CubicFarm Systems Corp.

Consolidated Financial Statements

For the three months ended March 31, 2023, and 2022

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.

CubicFarm Systems Corp.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(Amounts expressed in Canadian dollars)

	Notes	March 31, 2023	December 31, 2022
		$	$
Assets			
Current			
Cash		2,099,863	2,944,924
Trade and other receivables	7	2,130,509	1,986,579
Inventory	8	16,032,550	13,310,727
Prepaid expenses and deposits		604,465	2,575,580
Net investment in finance lease	10	268,831	-
		21,136,218	**20,817,810**
Non-current			
Property, plant and equipment	9	620,736	1,006,044
Investment in associates		20	20
Right-of-use assets	10	1,531,540	1,944,643
Prepaid expenses and deposits		9,367	9,367
Net investment in finance lease	10	44,482	-
		2,206,145	**2,960,074**
Total assets		**23,342,363**	**23,777,884**
Liabilities			
Current			
Trade and other payables		7,448,019	7,514,621
Earn-out payable	19	1,384,025	1,386,396
Customer deposits	11	12,138,476	10,931,330
Lease liability	10	751,322	709,228
Loans and borrowings	12	1,656,741	2,081,125
Warranty provision	13	120,527	123,784
		23,499,110	**22,746,484**
Non-current			
Lease liability	10	2,035,553	2,249,940
Restoration provision	10	123,416	123,032
Loans and borrowings	12	9,734,296	8,626,506
		11,893,265	**10,999,478**
Total liabilities		**35,392,375**	**33,745,962**
Shareholders' equity (deficiency)			
Share capital	15	101,353,686	99,045,198
Equity reserves	15	10,568,356	10,269,041
Accumulated other comprehensive income/(loss)		622,843	640,691
Deficit		(124,594,897)	(119,923,008)
Total equity (deficiency)		**(12,050,012)**	**(9,968,078)**
Total liabilities and shareholders' equity		**23,342,363**	**23,777,884**

Approved on behalf of the Board

Director **Director**

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

CubicFarm Systems Corp.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(Amounts expressed in Canadian dollars)

	Notes	For the three months ended March 31, 2023	March 31, 2022
		$	$
Revenue	17		
Systems		391,030	70,544
Consumables		35,627	155,511
Services		28,735	17,857
		455,392	**243,912**
Cost of sales	8	(385,766)	(133,307)
Gross margin		**69,626**	**110,605**
General and administrative expenses		(2,741,573)	(3,938,348)
Selling expenses		(398,223)	(1,689,693)
Research and development		(741,610)	(2,509,018)
Gain on impairment reversal	9	110,200	-
		(3,771,206)	**(8,137,059)**
Loss before other income (expense)		**(3,701,580)**	**(8,026,454)**
Finance income	10	10,568	395
Finance expense	12	(574,929)	(60,683)
Accretion expense	10,12	(297,873)	(68,621)
Net finance (expense) income		**(862,234)**	**(128,909)**
Other income (expense)			
Other income		15	-
Fair value change for earn-out payments		-	30,277
Foreign exchange gain		18,167	57,701
Provision for expected credit loss	7	(126,257)	(692,864)
		(108,075)	**(604,886)**
Loss before income taxes		**(4,671,889)**	**(8,760,249)**
Net loss for the period		**(4,671,889)**	**(8,760,249)**
Other comprehensive income (loss)			
Items that may be reclassified to profit or loss:			
Foreign currency translation income (loss)		17,848	(216,475)
Total comprehensive loss		**(4,654,041)**	**(8,976,724)**
Basic and diluted loss per share		**(0.02)**	**(0.05)**
Weighted average number of shares outstanding		**209,285,755**	**178,261,864**

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

(Amounts expressed in Canadian dollars)

	Notes	*Number of shares*	*Share capital*	*Equity reserves*	*Accumulated other comprehensive income (loss)*	*Deficit*	*Total equity (deficiency)*
		#	$	$	$	$	$
Balance, December 31, 2021		**178,093,404**	**94,701,922**	**6,125,986**	**(183,977)**	**(59,552,719)**	**41,091,212**
Net loss for the period		-	-	-	-	(8,760,249)	(8,760,249)
Exercise of stock options		253,800	89,596	(41,373)	-	-	48,223
Foreign currency translation		-	-	-	(216,475)	-	(216,475)
Share-based payments		-	-	641,356	-	-	641,356
Balance, March 31, 2022		**178,347,204**	**94,791,518**	**6,725,969**	**(400,452)**	**(68,312,968)**	**32,804,067**
Balance, December 31, 2022		**207,136,774**	**99,045,198**	**10,269,041**	**640,691**	**(119,923,008)**	**(9,968,078)**
Net loss for the period		-	-	-	-	(4,671,889)	(4,671,889)
Issuance of shares, net of share issuance costs	15	56,027,000	2,402,722	-	-	-	2,402,722
Warrants issued	16	-	(94,234)	94,234	-	-	-
Foreign currency translation		-	-	-	(17,848)	-	(17,848)
Share-based payments	16	-	-	205,081	-	-	205,081
Balance, March 31, 2023		**263,163,774**	**101,353,686**	**10,568,356**	**622,843**	**(124,594,897)**	**(12,050,012)**

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

(Amounts expressed in Canadian dollars)

	For the three months ended	
	March 31, 2023	**March 31, 2022**
	$	$
Cash provided by (used for) the following activities		
Operating activities		
Net loss for the period	(4,671,889)	(8,760,249)
Adjustments for:		
Depreciation and amortization	208,659	395,635
(Gain) Loss on lease extinguishment	(22,161)	93,719
Provision for expected credit loss	126,257	692,864
Foreign exchange gain	(35,478)	(57,701)
Finance expense	574,929	60,683
Accretion expense	297,873	68,621
Finance income	(10,568)	(395)
Gain on impairment reversal	(110,200)	-
Change in fair value of earnout payable	-	(30,277)
Share-based payments expense	365,390	641,356
Cash used in operations before changes in non-cash working capital	(3,277,188)	(6,895,744)
Changes in non-cash working capital:		
Trade and other receivables	(431,010)	(27,209)
Inventories	(2,721,823)	(2,587,370)
Prepaid expenses and deposits	1,971,115	(556,235)
Trade and other payables	(65,469)	(241,584)
Customer deposits	1,240,432	3,813,421
Warranty provision	(3,257)	(232,860)
Cash used in operating activities	(3,287,200)	(6,727,581)
Interest paid	(397,145)	(61,011)
Interest received	3,552	395
Net cash used in operating activities	**(3,680,793)**	**(6,788,197)**
Investing activities		
Additions to property, plant, and equipment	-	(1,474,878)
Proceeds from sale of property, plant, and equipment	425,000	-
Additions to intangible assets	-	(79,399)
Net cash used in investing activities	**425,000**	**(1,554,277)**
Financing activities		
Issuance of shares, net of issuance cost	2,402,722	-
Exercise of stock options	-	48,223
Principal and interest payments on lease	(245,034)	(187,170)
Proceeds from loans and borrowings, net of financing fees	1,016,415	-
Principal payments on loans	(747,038)	(77,248)
Net cash from financing activities	**2,427,065**	**(216,195)**
Increase (Decrease) in cash and cash equivalents	**(828,728)**	**(8,558,669)**
Effect of movements in exchange rates on cash held	(16,333)	(7,704)
Cash and cash equivalents, beginning of period	2,944,924	21,381,366
Cash and cash equivalents, end of period	**2,099,863**	**12,814,993**

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

1. Reporting entity

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

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

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

2. Going concern

To date, the Company has financed its operations primarily through share issuances and debt. The development of modular growing systems and animal feed systems, as well as the production 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 $4,654,041 for the three months ended March 31, 2023 (March 31, 2022 - $8,976,724). Net cash used in operating activities was $3,680,793 for the three months ended March 31, 2023 (March 31, 2022 - $6,788,197). As at March 31, 2023, the Company has accumulated deficit of $124,594,897. The Company's current liabilities exceed current assets by $2,362,892 as of March 31, 2023, compared with $1,928,674 as of December 31, 2022.

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

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

3. Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (IFRSs). As such, they should be read in conjunction with the annual audited consolidated financial statements for the period ended December 31, 2022, 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, 2022. 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.

(Expressed in Canadian dollars, unless otherwise stated)

3. Basis of presentation (continued)

The Audit Committee of the Board of Directors approved these condensed interim consolidated financial statements on May 15, 2023.

Basis of measurement

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

Basis of consolidation

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

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

4. Material accounting policy information

The accounting policies applied in these condensed interim consolidated financial statements are the same as those applied in the Company's consolidated financial statements for the year ended December 31, 2022. The annual consolidated statements are available on SEDAR at www.sedar.com. These policies have been applied throughout the periods reported.

Significant estimates, assumptions, and judgments

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

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

5. New accounting standards issued and effective

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

Classification of liabilities as current or non-current

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

The amendments are effective for annual periods beginning on or after January 1, 2023, and applied retrospectively. There was no material impact on the Company's condensed interim consolidated financial statements.

(Expressed in Canadian dollars, unless otherwise stated)

5. New accounting standards issued and effective (continued)

Disclosure of accounting policies

In February 2021, the IASB published a narrow scope amendment to IAS 1 Presentation of financial statements and IFRS Practice Statement 2. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information', requiring companies to disclose their material accounting policies rather than their significant accounting policies. The amendment is effective for annual periods beginning on or after January 1, 2023, and applied prospectively. There was no material impact on the Company's condensed interim consolidated financial statements.

6. Cyclicality of operations

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

7. Trade and other receivables

	March 31, 2023	December 31, 2022
	$	$
Trade accounts receivable	2,511,109	2,274,591
Less: Provision for expected credit loss	(1,270,363)	(1,144,106)
Goods and services tax receivable	586,173	722,515
Other receivable	303,590	133,579
	2,130,509	**1,986,579**

Aging

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

	March 31, 2023	December 31, 2022
	$	$
Current or under 30 days	901,232	193,269
Past due 31 to 90 days	86,880	41,081
Past due 91 to 360 days	440,665	537,234
Past due more than 360 days	1,082,332	1,503,007
	2,511,109	**2,274,591**

Continuity for provision for expected credit loss on trade accounts receivables

	March 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	1,144,106	568,063
Net addition during the period	126,257	576,043
	1,270,363	**1,144,106**

For the three months ended March 31, 2023, expected credit loss of $126,257 (March 31, 2022 - $692,864), was recognized and recorded under other income (expense) in the condensed interim consolidated statements of loss and comprehensive loss. None of the expected credit loss was related to related parties.

(Expressed in Canadian dollars, unless otherwise stated)

8. Inventories

	March 31, 2023	December 31, 2022
	$	$
Hydroponic growing systems	7,485,172	8,979,946
Work in progress	8,480,635	4,253,166
Seeds and other supplies	45,973	56,845
Packaging and other	20,770	20,770
	16,032,550	**13,310,727**

Hydroponic growing systems ("Systems") are finished goods on hand and available for sale by the Company. The net realizable value of inventory as of March 31, 2023, and December 31, 2022, is higher than the cost. Accordingly, the Company has reported the inventory at cost in the condensed interim consolidated statements of financial position. Inventory in the value of $214,070 relating to Systems has been recognized as cost of sales in the condensed interim consolidated statement of loss and comprehensive loss for the three months ended March 31, 2023 (March 31, 2022 - $82,294).

9. Property, plant and equipment

During the three months ended March 31, 2023, the Company acquired assets with a cost of $nil (March 31, 2022 - $1,474,878) and disposed assets with a net book value of $314,800 (March 31, 2022 - $93,914). The Company realized a gain of $110,000 on the disposal which was recognized as a gain on impairment reversal in the period. Depreciation for the three months ended March 31, 2023, was $69,806 (March 31, 2022 - $220,538).

10. Leases

Right-of-use assets

	March 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	1,944,643	2,628,770
Amendments	198	330,954
Additions	-	2,015,828
Termination of lease	(272,745)	(1,209,727)
Impairment	-	(1,025,453)
Depreciation	(138,853)	(894,345)
Foreign exchange adjustment	(1,703)	98,616
	1,531,540	**1,944,643**

Net investment in finance lease

	March 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	-	-
Additions	306,297	-
Interest accretion	7,016	-
Lease receipts	-	-
	313,313	**-**
Current portion	268,831	-
Non-current portion	44,482	-

(Expressed in Canadian dollars, unless otherwise stated)

10. Leases (continued)

Lease liabilities

	March 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	2,959,168	2,381,690
Amendments	11,589	333,086
Additions	-	2,015,828
Termination of lease	-	(1,124,506)
Accretion expense	61,082	191,360
Payments	(245,034)	(989,034)
Foreign exchange adjustment	70	150,744
	2,786,875	**2,959,168**
Current portion	751,322	709,228
Non-current portion	2,035,553	2,249,940

Restoration provision

	March 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	123,032	133,171
Termination of lease	-	(12,675)
Accretion	408	1,640
Foreign exchange adjustment	(24)	896
	123,416	**123,032**

11. Customer deposits

	March 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	10,931,330	2,233,946
Additions	1,807,956	11,350,418
Recognized into revenue	(66,587)	(2,809,612)
Refund of deposit with equity	(513,050)	-
Foreign exchange adjustment	(21,173)	156,578
	12,138,476	**10,931,330**

Customer deposits consist of funds paid by customers in advance of delivery for Systems based on the sales agreement. The customers may cancel the order prior to shipping of the equipment, subject to certain restocking fees as set in the sales agreement. The order is not cancellable after shipping of the equipment. There are no external restrictions on the use of these deposits. As at March 31, 2023, customer deposits of $5,180,750 were received more than twelve months ago (December 31, 2022 - $2,237,188).

(Expressed in Canadian dollars, unless otherwise stated)

12. Loans and borrowings

Continuity for all loans and borrowings

	March 31, 2023	**December 31, 2022**
	$	**$**
Balance - beginning of period	10,707,631	2,156,711
Additions	-	9,121,936
Accretion expense	236,383	456,106
Interest expense	574,929	703,811
Interest paid	(397,145)	(704,997)
Principal redraw (payment)	269,377	(1,276,548)
Loss on debt modification	-	242,842
Foreign exchange adjustment	(138)	7,770
	11,391,037	**10,707,631**
Current portion	1,656,741	2,081,125
Non-current portion	9,734,296	8,626,506

Agriculture interest-free loan

	March 31, 2023	**December 31, 2022**
	$	**$**
Balance - beginning of period	79,541	74,321
Foreign exchange adjustment	(136)	5,220
	79,405	**79,541**
Current portion	79,405	79,541
Non-current portion	-	-

Government relief loan

	March 31, 2023	**December 31, 2022**
	$	**$**
Balance - beginning of period	40,000	40,000
Addition	-	-
	40,000	**40,000**
Current portion	40,000	40,000
Non-current portion	-	-

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

(Expressed in Canadian dollars, unless otherwise stated)

12. Loans and borrowings (continued)

Business loan

	March 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	2,128,215	2,009,283
Accretion expense	20,476	114,670
Interest expense	37,710	253,524
Interest paid	(46,340)	(242,104)
Principal payment	(744,423)	(250,000)
Loss on debt modification	-	242,842
	1,395,638	**2,128,215**
Current portion	1,395,638	1,951,598
Non-current portion	-	176,617

On August 28, 2020, the Company obtained a business loan of $2,500,000. The interest is payable monthly and is currently at a fixed rate of 10%, which is set at a base rate of 4.9% plus a variance of 5.1% per year. On September 16, 2022, the Company modified the loan agreement where the principal payment for October 2022 to January 2023 was modified to $12,500 and the remaining balance is to be paid over 12 equal payments until the revised maturity date of January 15, 2024. The interest rate on the loan changes to 18% per annum from February 2023.

Vehicle Loan

	March 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	25,482	33,107
Interest expense	465	2,265
Interest paid	(463)	(2,307)
Principal payment	(2,615)	(10,133)
Foreign exchange adjustment	(2)	2,550
	22,867	**25,482**
Current portion	10,898	9,986
Non-current portion	11,969	15,496

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

(Expressed in Canadian dollars, unless otherwise stated)

12. Loans and borrowings (continued)

Convertible debentures

	March 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	4,226,932	-
Initial recognition, net of transaction costs	-	4,048,157
Accretion expense	85,730	178,247
Interest expense	130,800	302,264
Interest paid	-	(301,736)
	4,443,462	**4,226,932**
Current portion	130,800	-
Non-current portion	4,312,662	4,226,932

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

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

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

As at March 31, 2023, the Company has accrued interest payable of $130,800 on these convertible debentures (December 31, 2022 - $nil).

(Expressed in Canadian dollars, unless otherwise stated)

12. Loans and borrowings (continued)

Senior secured term loan

	March 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	4,207,461	-
Initial recognition, net of transaction costs	-	5,073,779
Accretion expense	130,177	150,097
Interest expense	405,954	178,849
Interest paid	(350,342)	(178,849)
Principal redraw (payment)	1,016,415	(1,016,415)
	5,409,665	**4,207,461**
Current portion	-	-
Non-current portion	5,409,665	4,207,461

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

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

The fair value of the liability component of the loan on the date of issuance was assessed to be $5,537,329 based on an estimated market discount rate of 19.7% less the pro-rata portion of transaction costs of $463,550. The liability component will be measured at amortized cost using the effective interest rate method. The residual value of $862,671 was allocated to the equity component less the pro-rata portion of transaction costs of $72,217. Income tax recovery of $232,921 associated with the warrants included in the loan was recognized, resulting in a net increase of $557,532 in equity. As of March 31, 2023, the Company is in compliance with all the terms of the agreement.

13. Warranty provision

	March 31, 2023	December 31, 2022
	$	$
Balance - beginning of period	123,784	388,093
Additions	-	69,096
Fulfillment	(3,257)	(333,405)
	120,527	**123,784**

(Expressed in Canadian dollars, unless otherwise stated)

14. Related party transactions

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

Key management compensation

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

		Three months Ended
	March 31, 2023	**March 31, 2022**
	$	**$**
Wages and salaries	143,750	352,250
Consulting fees	-	444,144
Share-based compensation	202,161	315,746
	345,911	**1,112,140**

15. Share capital

The Company has authorized share capital consisting of:

- an unlimited number of Common Shares without par value or special rights or restrictions attached;
- an unlimited number of Class A Preferred Shares without par value and with certain rights and restrictions attached; and
- an unlimited number of Class B Preferred Shares without par value and with certain rights and restrictions attached. As of March 31, 2023, the Company has no Class A Preferred Shares or Class B Preferred shares issued and outstanding (December 31, 2022 – Nil).

	Common Shares	**Share Capital**
	#	**$**
Balance December 31, 2022	207,136,774	99,045,198
Issuance of shares[3]	56,027,000	2,801,349
Share issurance costs[3]	-	(398,627)
Transfer from equity reserves	-	(94,234)
Balance March 31, 2023	**263,163,774**	**101,353,686**

[3] Public offering and private placement of shares at net average price of $0.05 per share. Share issuance costs of $398,627 were accounted for as a deduction from equity.

(Expressed in Canadian dollars, unless otherwise stated)

16. Share based compensation

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

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

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

Share purchase options and warrants continuity schedule:

	Options and warrants	**Weighted average exercise price**
Balance December 31, 2022	38,689,275	0.70
Granted	10,817,202	0.08
Forfeited	(1,741,000)	1.18
Expired	(1,292,000)	0.19
Balance March 31, 2023	**46,473,477**	**0.70**

Share purchase options outstanding as of March 31, 2023:

Range of Exercise Price	**Outstanding**	**Exercisable**	**Average remaining life**	**Weighted average exercise price**
$	**#**	**#**	**Years**	**$**
0.01 - 0.50	8,574,950	1,384,000	2.64	0.11
0.51 - 1.00	3,939,702	3,628,000	3.61	0.78
1.01 - 1.50	3,361,550	790,833	3.13	1.44
	15,876,202	**5,802,833**		

Share purchase warrants outstanding as of March 31, 2023:

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

(Expressed in Canadian dollars, unless otherwise stated)

16. Share based compensation (continued)

In January 2023, the Company issued share appreciation rights (”SARs”) to board members. The fair value of the eligible SARs was calculated using the Black-Scholes option valuation model at the end of the period date. For the three months ended March 31, 2023, the SARs were recognized as share-based compensation (“SBC”) expense of $160,309 in the condensed interim consolidated statement of loss and comprehensive loss (March 31, 2022 - $nil). The fair value of the share purchase options and warrants granted, and eligible SARs were calculated using the Black-Scholes option valuation model at the grant date, with the following weighted average assumptions:

		Three months ended
	March 31, 2023	**March 31, 2022**
Share price volatility	112%	63%
Expected dividend yield	$nil	$nil
Employees forfeiture rate	27%	27%
Board of Directors forfeiture rate	0 - 13%	13%
Risk free interest rate	2.95 - 3.51%	1.41%

The details of SBC expense is as follows:

		Three months ended
	March 31, 2023	**March 31, 2022**
	$	**$**
Vendors	859	71,583
Employees and directors	364,530	569,773
	365,389	**641,356**
General and administrative expenses	353,503	517,767
Selling expenses	8,332	72,460
Research and development	3,554	51,129
	365,389	**641,356**

17. Operating segments

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

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

Three months ended March 31, 2023	**Fresh**	**Feed**	**Total**
	$	**$**	**$**
Revenue	361,117	94,275	455,392
Gross margin	21,930	47,696	69,626
Net loss	(3,186,876)	(1,485,013)	(4,671,889)
Total assets	11,707,675	11,634,688	23,342,363
Total liabilities	29,841,433	5,550,942	35,392,375

(Expressed in Canadian dollars, unless otherwise stated)

17. Operating segments (continued)

Three months ended March 31, 2022	Fresh	Feed	Total
	$	$	$
Revenue	225,848	18,064	243,912
Gross margin	100,519	10,086	110,605
Net loss	(6,590,254)	(2,169,995)	(8,760,249)
Total assets	27,942,323	21,519,558	49,461,881
Total liabilities	14,164,136	2,493,678	16,657,814

18. Capital management

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

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

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

During the period, the Company's strategy was unchanged from the prior period. The net equity ending balance as of March 31, 2023, and December 31, 2022:

	March 31, 2023	December 31, 2022
	$	$
Total Assets	23,342,363	23,777,884
Total Liabilities	(35,392,375)	(33,745,962)
Net Equity	**(12,050,012)**	**(9,968,078)**

19. Financial instruments and risk management

Fair value measurement

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

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

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

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

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

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

(Expressed in Canadian dollars, unless otherwise stated)

19. Financial instruments and risk management (continued)

***Fair value measurement** (continued)*

The earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at March 31, 2023, the discount rate was estimated to be 31% (December 31, 2022 – 31%).

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

			Level 2	Level 3
Balance March 31, 2023	**FVTPL**	**Amortized cost**	**Fair value**	**Fair value**
	$	**$**	**$**	**$**
Cash and cash equivalents	-	2,099,862	-	-
Trade and other receivables	-	2,130,509	-	-
Trade and other payables	-	(7,448,019)	-	-
Earn out payable	(1,384,025)	-	-	(1,384,025)
Loans and borrowings	-	(11,391,037)	(11,190,042)	-

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

Earn-out payable continuity

	March 31, 2023	December 31, 2022
	$	**$**
Balance - beginning of period	1,386,396	1,762,812
Payments	-	(325,104)
Foreign exchange	(2,371)	93,090
Fair value change during the period	-	(144,402)
	1,384,025	**1,386,396**
Current portion	1,384,025	1,386,396
Non-current portion	-	-

Financial risk management objectives and policies

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at March 31, 2023, the primary risks relating to the use of financial instruments were as follows:

19. Financial instruments and risk management (continued)

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. The Company provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at March 31, 2023, three customers accounted for 34%, 27% and 15% of gross trade accounts receivable, respectively (December 31, 2022 - 40%, 27% and 11%).

Liquidity risk

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

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

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

Market risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

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

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

(Expressed in Canadian dollars, unless otherwise stated)

19. Financial instruments and risk management (continued)

Financial risk management objectives and policies *(continued)*

The table below summarizes the Company's exposure to the various currencies denominated in the foreign currency as at March 31, 2023, and December 31, 2022, as listed below.

	March 31, 2023		December 31, 2022	
	US dollar	**Chinese renminbi**	**US dollar**	**Chinese renminbi**
	$	**¥**	**$**	**¥**
Cash and cash equivalents	174,023	4,557,754	500,276	8,627,405
Trade and other receivables	437,570	356,829	825,032	-
Trade and other payables	(2,728,859)	(2,673,658)	(2,866,745)	(11,739)
Customer deposits	(5,501,416)	(16,853,728)	(4,346,496)	(15,759,855)
Earn out payable	(1,021,775)	-	(1,021,775)	-
Loans payable	(75,469)	-	(77,402)	-
	(8,715,926)	**(14,612,803)**	**(6,987,110)**	**(7,144,189)**

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

Based on the balances as at March 31, 2023, a 1% increase or decrease in the value of the Canadian dollar exchange rate against all of the other currencies on that date would result in an increase or decrease of approximately $146,752 (December 31, 2022 – $108,846) in earnings or losses before taxes.

20. Subsequent events

On May 5, 2023, the Company announced the resignation of Carlos Yam, Chief Financial Officer effective immediately. Michael Brendan Kyne, CFA, joins the Company as Interim CFO to ensure a smooth transition of responsibilities during the interim period. With over 20 years of experience in investment management and business leadership, Mr. Kyne brings a wealth of expertise to the role.

Management's Discussion and Analysis

For the three months ended March 31, 2023

Dated: May 15, 2023

The following Management's Discussion and Analysis ("MD&A") is prepared as of May 15, 2023, and reports on the operating results and financial condition of CubicFarm Systems Corp., (the "Company" or "CubicFarms") for the three months ended March 31, 2023. This MD&A is prepared by management and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts herein are expressed in Canadian dollars unless stated otherwise.

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

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

Forward-Looking Statements

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

About the Company and Nature of Business

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

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

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

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

Feed Division

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

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

As of March 31, 2023, the Feed Division has 25 employees and full-time contractors, a decrease of 19% from 31 as of December 31, 2022.

Manufacturing

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

Research and Development

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

Fresh Division

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

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

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

As of March 31, 2023, the Fresh division has 25 employees and full-time contractors, a decrease of 34% from 38 as of December 31, 2022.

Corporate and operational highlights for the three months ended March 31, 2023

On January 17, 2023, the Company announced the lease of FreshHub machinery and equipment to Langley Indoor Produce, of which CubicFarms will have the option to retain up to 97.6% of the equity interest of this entity at the point of closing. As part of this transaction, CubicFarms will grant a license for the underlying FreshHub intellectual property to Langley Indoor Produce. The use of the license grant will be limited to the indoor, non-containerized implementation of the CubicFarms patented equipment. Ongoing funding of Langley Indoor Produce will come from third-party investors.

On March 7, 2023, the Company announced that its livestock feed subsidiary company, HydroGreen Inc. has finalized the installation of two previously sold machines to Jim Cheney Inc. in Utah.

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

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

Environmental, Social, and Governance (ESG)

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

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

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

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

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

CubicFarms ESG Disclosure

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

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

Environmental Commitments

Sustainability

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

Social Commitments

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

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

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

Animal Welfare

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

Governance Commitments

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

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

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

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

Highlights subsequent to the three months ended March 31, 2023

On May 5, 2023, the Company announced the resignation of Carlos Yam, Chief Financial Officer effective immediately. Michael Brendan Kyne, CFA, joins the Company as Interim CFO to ensure a smooth transition of responsibilities during the interim period. With over 20 years of experience in investment management and business leadership, Mr. Kyne brings a wealth of expertise to the role.

Discussion of Operations

Revenue

For the three months ended		March 31, 2023		March 31, 2022		Change	%
Fresh	$	361,117	$	225,848	$	135,269	60%
Feed	$	94,275	$	18,064	$	76,211	422%
Total	**$**	**455,392**	**$**	**243,912**	**$**	**211,480**	**87%**

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

Sales within the Fresh Division for the three months ended March 31, 2023, included systems revenue of $325,490 relating to the installation of a project, and consumable revenue of $35,627. Sales within the Feed division for the three months ended March 31, 2022, included systems revenue of $65,540 from sale of parts and service revenue of $28,735 from the sale of feed as a service. No modules were sold in the Fresh or Feed division in the three months ended March 31, 2023.

Sales within the Fresh Division for the three months ended March 31, 2022, included consumables revenue of $155,511, and consulting revenue of $17,857. No modules were sold in the Fresh or Feed division in the three months ended March 31, 2022.

Gross margin

For the three months ended		March 31, 2023		March 31, 2022		Change	%
Fresh	$	21,930	$	100,519	$	(78,589)	-78%
Feed	$	47,696	$	10,086	$	37,610	373%
Total	**$**	**69,626**	**$**	**110,605**	**$**	**(40,979)**	**-37%**

Gross margin for the three months ended March 31, 2023, was $69,626 or 15% of revenue. Gross margin for the three months ended March 31, 2022, was $110,605 or 45% of revenue, primarily from consumables, parts sales, and consulting services generates higher margins compared to systems in the current quarter.

General and administrative expenses

		March 31, 2023		March 31, 2022		Change	%
For the three months ended	$	2,741,573	$	3,938,348	$	(1,196,775)	-30%

The decrease in general and administrative expenses is in line with the Company's cost reduction plan to optimize operating efficiency. General and administrative staffing expenses and consulting fees for the three months ended March 31, 2023, was $1,984,449 compared to a decrease of 33% compared to the prior year's first quarter, which reflects the Company's reduced headcount. For the three months ended March 31, 2023, the professional fees were $259,606, which is an increase from the prior year's first quarter of $48,041, predominantly due to higher legal fees from patent filings which was previously capitalized.

Selling expenses

		March 31, 2023		March 31, 2022		Change	%
For the three months ended	$	398,223	$	1,689,693	$	(1,291,470)	-76%

For the three months ended March 31, 2023, selling expenses decreased by $1.3 million or 76%. Staffing expense and consulting fees for the three months ended March 31, 2023, were $296,484, compared to $1,229,179 in the prior year comparative. Advertising and promotions expense also decreased from $243,112 for the three months ended March 31, 2022, to $10,021 in the current period. The decrease in selling expenses is in line with the Company's cost reduction plan to optimize operating efficiency.

Research and development

		March 31, 2023		March 31, 2022		Change	%
For the three months ended	$	741,610	$	2,509,018	$	(1,767,408)	-70%

For the three months ended March 31, 2023, research and development expenses decreased by $1.77 million or 70%. Staffing expenses and consulting fees for the three months ended March 31, 2023, were $477,962, compared to $1,645,956 for the three months ended March 31, 2022. Materials and supplies used for research and development also decreased from $376,065 for the three months ended March 31, 2022, to $40,955 in the current period. The overall decrease in research and development expenses is in line with the Company's continuing approach to refocus to the Feed division, which required a lower activity level of research and development this period.

Gain on impairment reversal

		March 31, 2023		March 31, 2022		Change	%
For the three months ended	$	(110,000)	$	-	$	(110,000)	n.a.

During the three months ended March 31, 2023, the Company recorded a gain on impairment reversal from the sale of an impaired asset. During the three months ended March 31, 2022, there was no gain on impairment reversal recorded.

Net finance expense (income)

		March 31, 2023		March 31, 2022		Change	%
For the three months ended	$	(862,234)	$	(128,909)	$	(733,325)	-569%

The net finance expense relates to finance and accretion expenses incurred in the period. The net finance expense in the three months ended March 31, 2023, also included the interest on the convertible debentures issued in the second quarter of 2022, and the interest on the senior term loan issued in the third quarter of 2022.

Net loss

		March 31, 2023		March 31, 2022		Change	%
For the three months ended	$	(4,671,889)	$	(8,760,249)	$	4,088,360	47%

The Company's net loss in the three ended March 31, 2023, reflects the Company's prior cost reduction measures which were put in place in the third quarter of 2022.

Use of Proceeds

The following table provides a comparison between the expected and actual use of proceeds from the Company's financing activities as of March 31, 2023:

Month	Expected Amount per Prospectus	Actual Amount Received	Use of Proceeds	Expected	%	Actual	%
Sep-22	$ 6,400,000	$ 6,400,000	Working capital and general corporate purposes	$ 6,400,000	100.0%	$ 6,400,000	100.0%
Dec-22	$ 1,350,000	$ 1,350,000	Working capital and general corporate purposes	$ 1,350,000	100.0%	$ 1,350,000	100.0%
Mar-23	$ 2,551,350	$ 2,551,350	Working capital and general corporate purposes	$ 2,551,350	100.0%	$ 735,869	28.8%

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

Selected Annual Information

The following table sets out selected annual financial information of the Company and is derived from the Company's audited consolidated financial statements for the three most recently completed financial years, prepared in accordance with IFRS. The six months ended December 31, 2020, was due to change in year end.

	Twelve months ended December 31, 2022 $	Twelve months ended December 31, 2021 $	Six months ended December 31, 2020 $
Sales	3,635,805	5,273,166	624,774
Cost of sales	10,097,776	5,263,872	1,564,021
Gross profit	(6,461,971)	9,294	(939,247)
Operating expenses	52,093,075	30,471,458	8,732,177
Loss before other income (expense)	(58,555,046)	(30,462,164)	(9,671,424)
Other income (expense)	(1,016,004)	1,100,539	(594,780)
Net loss	(60,370,289)	(29,357,383)	(10,125,563)
Loss per share: Basic and diluted	(0.33)	(0.19)	(0.08)

		Balance as at	
	December 31, 2022 $	December 31, 2021 $	December 31, 2021 $
Total assets	23,777,884	54,677,149	34,736,855
Total non-current liabilities	10,999,478	3,805,818	4,474,071
Dividends declared	Nil	Nil	Nil

During the twelve months ended December 31, 2022, the Company recorded $3,635,805 in revenue, which was mainly from system sales and consumables. In addition to retrofitting the customer's equipment to the latest version, the Company wrote down inventory and deposits on inventory, which resulted in the cost of sales exceeding revenue. The write down is a result of management's assessment of inventory deemed as excess inventory based on current and projected market demands. Operating expenses increased mainly due to impairment loss of $20,447,236 recognized in the year.

During the twelve months ended December 31, 2021, the Company recorded $5,273,166 in revenue, as a result of system sales in the Fresh Division from the additional installation and training services required on several projects, sales of consumables and services from consulting agreements in the period, and sales in the Feed Division from systems sold. Operating expenses increased due to the continued expansion of the Company. Total full-time employees and contractors grew from 82 at December 31, 2020, to 159 at December 31, 2021.

During the six months ended December 31, 2020, the Company recorded $624,774 in revenue, the Company made the decision to upgrade existing customer equipment to the newest version, which resulted in cost of sales exceeding revenue. Operating expenses increased due to the continued expansion of the Company. Salaries and benefits, and consulting and professional fees totaled $5,477,251 due to the expansion of the Sales and Marketing team to support revenue growth, and the Installation team to support upcoming installations of several projects. The HydroGreen team has more than doubled in size since the acquisition date to support the anticipated demand for livestock feed machines around the globe.

Summary of Quarterly Results

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

Period	Revenue $	Net income (loss) for the period $	Basic and fully diluted income (loss) per share $
April 1, 2021 - June 30, 2021	356,005	(6,472,041)	(0.04)
July 1, 2021 - September 30, 2021	191,156	(7,964,945)	(0.05)
October 1, 2021 - December 31, 2021	819,195	(11,243,309)	(0.07)
January 1, 2022 - March 31, 2022	243,912	(8,760,249)	(0.05)
April 1, 2022 - June 30, 2022	2,890,493	(9,091,846)	(0.05)
July 1, 2022 - September 30, 2022	325,480	(12,675,555)	(0.06)
September 01, 2022 - December 31, 2022	175,920	(29,842,639)	(0.16)
January 1, 2023 - March 31, 2023	455,392	(4,671,889)	(0.02)

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

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

During the three months ended March 31, 2023, the Company's revenues were primarily derived from installation of Systems, sale of parts and provision of services.

Liquidity and Capital Resources

As at March 31, 2023, current assets less current liabilities was negative $2,362,892 compared to negative $1,928,674 as at December 31, 2022. The decrease is primarily due to a reduction of cash, an increase in customer deposits, and loans and borrowings.

Operating Activities

Cash outflow from operating activities for the three months ended March 31, 2023, was $3,680,793, a decrease in cash outflow by 46% compared to $6,788,197 in the prior year. The cost reduction measures implemented commenced in the third quarter 2022.

Investing Activities

Cash inflow from investing activities for the three months ended March 31, 2023, was $425,000, an increase of 127% compared to a cash outflow of $1,554,277 in the prior year. The increase in cash inflow was primarily due to lower property, plant and equipment and intangible asset investments compared to the prior year, as well as a sale of property, plant and equipment.

Financing Activities

For the three months ended March 31, 2023, the cash inflow from financing activities was $2,427,065 compared to an outflow of $216,195 in the prior year. The increase was due to equity financing raised in March 2023 and a redraw on the senior term loan.

Contractual Amounts Payable

As at March 31, 2023, the Company has financial liabilities which are due on a fiscal year basis as follows:

As at March 31, 2023	Carrying Amount	< 1 Year	1-5 years	5+ Years	Total
	$	$	$	$	$
Trade and other payables	7,448,019	7,448,019	-	-	7,448,019
Earn out payable	1,693,163	1,693,163	-	-	1,693,163
Lease liability	2,786,875	940,067	1,706,121	919,820	3,566,008
Loans and borrowings	11,391,037	2,579,150	14,972,771	-	17,551,921
Total	**23,319,094**	**12,660,399**	**16,678,892**	**919,820**	**30,259,111**

Capital Management

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

The losses and deficits incurred by the Company indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. As of March 31, 2023, the Company had cash and cash equivalents of $2,099,863. Although reduced in recent months as a result of the Company's implementation of cost reduction measures, the Company continues to maintain a certain level of non-discretionary monthly expenditures. Combined with slower-than-expected product sales, this results in a reduction in the Company's cash position and short-term liquidity. As of the date of this MD&A, the Company had cash on hand and credit room from its existing credit facilities, provided certain draw conditions are met, totaling approximately $2.2 million.

The Company expects incremental cash inflow and thus improve its cash position upon signing of sale agreements with new customers through receipt of progress payments as they arise. The Company is also seeking other strategic options in order to extend its cash runway. There is no guarantee that the Company will be able to raise sufficient capital to extend its cash runway or on terms that will not be detrimental to its current shareholders. These conditions cast significant doubt on the Company's ability to continue as a going concern. The Company's consolidated interim financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than normal course of business and at amounts different from those in the accompanying consolidated interim financial statements. These adjustments could be material.

Transactions with Related Parties

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

Key management compensation

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

	Three months ended March 31, 2023 $	Three months ended March 31, 2022 $
Wages and salaries	143,750	352,250
Consulting fees	-	444,144
Share-based compensation	202,161	315,746
Total	**345,911**	**1,112,140**

Outstanding Share Data

The Company has authorized share capital consisting of: (i) an unlimited number of common shares without par value or special rights or restrictions attached; (ii) an unlimited number of Class A preferred shares without par value and with certain rights and restrictions attached; and (iii) an unlimited number of Class B preferred shares without par value and with certain rights and restrictions attached. As of May 15, 2023, the Company has no Class A preferred shares or Class B preferred shares issued and outstanding.

As at March 31 and May 15, 2023, the Company had the following number of common shares, options, and warrants outstanding:

	March 31, 2023	May 15, 2023
Common shares issued and outstanding	263,163,774	263,163,774
Options	15,876,202	15,676,202
Warrants	86,624,275	86,624,275
Total fully diluted shares	**365,664,251**	**365,464,251**

Off-Balance Sheet Arrangements

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

Contingent Liability

The Company is party to a claim that arose in the ordinary course of business on November 21, 2021, asserting that the Company was in breach of a consulting agreement by failing to make required payments and by purporting to terminate the services of the plaintiff, contrary to the terms that were agreed. Pleadings have closed and the Company's legal counsel is awaiting the date for discovery. As at March 31, 2023, the potential exposure the Company faces cannot be measured reliably, and the claim is not expected to have a material effect on the Consolidated Financial Statements.

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

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

Financial Instruments

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

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

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

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

The carrying value of the Company's cash and 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 March 31, 2023, the discount rate was estimated to be 31% (December 31, 2022 – 31%).

There has been no change between levels during the year.

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

As at March 31, 2023				
Asset (Liability)	FVTPL	Amortized Cost	Level 2 Fair Value	Level 3 Fair Value
Cash	-	2,099,863	-	-
Trade and other receivables	-	2,130,509	-	-
Trade and other payables	-	(7,448,019)	-	-
Earnout payable	(1,384,025)	-	-	(1,384,025)
Loans payable	-	(11,391,037)	(11,190,042)	-

As at December 31, 2022				
Asset (Liability)	FVTPL	Amortized Cost	Level 2 Fair Value	Level 3 Fair Value
Cash	-	2,944,924	-	-
Trade and other receivables	-	1,986,579	-	-
Trade and other payables	-	(7,514,621)	-	-
Earnout payable	(1,386,396)	-	-	(1,386,396)
Loans payable	-	(10,707,631)	(11,687,978)	-

The continuity for earn out payable is as follows:

	March 31, 2023 $	December 31, 2022 $
Balance – beginning of period	1,386,396	1,762,812
Less: payment	-	(325,104)
Foreign exchange	(2,371)	93,090
Fair value change during the year	-	(144,402)
Balance – end of period	**1,384,025**	**1,386,396**
Current portion	1,384,025	1,386,396
Non-current portion	-	-

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at March 31, 2023, the primary risks were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. The Company provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at March 31, 2023, three customers accounted for 34%, 27% and 15% of gross trade accounts receivable, respectively (December 31, 2022 - 40%, 27% and 11%).

Liquidity risk

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

Market risk

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

Interest rate risk

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

Foreign currency risk

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

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

The table below summarizes the Company's exposure to the various currencies denominated in the foreign currencies as at March 31, 2023, and December 31, 2022, as listed below:

	March 31, 2023		December 31, 2022	
	US dollar	Chinese renminbi	US dollar	Chinese renminbi
	$	¥	$	¥
Cash	174,023	4,557,754	500,276	8,627,405
Trade and other receivables	437,570	356,829	825,032	-
Trade and other payables	(2,728,859)	(2,673,658)	(2,866,745)	(11,739)
Customer deposits	(5,501,416)	(16,853,728)	(4,346,496)	(15,759,855)
Earn-out payable	(1,021,775)	-	(1,021,775)	-
Loans payable	(75,469)	-	(77,402)	-
Net exposure	**(8,715,926)**	**(14,612,803)**	**(6,987,110)**	**(7,144,189)**

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

Based on the balances as at March 31, 2023, a 1% increase or decrease in the value of the Canadian dollar exchange rate against all the other currencies on that date would result in an increase or decrease of approximately $146,752 (December 31, 2022 - $108,846) in earnings or losses before taxes.

Critical Accounting Estimates

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

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

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

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

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

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

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

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

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

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

Disclosure Controls and Internal Controls over Financial Reporting

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

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

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

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

For the three months ended March 31, 2023, there were no material changes in the Company's internal controls over financial reporting or changes to disclosure controls and procedures that materially affect, or would be reasonably likely to affect, the Company's internal control systems.

Additional Information and Approval

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

The Board of Directors has approved the disclosures contained in this MD&A as of May 15, 2023.