30, 2021	December 31, 2020
	\$	\$
Balance - beginning of period	4,955,509	1,709,666
Additions	1,938,751	3,577,870
Recognized into revenue	(3,171,732)	(332,027)
Balance - end of period	3,722,528	4,955,509

Out of the balance of customer deposits, \$1,709,666 is the amount of customer deposits that was received more than twelve months ago.

13. Loans payable

The Company received an interest free loan of \$60,000 for government relief from the Bank of Montreal; \$20,000 of which was received in the six months ended June 30, 2021. \$20,000 of the loan is forgiven if repaid by December 31, 2022, and \$10,000 was recognized in other income for the six months ended June 30, 2021 (June 30, 2020 - Nil). If not repaid, the loan may be extended from January 1, 2023, to December 31, 2025. Hydrogreen also has an Agriculture Loan obtained from South Dakota Value Added Finance Authority ("VAFA") for 45% of HydroGreen's Patent cost, which is payable in sixty monthly installments beginning on March 1, 2022. The loan is interest free if paid before the due date and 12% per annum if not paid when due or if the Company is in default of the terms and conditions of the loan. Currently the Company

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**13. Loans payable (continued)**

is in compliance with the loan agreement. The Company granted VAFA a first priority security interest in the feasibility study for the project proposed in the loan application and any accompanying reports, documents or other information.

	June 30, 2021	December 31, 2020
	\$	\$
Balance - beginning of period agriculture interest free loans	74,638	70,258
Foreign exchange adjustment	(1,982)	4,380
Balance - end of period agriculture interest free loans	72,656	74,638
Less: current portion	(4,844)	-
Non-current portion	67,812	74,638

	June 30, 2021	December 31, 2020
	\$	\$
Balance - beginning of period government relief loans	30,000	194,863
Addition during the year	20,000	-
Loan forgiven transferred to other income - Note 15	(10,000)	(160,383)
Foreign exchange adjustment	-	(4,480)
Balance - end of period government relief loans	40,000	30,000
Less: current portion	-	-
Non-current portion	40,000	30,000

Business loan

On July 20, 2020, the Company signed an agreement with the Business Development Bank of Canada ("BDC") for a loan up to \$5,000,000. 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 terms once the Company is able to complete two consecutive fiscal quarters with positive consolidated earnings before interest, taxes, depreciation, and amortization ("EBITDA") results. On August 28, 2020, the Company received the first tranche payment of \$2,500,000. The second tranche of \$2,500,000 will be provided by BDC when the stipulated conditions in the agreement are met by the Company. Commencing six months after July 10, 2020, the Company shall pay BDC a non-refundable standby fee calculated at a rate of 6.00% per annum on the portion of the loan which has not been advanced or cancelled. The principal amount of loan is payable in monthly installments of \$50,000 commencing on July 15, 2021, and continuing up to the maturity date of June 15, 2025, on which one balloon payment of \$2,650,000 is required.

The loan may be prepaid at any time for all or part of the outstanding principal plus all interest and any other fees that are applicable plus the prepayment bonus which consists of an interest differential charge and prepayment indemnity. The prepayment option is considered to be an embedded derivative with a fair value of nil at the date of issuance and at June 30, 2021. In addition to the scheduled payments, principal of the Financing shall be reimbursed by way of annual payments

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**13. Loans payable (continued)**

representing 30% of Excess Available Funds as determined at the end of the last fiscal year to the maximum of \$700 thousand for each annual payment (Annual ECFS limit" payable on September 15 each year commencing in September 2021 (ECFS date). For greater certainty, any such annual payment is payable only if Excess Available funds as determined at the end of the last fiscal year, is a positive figure. The loan is secured by general security agreement granting a general and continuing security interest in all present and after acquired personal property without limiting the foregoing, on all present and future assets related to intellectual property including, without limitation, patents, trademarks, domain names, source codes, licenses, and any other forms of intellectual property of the Company. This security interest shall rank in first position with respect to the Intellectual Property but subordinated in rank to any other security granted i) on receivable and inventory ii) previously to financial institutions except intellectual property and iii) on specific assets in connection with the financing of equipment needed by the Company.

There was also a provision for payment of a variable loan bonus equal to 5% of consolidated enterprise value of up to \$33 million and 1% of consolidated enterprise value above \$33 million in the event of maturity or payment of loan or occurrence of any other events stipulated in the loan agreement.

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

The initial fair value of the embedded derivative liability related to the variable bonus was estimated to be \$595,712 and the residual amount of proceeds of \$1,904,288 was allocated to the loan. As a result of debt modification, the Company derecognized the derivative liability. See Note 21.

Business loan continuity

	June 30, 2021	December 31, 2020
	\$	\$
Balance - beginning of period	1,930,197	-
Loan payable – Initial recognition (July 20, 2020)	-	1,904,288
Accretion	31,208	15,293
Accrued interest	10,274	10,616
Accrued interest paid	(10,616)	-
Loss on debt modification	568,417	-
Cash payment of loan bonus	(225,000)	-
Issuance of shares on settlement of loan bonus	(200,000)	-
Loan payable - end of period	2,104,480	1,930,197
Less: current portion	(310,274)	(335,615)
Non-current portion	1,794,206	1,594,582

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**13. Loans payable (continued)****Gain on debt modification continuity**

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30 2021	Six Months Ended June 30 2020
	\$	\$	\$	\$
Gain on extinguishment of derivative liability upon debt modification	1,065,704	-	1,065,704	-
Loss on debt modification	(568,417)	-	(568,417)	-
Gain on debt modification	497,287	-	497,287	-

Vehicle Loan

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

	June 30, 2021	December 31, 2020
	\$	\$
Balance- beginning of period	-	-
Loan payable – Initial recognition (February 26, 2021)	39,570	-
Accrued interest	157	-
Payment	(1,982)	-
Foreign exchange adjustment	(911)	-
Loan payable - end of period	36,834	-
Less: current portion	(11,278)	-
Non-current portion	25,556	-

Continuity for all the loans

	June 30, 2021	December 31, 2020
	\$	\$
Balance - beginning of period	2,034,835	265,121
Addition	59,570	1,904,288
Loan forgiven transferred to other income – Note 14	(10,000)	(160,383)
Accretion	31,208	15,293
Accrued interest	10,431	10,616
Payment	(1,982)	-
Interest paid	(10,616)	-
Loss on debt modification	568,417	-
Cash payment of loan bonus	(225,000)	-
Issuance of shares on settlement of loan bonus	(200,000)	-
Foreign exchange adjustment	(2,893)	(100)
Balance - end of period	2,253,970	2,034,835
Less: current portion	(326,395)	(335,615)
Non-current portion	1,927,575	1,699,220

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**14. Warranty provision**

	June 30, 2021	December 31, 2020
	\$	\$
Balance - beginning of period	191,342	251,100
Additions	66,008	-
Fulfillment	(79,644)	(59,758)
Balance - end of period	177,706	191,342

15. Other income

Other income of the Company consists of government grants received by the Company and loan forgiveness of \$10,000 for COVID-19 relief from the Bank of Montreal (June 30, 2020 - Nil).

Government grants relate to the Canada Emergency Wage Subsidy amounts from the Canadian government and government relief from United States government related to the decrease in revenue as a result of COVID-19. There are no unfulfilled conditions and contingencies attached to the grants.

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	\$	\$	\$	\$
Loan forgiveness income - Note 13	-	-	10,000	-
Government Grants	(9,500)	310,595	646,111	310,595
Total	(9,500)	310,595	656,111	310,595

16. 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 affiliated with these individuals.

Transactions with related party Bevo Farms Ltd., that is affiliated with an officer and director of the Company.

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	\$	\$	\$	\$
Short term leases	12,000	-	43,561	-
Lease payments	22,100	2,500	27,100	5,000
Office expenses	16,710	-	54,280	-

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**16. Related party transactions (continued)**

	As on June 30, 2021	As on December 31, 2020
	\$	\$
Lease liability	606,609	70,400

Key management compensation

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

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30 2021	Six Months Ended June 30 2020
	\$	\$	\$	\$
Wages and salaries	340,000	172,500	722,083	472,037
Consulting fees	293,729	254,190	594,913	301,690
Share-based compensation	396,793	212,996	975,225	292,989
Total	1,030,522	639,686	2,292,221	1,066,716

All the related party balances:

Bevo Farms Ltd. is a related party of the Company as it is affiliated with certain officers and directors that have significant influence over the Company.

	As at June 30, 2021	As at December 31, 2020
	\$	\$
Accounts payable:		
Bevo Farms	21,568	12,034
Swiss Leaf Farms	-	11,360
Total Accounts payable	21,568	23,394

17. Share capital

The Company has authorized share capital consisting of: (i) an unlimited number of Common Shares without par value or special rights or restrictions attached; (ii) an unlimited number of Class A Preferred Shares without par value and with certain rights and restrictions attached; and (iii) an unlimited number of Class B Preferred Shares without par value and with certain rights and restrictions attached. As of June 30, 2021, the Company has no Class A Preferred Shares or Class B Preferred shares issued and outstanding (December 31, 2020 – Nil).

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**17. Share capital (continued)**

	Number of common shares	Impact on share capital
	#	\$
Balance June 30, 2020	116,315,015	31,825,583
Issuance of shares (i)	19,884,677	17,536,898
Share issuance costs (i)	-	(899,853)
Holdback shares adjustment(ii)	926,845	356,849
Options exercised (iii)	577,999	121,887
Transfer from equity reserves	-	98,944
Balance December 31, 2020	137,704,536	49,040,308
Issuance of shares (iv)	20,205,364	27,189,364
Share issuance costs (iv)	-	(1,756,981)
Shares issued to settle liability (v)	128,205	200,000
Options exercised (vi)	392,333	76,190
Transfer from equity reserves	-	65,357
Balance June 30, 2021	158,430,438	74,814,238

- i) Financing arrangement with institutional investors and some key management employees of the Company at average price of \$0.8367 per share. Share issuance costs of \$899,853 were accounted for as a deduction from equity.
- ii) Issue of 926,845 holdback shares to Hydrogreen Inc. acquisition @0.3851 per share.
- iii) Options exercised by option holders at average price of \$0.21 per share.
- iv) Public offering and private placement of shares at average price of \$1.26 per share. Share issuance costs of \$1,756,981 were accounted for as a deduction from equity.
- v) Shares issued for settlement of loan bonus component of BDC loan (Note 13)
- vi) Options exercised by option holders at average price of \$0.19 per share.

18. Stock options

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

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

The number of the options granted is calculated in accordance with the various employee and contractor arrangements. The formula rewards key management personnel and certain contractors to the extent of the Company's and individual/contractor achievement against qualitative and/or quantitative criteria from including some of the following financial and customer service measures:

- Improvement in EBITDA
- Shipment of Cubic Systems
- Meeting sales targets
- Years of service with the Company.

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

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**18. Stock options (continued)**

Share purchase options continuity schedule:

	Number of share purchase options	Weighted average exercise price
	#	\$
Balance December 31, 2020	28,456,100	0.43
Granted	4,059,000	1.23
Exercised	(392,333)	0.19
Balance June 30, 2021	32,122,767	0.53

During the period ended June 30, 2021, the weighted average price of shares when options were exercised was \$1.08 (June 30, 2020 - \$0.41).

Share purchase options outstanding at June 30, 2021:

Range of Exercise Price	Options Outstanding	Weighted average remaining contractual life	Weighted Average Exercise price	Options Exercisable
\$	#		\$	#
\$0.00-\$0.50	16,492,767	9.90	0.19	6,576,558
\$0.51-\$1.00	12,621,000	4.27	0.79	3,872,067
\$1.01-\$1.50	3,009,000	4.60	1.35	291,667
	32,122,767			10,920,292

The fair value of the share purchase options granted during the year ended June 30, 2021 was calculated using the Black-Scholes option valuation model at the grant date, with the following weighted average assumptions.

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Share price volatility	171%	113%
Expected dividend yield	\$nil	\$nil
Employee forfeiture rate	20%	20%
Board of Directors forfeiture rate	25%	25%
Risk free interest rate	0.17% - 0.40%	1.47% - 1.49%

The details of share-based compensation ("SBC") is as follows:

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30 2021	Six Months Ended June 30 2020
	\$	\$	\$	\$
SBC for vendors	60,225	(293,869)	34,638	(187,285)
SBC for employees & directors	574,180	650,747	1,168,262	746,925
Total	634,405	356,878	1,202,900	559,640

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**19. Operating segments**

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

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

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

(c) for which discrete financial information is available.

For management purposes, the Company is organized into divisions based on its products and services and these are comprised of two separate reportable segments: Fresh, for leafy greens and other crops, and Feed, for livestock feed. The Fresh division includes the head office function. The entire Fresh division operates in Canada and the entire Feed division operates in the United States.

Three months ended June 30, 2021.

	Fresh	Feed	Total
	\$	\$	\$
Revenue	250,170	105,835	356,005
Gross margin	(199,311)	11,953	(187,358)
Net loss	(4,495,236)	(1,976,805)	(6,472,041)
Total assets	39,402,214	11,184,340	50,586,554

Three months ended June 30, 2020.

	Fresh	Feed	Total
	\$	\$	\$
Revenue	4,043,814	19,208	4,063,022
Gross margin	1,383,898	8,299	1,392,197
Net loss	(1,831,817)	(504,928)	(2,336,745)
Total assets (December 31, 2020)	26,199,925	8,536,930	34,736,855

Six months ended June 30, 2021.

	Fresh	Feed	Total
	\$	\$	\$
Revenue	4,082,809	180,006	4,262,815
Gross margin	725,384	10,787	736,171
Net loss	(7,350,730)	(2,798,399)	(10,149,129)
Total assets	39,402,214	11,184,340	50,586,554

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**19. Operating segments (Continued)**

Six months ended June 30, 2020.

	Fresh	Feed	Total
	\$	\$	\$
Revenue	4,094,454	161,257	4,255,711
Gross margin	1,219,343	37,310	1,256,653
Net loss	(4,880,629)	(944,277)	(5,824,906)
Total assets (December 31, 2020)	26,199,925	8,536,930	34,736,855

20. Capital management

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

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

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

During the period, the Company's strategy, which was unchanged from the prior year, was to maintain net equity at a positive amount. The net equity at June 30, 2021 and December 31, 2020 was as follows:

	June 30, 2021	December 31, 2020
	\$	\$
Total Assets	50,586,554	34,736,855
Total Liabilities	(12,224,099)	(12,997,278)
Net Equity	38,362,455	21,739,577

See further discussions in note 2.

21. 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.

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**21. Financial instruments (continued)**

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 June 30, 2021, the discount rate was estimated to be 17% (December 31, 2020 – 17%).

The derivative liability was 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 expected earnings before interest, taxes, depreciation, and interest ("EBITDA") in 2024. The expected related cash flows were discounted to derive the fair value of the derivative liability. As at June 30, 2021, there is no derivative liability (December 31, 2020 discount rate - 47%).

There has been no change between levels during the year.

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

As at June 30, 2021				
	FVTPL	Amortized Cost	Fair Value	
Asset (Liability)			Level 2	Level 3
Cash and cash equivalents	-	28,368,183	-	-
Trade and other receivables	-	1,773,751	-	-
Trade and other payables	-	(2,324,251)	-	-
Earn out payable	(1,731,651)	-	-	(1,731,651)
Loans payable	-	(2,253,970)	(2,220,273)	-

As at December 31, 2020				
	FVTPL	Amortized Cost	Fair Value	
Asset (Liability)			Level 2	Level 3
Cash and cash equivalents	-	16,206,535	-	-
Trade and other receivables	-	1,338,265	-	-
Trade and other payables	-	(1,465,666)	-	-
Earn out payable	(1,643,033)	-	-	(1,643,033)
Loans payable	-	(2,034,835)	(1,990,278)	-
Derivative liability	(1,002,128)	-	-	(1,002,128)

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**21. Financial instruments (continued)****Derivative liability continuity**

	June 30, 2021	December 31, 2020
	\$	\$
Balance – beginning of period	1,002,128	-
Derivative liability – Initial recognition (July 20, 2020)	-	595,712
Change in fair value of derivative liability, prior to debt modification	63,576	406,416
Gain on extinguishment of derivative liability upon debt modification	(1,065,704)	-
Balance – end of period	-	1,002,128

Earn-out payable continuity

	June 30, 2021	December 31 2020
	\$	\$
Balance – beginning of period	1,643,033	1,364,756
Foreign exchange	(42,943)	(89,700)
Fair value change during the year	131,561	367,977
Balance – end of period	1,731,651	1,643,033
Comprised of:		
Current earn-out payments	1,731,651	1,165,953
Non-current earn-out payments	-	477,080

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at June 30, 2021, 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 performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at June 30, 2021, one customer accounted for 55% of the trade accounts receivable and the Company anticipates no issues for collection for it (December 31, 2020 – 29%). The Company performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible accounts receivable and associates.

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.

CubicFarm Systems Corp.

Notes to the Condensed Consolidated Interim Financial Statements
 For the three months and six months ended June 30, 2021, and 2020.
 (Unaudited)
 (Expressed in Canadian dollars, unless otherwise stated.)

**21. Financial instruments (continued)**

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

Management is continuing efforts to increase sales and attract additional equity and capital investors to continue R&D activities, and, from the other side, implement effective cost control measures to maintain adequate levels of working capital. See further discussions regarding liquidity in note 2.

Market risk

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

Interest rate risk

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

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As at June 30, 2021, the following items are denominated in US dollars:

	June 30, 2021	December 31, 2020
	\$	\$
Cash	1,106,060	3,616,464
Trade and other receivables	966,874	1,251,269
Trade and other payables	(1,190,037)	(432,742)
Customer deposits	(1,892,221)	(524,941)
Earn-out payable	(1,415,470)	(1,290,475)
Loans payable	(88,341)	(58,622)
Net exposure	(2,513,135)	2,560,953

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

A 10% increase in the US dollar exchange rate would increase the Company's net loss by approximately \$251,000. A 10% decrease in the exchange rate would decrease net loss by the same amount.



Management's Discussion and Analysis

For the three and six months ended June 30, 2021

Dated: August 27, 2021

The following Management's Discussion and Analysis ("MD&A") is prepared as of August 27, 2021, and reports on the operating results and financial condition of CubicFarm Systems Corp., (the "Company" or "CubicFarms") for the three and six months ended June 30, 2021. This MD&A is prepared by management and should be read in conjunction with the interim condensed consolidated financial statements for the three and six months ended June 30, 2021, as well as the consolidated financial statements for the transition year ended December 31, 2020, 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 Innovation Corp., CubicFarm Services Corp., CubicFarm Produce (Canada) Corp., CubicFarm Capital Corp. CubicFarm Systems U.S. Corp., HydroGreen, Inc., and CubicFarm Systems (Shanghai) Corp.

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

Forward-Looking Statements

Certain statements contained in the following MD&A constitute forward-looking statements. These statements are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "plans", "forecasts", "budgets", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or management, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements related to future sales of modules (in particular under the heading "Forward-Looking Guidance"), statements regarding the Company's ability to close sales in the current sales pipeline, continue generating revenues, scale its operations, available funds and use and principal purpose of available funds, and its ability to raise sufficient financing, if and when necessary, to continue its operations. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors including, but not limited to, financial, operational, environmental and political risks, general equity and market conditions. The outcome of these factors may cause the actual results and performance of the Company to be materially different from any plans or results expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements. The Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, however, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward looking information will not be updated unless required by law or securities regulations. For a comprehensive list of the risks and uncertainties applicable to the Company, refer to Item 21 of the Company's application for the listing of its common shares on the TSX Venture Exchange ("TSXV") 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 19951-80A Avenue, Unit 353, Langley, BC, V2Y 0E2.

The Company listed its common shares on the TSXV as a Tier 1 issuer in July 2019. The Company's common shares trade on the TSXV in Canada 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 convert wasteful long supply chain agriculture into local chains to improve independent access to quality food and maximize crop yield all while reducing the environmental cost of food and feed production. These technologies provide independent and efficient fresh produce and livestock feed supply for every city, community, government, and country, 365 days a year.

The Company operates two segments, which are its Fresh Division and Feed Division. The Fresh Division and Feed Division use two distinct technologies that address two distinct markets.

Fresh Division

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

Production

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

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

Research and Development

CubicFarms operates a facility in Pitt Meadows, BC, which is used for R&D and product testing.

Feed Division

The Company's Feed Division operates using CubicFarms' HydroGreen System, the Company's technology for growing nutritious livestock feed. The HydroGreen System was invented by Dihl Grohs, a rancher with operations in South Dakota, Utah and Missouri. This system utilizes a unique process to sprout grains, such as barley and wheat, in a controlled environment with minimal use of land, labour and water. The HydroGreen System is fully automated and performs all growing functions including seeding, watering, lighting, harvesting, and re-seeding – all

with the push of a button – to deliver nutritious livestock feed without the typical investment in fertilizer, chemicals, fuel, field equipment and transportation. The HydroGreen System not only provides superior nutritious feed to benefit the animal, but also enables significant environmental benefits to the farm.

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 Innovation Center located in Sioux Falls, South Dakota. The Innovation Center currently contains three HydroGreen Systems and will be used for research and development, product testing, customer visits, partner training, and feed trials.

HydroGreen also operates a 32-acre research farm located in Renner, South Dakota.

Highlights subsequent to the six months ended June 30, 2021

On August 18, 2021, the Company announced that it has been selected as winner of the “Overall Indoor Farming Solution Provider of the Year” award in the 2021 AgTech Breakthrough Awards conducted by Ag Tech Breakthrough, a leading market intelligence organization that recognizes the top companies, technologies, and products in the global AgTech market today.

Forward-Looking Guidance

Sales and deposits

The Company currently has a total of 176 modules under contract and deposit. The amount of System sales orders that are pending manufacturing and installation is approximately USD \$23 million. The table below shows the projects under contract and deposit:

Geographic Territory	Project Name	Number of Modules	Value, USD
Canada	Abbotsford	16	\$2,129,815
Canada	Surrey	100	\$12,561,538
USA	Indiana	20	\$2,969,500
USA	Montana	21	\$2,930,816
Australia	New South Wales	19	\$2,746,000
Total	Total	176	\$23,337,669

Revenue from System sales is dependent on the transfer of legal title upon the completion of the sales and delivery process – consisting of signing the purchase agreement, customer deposit, manufacture of modules, customer’s site preparation, shipping, and installation of the System. Unforeseen delays attributable to the COVID-19 pandemic and the global recovery efforts employed by both individual companies and countries may delay the Company’s completion of the module sales and delivery process. The Company does not expect to start delivering modules for the Surrey project until 2023. This is due to the expected time for the chosen site to be prepared.

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

CubicFarm Systems Corp.
Management's Discussion and Analysis
For the three and six months ended June 30, 2021

The Company did not receive any signed purchase agreements with deposits during the three months ended June 30, 2021. The Vancouver Island project, a contract signed and reported in the first fiscal quarter of this calendar year, was cancelled during the second fiscal quarter due to a failure of the client to meet its full project funding objectives.

During the six months ended June 30, 2021, the Company signed a contract and received a deposit for the project below:

Project Name	Number of Modules	Value, USD
Australia	19	\$2,746,000

Systems Sales

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

Corporate and operational highlights for the three and six months ended June 30, 2021

On January 19, 2021, the Company changed its financial year-end from June 30 to December 31 and changed its auditor from MNP LLP to KPMG LLP.

On March 2, 2021, the Company appointed Edoardo De Martin as Chief Technology Officer of the Company. Mr. De Martin has more than 20 years of experience in the technology industry. Prior to joining CubicFarms, Mr. De Martin spent 10 years at Microsoft working in various roles including General Manager of the Microsoft Vancouver Development Centre, as well as driving innovation as General Manager of Dynamics Mixed Reality Applications on HoloLens.

On March 18, 2021, the Company formed a Scientific Advisory Board. The Scientific Advisory Board is comprised of experts in the fields of agriculture and technology and is primarily responsible for making recommendations to the Company's senior leadership team regarding research and development priorities.

On March 19, 2021, the Company announced that a scientific journal has published a case study involving HydroGreen, that has pioneered innovative technologies to produce live green animal feed. The article, published by Canadian Science Publishing in FACETS, the official journal of the Royal Society of Canada's Academy of Science, finds that HydroGreen's technology has great potential for reducing greenhouse gas emissions in the animal agriculture industry.

On April 5, 2021, the Company announced that pursuant to a non-brokered private placement, Burnett Land & Livestock Ltd., (Burnett) has agreed to purchase 1,464,622 common shares of the Company at a purchase price of CA\$1.29 per common share for gross proceeds of US\$1,500,000 (approximately CA\$1,886,427). Burnett is a strategic investor to CubicFarms interested in further advancing the HydroGreen technology and is a large US-based beef cattle rancher and dairy farmer with over 17,000 cattle located on 35,000 acres. The Company intends to use the proceeds of the Private Placement for advancing the research and development for HydroGreen and for general working capital purposes.

On April 6, 2021, the Company announced an agreement with Burnett, for 12 HydroGreen Grow System beta modules, daily feed production supply, and includes collaboration on a research program and feed analysis with HydroGreen. As part of the agreement, HydroGreen and Burnett will collaborate on the collection of data and research to quantify the livestock feed nutrition benefits, dry matter yield gain, performance of the herd, with special interest in fertility, milk production, and overall wellbeing of the animals. This beta project, called HydroGreen Vertical Pastures™, will include the first installation of the commercial scale HydroGreen GLS808 modules on a large-scale farm. The 12 HydroGreen GLS808 modules, once installed, can produce 80% more fresh livestock feed than HydroGreen's legacy systems, providing Burnett with up to 72,000lbs of feed daily. As part of the feed ration, that is enough to feed 2,000 animals daily. Burnett will purchase all the daily feed production supply with the option to purchase the modules and expand to accommodate Burnett's full operational needs.

On April 6, 2021, the Company announced the appointment of Thomas Liston as Vice President (VP) of Corporate Development. Mr. Liston is providing CubicFarms with strategic business development and capital markets advisory services in his role as VP of Corporate Development. Mr. Liston is a technology investor, advisor, and a Chartered Financial Analyst® with over 20 years of experience in capital markets. He is the founder of Water Street Corp and currently serves on several boards of directors for public and private technology companies, and he has a strong track record of shareholder value creation in that capacity. He has served on the Board of Directors of WELL Health Technologies (TSX: WELL) since April 2018 and Tantalus Systems Holding Inc. (TSX.V: GRID) since January 2021.

On April 20, 2021, the Company was awarded a Nexus Innovation Award for HydroGreen's Vertical Pastures™ Grow System, an automated, on farm fresh livestock feed technology. HydroGreen's unique automated technology for growing on farm fresh livestock feed was selected by dairy farmers because with this technology, dairies can gain more control over feed production and conserve water and land without the need for chemicals or fertilizers.

On April 23, 2021, the Company announced an agreement to sell 18 modules of the CubicFarm System onsite indoor growing technology at a sale price of US\$2,700,000 to BoomA Food Group. BoomA Food Group will use these modules to grow commercial scale amounts of produce in New South Wales, Australia, specializing in herbs and microgreens. This purchase of equipment represents the first commercial sale in Australia.

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

On May 14, 2021, the Company announced that Janet Wood has been appointed to the Company's Board of Directors. Janet Wood is recognized globally as a leader in the technology sector and as a successful executive who retired from a rewarding career with several major technology companies including IBM, Crystal Decisions, Business Objects, and SAP. Her success in building global channel partnerships and alliances with leading technology companies will bring invaluable insight to CubicFarms' Board of Directors. Wood replaces John de Jonge, a founding member of the Company's Board of Directors. He will continue providing guidance in a different capacity by joining the Company's newly formed HydroGreen Business Advisory Board.

On May 17, 2021, the Company announced that wholesale distributor Dohl Gros International has agreed to purchase 12 HydroGreen Grow System modules for its beef cattle customers who require on farm fresh livestock feed for their herds. The 12 HydroGreen Grow System modules will represent equipment sales of approximately CA\$2,000,000 by the Company.

On May 26, 2021, the Company announced that it entered into an agreement with Raymond James Ltd. as sole bookrunner, on behalf of a syndicate of underwriters (collectively, the "Underwriters"), pursuant to which the Underwriters have agreed to purchase, on a "bought deal" basis, 14,814,815 common shares (the "Common Shares") of the Company at a price of \$1.35 per Common Share (the "Issue Price") for aggregate gross proceeds to the Company of approximately \$20,000,000 (the "Offering"). The Company has agreed to grant the Underwriters an over-allotment option to purchase up to an additional 15% Common Shares at the Issue Price, exercisable in whole or in part at any time for a period ending 30 days from the closing of the Offering. The net proceeds from the Offering will be used to further expand the Company's research and development efforts, and support working capital and other general corporate purposes.

On May 27, 2021, the Company announced that, due to strong demand, it agreed with the Underwriters to increase the size of the Offering to 16,296,297 Common Shares at a price of \$1.35 per Common Share for aggregate gross proceeds to the Company of approximately \$22,000,000.

On June 3, 2021, the Company announced the closing of its previously announced Offering. Pursuant to the Offering, the Company issued a total of 18,740,742 Common Shares at a price of C\$1.35 per Common Share for gross proceeds to the Company of C\$25,300,001, which includes the exercise, in full, by the Underwriters of the over-allotment option granted by the Company to purchase an additional 2,444,445 Common Shares at a price of C\$1.35 per Common Share.

On June 18, 2021, the Company announced the voting results from its Annual General Meeting of shareholders (the "Meeting"), which was held virtually on June 17, 2021.

Shareholders approved the setting of the number of Directors at seven. The seven candidates nominated for election to CubicFarms' Board of Directors and listed in the Company's Management Information Circular dated May 17, 2021 (the "Circular"), were elected by a majority of the votes cast at the Meeting. Shareholders elected

CubicFarm Systems Corp.
Management's Discussion and Analysis
For the three and six months ended June 30, 2021

David Dinesen, Leo Benne, Janet Wood, Michael McCarthy, Daniel Burns, Jeffrey D. Booth, and Christopher Papouras. Approximately 99% of the votes cast were in favour of the election of the Directors.

In addition, at the Meeting, shareholders approved the appointment of KPMG LLP as the auditor of the Company for the ensuing financial year with their remuneration to be fixed by the Board. Approximately 100% of the votes cast were in favour of the appointment.

Shareholders also approved an amendment to the Company's stock option plan to increase the fixed number of shares that may be issued upon the exercise of all options granted under the plan, as more particularly described in the Circular. Approximately 92% of the votes cast were in favour of the amendment.

Financial Results	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Fresh Division sales	250,170	4,043,814	4,082,809	4,094,454
Feed Division sales	105,835	19,208	180,006	161,257
Total sales	356,005	4,063,022	4,262,815	4,255,711
Cost of sales	543,363	2,670,825	3,526,644	2,999,058
Gross margin	(187,358)	1,392,197	736,171	1,256,653
Operating expenses	6,345,047	3,941,637	11,343,256	6,832,658
Loss before other income (expense)	(6,532,405)	(2,549,440)	(10,607,085)	(5,576,005)
Net finance income (expense)	383,106	(74,920)	285,017	7,788
Other income (expense)	(322,742)	51,812	176,908	(492,492)
Loss before income taxes	(6,472,041)	(2,572,548)	(10,145,160)	(6,060,709)
Income taxes	-	235,803	(3,969)	235,803
Net loss	(6,472,041)	(2,336,745)	(10,149,129)	(5,824,906)
Loss per share, basic and diluted	(0.04)	(0.02)	(0.07)	(0.06)

Financial Position	June 30, 2021	December 31, 2020
	\$	\$
Total assets	50,586,554	34,736,855
Total non-current liabilities	3,349,003	4,474,071
Dividends declared	Nil	Nil

FRESH DIVISION

In the short to mid-term period the Company expects to close additional CubicFarm Systems sales in Canada, that will establish the Company from coast to coast, additional system sales in the United States, adding to the current CubicFarm System in operation in the country; and the first CubicFarm Systems sales in China with a strategic partner that will position us to establish a significant footprint of our CubicFarm Systems in the country. Furthermore, the Company is planning to install a System in Australia and plans to review the market potential for Systems sales and potential business partner collaborations in China, in order to position the Company in the country.

As of June 30, 2021, the Fresh division had 82 employees and full-time contractors, an increase of 105% from 40 as of June 30, 2020.

FEED DIVISION

Through the Company's acquisition of HydroGreen, Inc. it now has a fully automated hydroponic growing system that produces live, green livestock feed. HydroGreen's unique process sprouts grains, such as barley and wheat, in a controlled environment with minimal use of land, labour and water.

Over the last six months, HydroGreen has been focused on testing the larger, commercial-scale, eight-section by eight-row machine, as well as growing its team to execute its growth plans. Feeding trials have included cattle feed intake, rumination activity, feeding behaviour, nutrition digestion, and fertility.

As of June 30, 2021, the Feed division had 34 employees and full-time contractors, an increase of 183% from 12 as of June 30, 2020.

Environmental, Social, and Governance (ESG)

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



Beyond selling products that directly and positively impact climate change and improving the use of land and water resources, the Company and its products promote food security and food equality globally. Furthermore, the Company has policies and practices in place that promote gender equality, the health and well-being of employees, and sustainability within operations globally. CubicFarms is committed to paying fair wages to employees, actively participates in initiatives to support local food banks directly, providing charitable giving and food, both corporately and alongside farmer partners.

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

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

- 90% 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

Discussion of Operations

Three and six months ended June 30, 2021 and 2020.

Revenue

Fresh Division	June 30, 2021		June 30, 2020		Change	%
Three months ended	\$	250,170	\$	4,043,814	\$ (3,793,644)	-94%
Six months ended	\$	4,082,809	\$	4,094,454	\$ (11,645)	0%

Feed Division	June 30, 2021		June 30, 2020		Change	%
Three months ended	\$	105,835	\$	19,208	\$ 86,627	451%
Six months ended	\$	180,006	\$	161,257	\$ 18,749	12%

Total	June 30, 2021		June 30, 2020		Change	%
Three months ended	\$	356,005	\$	4,063,022	\$ (3,707,017)	-91%
Six months ended	\$	4,262,815	\$	4,255,711	\$ 7,104	0%

The Company is still in its early stages of operations which has resulted in fluctuating sales on a quarter-by-quarter basis. As such, the Company expects financial results to fluctuate from period to period in the near term. The Company has three main sources of revenue - revenue from sales of Systems, revenue from services, and revenue from consumables. Consumables include produce sales, parts, seeds, nutrients, fertilizers, and substrates, and services include customer support subscriptions and consulting. As the Company matures, management expects to receive a larger percentage of overall sales as recurring revenue. Sales in the Fresh division in the three months ended June 30, 2021, included consumables of \$131,342 and services from three consulting agreements of \$97,276. Sales in the Fresh division in the six months ended June 30, 2021, included Systems sales revenue of \$3,816,756 from the additional installation and training services related to the Calgary project, as well as completion of the Armstrong, and San Diego projects. Revenue in the six months ended June 30, 2021, also included sales of consumables of \$284,191 and services from five consulting agreements totaling \$161,868 in the period. Revenue in the Feed division for the three months ended June 30, 2021, included one module sale to a customer in Utah, and in the six months ended June 30, 2021, a total of two modules were sold in the period.

Gross margin

Fresh Division	June 30, 2021		June 30, 2020		Change	%
Three months ended	\$	(199,311)	\$	1,383,898	\$ (1,583,209)	n.a.
Six months ended	\$	725,384	\$	1,219,343	\$ (493,959)	-41%

Feed Division	June 30, 2021		June 30, 2020		Change	%
Three months ended	\$	11,953	\$	8,299	\$ 3,654	44%
Six months ended	\$	10,787	\$	37,310	\$ (26,523)	-71%

Total	June 30, 2021		June 30, 2020		Change	%
Three months ended	\$	(187,358)	\$	1,392,197	\$ (1,579,555)	n.a.
Six months ended	\$	736,171	\$	1,256,653	\$ (520,482)	-41%

Gross margin for the three months ended June 30, 2021, was \$(187,358) or -53% of revenue. 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 \$200,000 in retrofitting expense during the three months ended June 30, 2021. Gross margin for the six months ended June 30, 2021, was \$736,171 or 17% of revenue. The Company incurred approximately \$500,000 in retrofitting expense for the six months ended June 30, 2021. Without retrofitting costs gross margin for the six months ended June 30, 2021, would be 29%, compared to 30% for the six months ended June 30, 2020. The Company expects that retrofitting will continue over the next two quarters, and once completed, margins will improve.

General administrative expenses

	June 30, 2021		June 30, 2020		Change	%
Three months ended	\$	3,279,358	\$	2,298,127	\$ 981,231	43%
Six months ended	\$	6,507,992	\$	4,550,852	\$ 1,957,140	43%

The increase in general administrative expenses is in line with the Company's continued expansion of its business and staffing additions. General administrative staffing expense and consulting fees for the three and six months ended June 30, 2021, were \$2,539,486 and \$5,049,069, respectively. This is an increase of 82% and 83% compared to \$1,395,739 and \$2,763,353 for the three and six months ended June 30, 2020, which reflect the Company's additional headcount. Professional fees for the three and six months ended June 30, 2021, were \$65,952 and \$159,282, compared to \$302,426 and \$731,215 for the three and six months ended June 30, 2020, which were mostly due to the HydroGreen acquisition.

Selling expenses

	June 30, 2021		June 30, 2020		Change	%
Three months ended	\$	1,744,754	\$	413,956	\$ 1,330,798	321%
Six months ended	\$	2,373,910	\$	646,999	\$ 1,726,911	267%

Advertising and promotions expense increased from \$124,907 and \$148,454 for the three and six months ended June 30, 2020, to \$307,054 and \$514,765 for the three and six months ended June 30, 2021, in order to support the Company's branding and expansion efforts associated with the roll out of the Company's Local Chain Ag-Tech corporate brand and the launch of the ALLWays Local™ produce packaging brand. Staffing expense and consulting fees for the three and six months ended June 30, 2021, were \$1,291,890 and \$1,679,925, compared to \$266,349 and \$421,877 for the three and six months ended June 30, 2020, due to the expansion of the overall sales and marketing team and marketing capabilities.

Research and development

	June 30, 2021		June 30, 2020		Change	%
Three months ended	\$	1,320,935	\$	615,190	\$ 705,745	115%
Six months ended	\$	2,461,354	\$	1,020,443	\$ 1,440,911	141%

R&D expenses were for the continued automation of the Fresh and Feed growing systems, as well as research and development associated with growing new crops and animal feed in the equipment. The Company continues to add to its R&D capabilities in Data Science, Software Development and Engineering, as well as supporting third party and internal benefit validation studies at its facilities and research partner locations in Canada and the USA. Staffing expense and consulting fees increased from \$253,484 and \$445,023 for the three and six months ended June 30,

2020, to \$705,966 and \$1,327,819 for the three and six months ended June 30, 2021. Materials and supplies used for R&D increased from \$209,571 for the three months ended June 30, 2020, to \$370,270 for the three months ended June 30, 2021, a 77% increase. Materials and supplies used for R&D increased from \$233,524 for the six months ended June 30, 2020, to \$694,859 for the six months ended June 30, 2021, a 198% increase.

Impairment of investment in associate

	June 30, 2021		June 30, 2020		Change	%
Three months ended	\$	-	\$	614,364	\$ (614,364)	n.a.
Six months ended	\$	-	\$	614,364	\$ (614,364)	n.a.

In the three and six months ended June 30, 2020, the Company recognized an impairment of investment in associate related to its investment in Swiss Leaf Farms Ltd.

Net finance income (expense)

	June 30, 2021		June 30, 2020		Change	%
Three months ended	\$	383,106	\$	(74,920)	\$ 458,026	n.a.
Six months ended	\$	285,017	\$	7,788	\$ 277,229	3560%

As mentioned earlier, the Company amended its loan with BDC and recognized a gain on debt modification of \$497,287 for the three and six months ended June 30, 2021. The amendment of the BDC loan was positive for the Company as it lowered the amount payable and eliminated the uncertainty of the variable loan bonus.

Net loss

	June 30, 2021		June 30, 2020		Change	%
Three months ended	\$	(6,472,041)	\$	(2,336,745)	\$(4,135,296)	-177%
Six months ended	\$	(10,149,129)	\$	(5,824,906)	\$(4,324,223)	-74%

The Company's net loss in the three and six months ended June 30, 2021, reflect the Company's continued expansion of its business and staffing additions that management believes are necessary to both develop and sell its manufactured products within the global controlled-environment agricultural market. The Company has more than doubled its workforce, going to 116 full-time employees and contractors at June 30, 2021, from 52 full-time employees and contractors at June 30, 2020. Net loss for the six months ended June 30, 2021, also includes \$656,111 in other income consisting of US\$500,000 from the South Dakota Small Business and Healthcare Grant, as well as other COVID-19 loan forgiveness and grants. The Company continues to assess its eligibility for available grants and loans. The Company recorded a \$66,626 loss on the change in fair value of the earnout payable related to the HydroGreen acquisition for the three months ended June 30, 2021, and a \$131,561 loss for the six months ended June 30, 2021. The Company also recorded a \$29,183 loss on the change in fair value of the derivative liability related to its BDC loan for the three months ended June 30, 2021, and a \$63,576 loss for the six months ended June 30, 2021.

Use of Proceeds

The following table outlines the use of proceeds from the Company's financing activities as of June 30, 2021:

Month	Amount	Use of Proceeds	Expected	%	Actual	%
Dec-20	\$15,475,595	Sales and marketing	\$5,700,000	37.7%	\$1,744,754	11.5%
		R&D	\$5,225,000	34.6%	\$1,219,264	8.1%
		Working capital and general corporate purposes	\$4,194,068	27.7%	\$4,194,068	27.7%
May-21	\$23,549,133	Sales and marketing	\$7,765,560	33.0%	\$0	0.0%
		R&D	\$7,765,560	33.0%	\$0	0.0%
		Working capital and general corporate purposes	\$8,000,880	34.0%	\$4,617,088	19.6%

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 \$
July 1, 2019 - September 30, 2019	240,701	(2,277,762)	(0.03)
October 1, 2019 - December 31, 2019	671,076	(1,989,441)	(0.02)
January 1, 2020 - March 31, 2020	192,689	(2,336,745)	(0.04)
April 1, 2020 - June 30, 2020	4,063,022	(2,336,745)	(0.02)
July 1, 2020 - September 30, 2020	400,525	(3,768,293)	(0.03)
October 1, 2020 - December 31, 2020	224,249	(6,357,270)	(0.05)
January 1, 2021 - March 31, 2021	3,906,810	(3,677,088)	(0.03)
April 1, 2021 - June 30, 2021	356,005	(6,472,041)	(0.04)

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

The Company does not recognize revenue until customers have either accepted ownership or the Company has delivered and fully installed CubicFarms modules at customer sites. There are factors beyond the Company's control, such as the customer's ability to secure permitting, complete site preparations, as well as weather and transportation delays. As such, the Company expects it would need to complete an additional year of sales and installation activities in order to achieve smoother and more predictable sales cycles.

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

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

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

During the three months ended March 31, 2021, the Company recorded revenue from 14 modules for the Armstrong project, as well as 1 module for the San Diego project. The Company also completed the installation and training components of the Calgary project. HydroGreen sold one module during the three months ended March 31, 2021.

During the three months ended June 30, 2021, the Company recorded revenue from one HydroGreen module sale, as well as consulting services of \$97,276 and consumables of \$131,342.

Liquidity and Capital Resources

Working capital increased from \$15,244,610 as at December 31, 2020, to \$30,133,283 as at June 30, 2021, an increase of 98%. The increase in working capital is primarily due to an increase in cash from \$16,206,535 as at December 31, 2020, to \$28,368,183 as at June 30, 2021, through the issuance of shares. The Company's objective when managing its working capital and capital resources is to maintain liquidity so as to meet financial obligations when they come due, while actioning its strategic plan. The Company manages its working capital by monitoring operational and cash flow forecasts to identify cash flow needs for general corporate and working capital purposes.

Operating Activities

Cash from operating activities changed from an outflow of \$3,564,995 during the three months ended June 30, 2020, to an outflow of \$6,856,220 during the three months ended June 30, 2021, a 92% increase. Cash from operating activities changed from an outflow of \$4,436,836 for the six months ended June 30, 2020, to an outflow of \$11,775,174 for the six months ended June 30, 2021, an increase of 165%. This is mainly driven by a larger net loss incurred by the Company, as well as an outflow in working capital related to trade and other receivables, prepaid expenses and deposits, and customer deposits of \$4,855,778.

Investing Activities

Cash from investing activities changed from an outflow of \$392,983 during the three months ended June 30, 2020, to an outflow of \$526,221 during the three months ended June 30, 2021, a 34% increase. Cash from investing activities changed from an outflow of \$675,283 during the six months ended June 30, 2020, to an outflow of \$1,013,456 during the six months ended June 30, 2021, a 50% increase. The increase in cash outflow is primarily due to increased capital expenditures.

Financing Activities

Cash from financing activities changed from an inflow of \$4,921,815 during the three months ended June 30, 2020, to an inflow of \$23,216,327 during the three months ended June 30, 2021, a 372% increase. Cash from financing activities changed from an inflow of \$4,902,419 for the six months ended June 30, 2020, to an inflow of \$25,072,514 during the six months ended June 30, 2021, a 411% increase. The increase in cash flows from financing is primarily due to the equity financing in the quarter.

Capital Management

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

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

The condensed consolidated interim financial statements do not include any adjustments or disclosures that may result should the Company be unable to continue as a going concern. If the going concern assumptions were not

found to be appropriate for the condensed consolidated interim financial statements, adjustments might be necessary to classifications and carrying values of assets and liabilities. Such adjustment could be material.

Transactions with Related Parties

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

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

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
	\$	\$	\$	\$
Short term leases	12,000	-	43,561	
Lease payments	22,100	2,500	27,100	5,000
Office expenses	16,710	-	54,280	

	June 30, 2021	December 31, 2020
	\$	\$
Lease liability	606,609	70,400

Key management compensation

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

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
	\$	\$	\$	\$
Wages and salaries	340,000	172,500	722,083	472,037
Consulting fees	293,729	254,190	594,913	301,690
Share-based compensation	396,793	212,996	975,225	292,989
Total	1,030,522	639,686	2,292,221	1,066,716

All related party balances

Bevo Farms Ltd. is a related party of the Company as it is affiliated with an officer and director of the Company. Swiss Leaf Farms Ltd. is a related party as it is an associate of the Company.

	As at June 30, 2021	As at December 31, 2020
	\$	\$
Accounts payable:		
Bevo Farms	21,568	12,034
Swiss Leaf Farms	-	11,360
Total Accounts payable	21,568	23,394

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 August 19, 2021, the Company has no Class A preferred shares or Class B preferred shares issued and outstanding.

As at August 19, 2021, the Company had the following number of common shares and options outstanding:

	June 30, 2021	August 19, 2021
Common shares issued and outstanding	158,430,438	162,093,404
Options	32,122,767	24,392,042
Total fully diluted shares	190,553,205	186,485,446

Off-Balance Sheet Arrangements

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

Financial Instruments

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

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

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

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 earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at June 30, 2021, the discount rate was estimated to be 17% (December 31, 2020 – 17%).

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

The derivative liability 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 expected earnings before interest, taxes, depreciation, and interest ("EBITDA") in 2024. The expected related cash flows were discounted to derive the fair value of the derivative liability. As at June 30, 2021, there is no derivative liability (December 31, 2020 discount rate – 47%).

CubicFarm Systems Corp.
 Management's Discussion and Analysis
 For the three and six months ended June 30, 2021

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

As at June 30 , 2021				
Asset (Liability)	FVTPL	Amortized Cost	Fair Value	
			Level 2	Level 3
Cash and cash equivalents	-	28,368,183	-	-
Trade and other receivables	-	1,773,751	-	-
Trade and other payables	-	(2,324,251)	-	-
Earnout payable	(1,731,651)	-	-	(1,731,651)
Loans payable	-	(2,253,970)	(2,220,273)	-
Derivative liability	-	-	-	-

As at December 31, 2020				
Asset (Liability)	FVTPL	Amortized Cost	Fair Value	
			Level 2	Level 3
Cash and cash equivalents	-	16,206,535	-	-
Trade and other receivables	-	1,338,265	-	-
Trade and other payables	-	(1,465,666)	-	-
Earnout payable	(1,643,033)	-	-	(1,643,033)
Loans payable	-	(2,034,835)	(1,990,278)	-
Derivative liability	(1,002,128)	-	-	(1,002,128)

CubicFarm Systems Corp.
 Management's Discussion and Analysis
 For the three and six months ended June 30, 2021

The continuity for Earn out payable is as follows:

	June 30, 2021	December 31 2020
	\$	\$
Balance – beginning of period	1,643,033	1,364,756
Foreign exchange	(42,943)	(89,700)
Fair value change during the year	131,561	367,977
Balance – end of period	1,731,651	1,643,033
Comprised of:		
Current earn-out payments	1,731,651	1,165,953
Non-current earn-out payments	-	477,080

The continuity for Derivative liability is as follows:

	June 30, 2021	December 31, 2020
	\$	\$
Balance – beginning of period	1,002,128	-
Derivative liability – Initial recognition (July 20, 2020)	-	595,712
Change in fair value of derivative liability, prior to amendment	63,576	406,416
Gain on debt modification	(1,065,704)	-
Balance – end of period	-	1,002,128

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at June 30, 2021, the primary risks were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. The Company performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible accounts receivable from customers and receivables from associates. As at June 30, 2021, one customer accounted for 55% of the trade accounts receivable and the Company anticipates no issues for collection for it (December 31, 2020 – 29%). The Company performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible accounts receivable and associates.

Liquidity risk

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

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

Market risk

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

Interest rate risk

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

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As of June 30, 2021, the following items are denominated in US dollars:

	June 30, 2021	December 31, 2020
	\$	\$
Cash	1,106,060	3,616,464
Trade and other receivables	966,874	1,251,269
Trade and other payables	(1,190,037)	(432,742)
Customer deposits	(1,892,221)	(524,941)
Earn out payable	(1,415,470)	(1,290,475)
Loans payable	(88,341)	(58,622)
Net exposure	(2,513,135)	2,560,953

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

A 10% increase in the US dollar exchange rate would increase the Company's net loss by approximately \$251,000. A 10% decrease in the exchange rate would decrease net loss by the same amount.

COVID-19 Disclosure

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. As of June 30, 2021, the Company has not observed any material impairments of its assets or a significant change in the fair value of assets due to the COVID-19 pandemic. Due to the rapid developments and uncertainty surrounding COVID-19 it is not possible to predict the impact it will have on the Company's business, financial position, and operating results in the future. It is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

Additional Information & Approval

Additional information relating to the Company is on SEDAR at www.sedar.com.
The Audit Committee of the Board of Directors has approved the disclosure contained in this MD&A as of August 27, 2021.