CubicFarm Systems Corp.

Condensed Interim Consolidated Financial Statements

For The Three Months and Six Months Ended December 31, 2019 and 2018

(Unaudited)

Page

(Expressed in Canadian dollars)

	Notes	**December 31, 2019**	June 30, 2019
		$	$
Assets			
Current			
Cash & Cash Equivalent		**3,803,487**	9,900,987
Restricted Cash	6	**-**	310,000
Trade & Other Receivables	7	**562,499**	969,920
Inventory	8	**915,539**	225,635
Prepaid expenses & Deposits	9	**3,306,792**	1,699,048
		8,588,317	13,105,590
Non-current			
Property, Plant and Equipment	10	**2,827,545**	3,132,936
Promissory note, associates	11	**306,043**	269,132
Investment in Associates	11	**503,899**	546,541
Intangible Assets	12	**1,026,114**	1,048,295
Right-of-Use Asset	5	**174,009**	-
		4,837,610	4,996,904
Total assets		**13,425,927**	18,102,494
Liabilities			
Current			
Trade & Other Payables	13	**403,621**	1,259,761
Customer Deposits	14	**2,122,430**	2,280,305
Lease Payable	5	**9,245**	-
Warranty Provision		**195,987**	388,649
		2,731,283	3,928,715
Non-current			
Lease Payable	5	**65,858**	-
Restoration Provision	5	**105,010**	-
Total liabilities		**2,902,151**	3,928,715
Equity			
Share Capital	18	**22,932,279**	22,740,341
Equity Reserves		**1,836,366**	1,411,110
(Deficit)		**(14,244,869)**	(9,977,672)
Total equity		**10,523,776**	14,173,779
Total liabilities and equity		**13,425,927**	18,102,494

Going Concern	3
Commitments	17
Subsequent Events	23

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)
(Expressed in Canadian dollars)

	Notes	For the three months ended December 31, 2019	December 31, 2018	For the Six months ended December 31, 2019	December 31, 2018
		$	$	$	$
Revenue		**320,140**	3,870,695	**560,841**	3,870,695
Cost of sales		**206,942**	2,954,280	**327,643**	2,949,782
Gross margin		**113,198**	916,415	**233,198**	920,913
Operating and General Admin expenses	15	**1,604,165**	641,895	**3,216,366**	905,782
Warranty expense		**3,512**	80,000	**3,512**	80,000
Selling expenses		**126,884**	54,473	**218,731**	104,028
Research & Development		**421,192**	1,489,480	**792,012**	1,660,689
Share based compensation	19	**94,487**	945,566	**231,613**	945,566
		2,250,240	3,211,414	**4,462,234**	3,696,065
Loss before other income (expense)		**(2,137,042)**	(2,294,999)	**(4,229,036)**	(2,775,152)
Other income (expense)					
Other income	14	**350,936**	-	**350,936**	-
Finance income		**36,791**	-	**78,179**	-
Finance expense		**(263)**	(3,046)	**(277)**	(3,244)
Accretion charge	5	**(446)**	-	**(845)**	-
Foreign exchange gain(loss)		**2,803**	(41,256)	**(4,515)**	(29,682)
Loss on investment in associate	11	**(65,391)**	-	**(105,731)**	-
Public listing		**-**	-	**(33,466)**	-
Bad Debt expense		**(176,821)**	-	**(322,441)**	-
		147,609	(44,302)	**(38,160)**	(32,926)
Net loss and comprehensive loss for the period		**(1,989,433)**	(2,339,301)	**(4,267,196)**	(2,808,078)
Earnings (loss) per share					
Basic & Diluted		**$ (0.02)**	$ (0.04)	**$ (0.05)**	$ (0.05)
Shares used in computing earning per share:					
Basic & Diluted		**84,456,885**	62,699,015	**84,397,674**	61,408,116

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

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

	Common Share capital	Preferred Share capital	Equity Reserves	Deficit	Total equity
Balance, June 30, 2018	**$ 2,098,134**	**$ 3,524,804**	**$ 213,109**	**$ (2,347,048)**	**$ 3,488,999**
Net loss for the period	-	-	-	(2,808,078)	(2,808,078)
Share-based payments	-	-	-	-	-
Conversion of Preferred Shares	3,524,804	(3,524,804)	-	-	-
Issuance of shares to settle issuance costs	2,402,740				2,402,740
Share-based payments			945,566		945,566
Balance, December 31, 2018	**$ 8,025,678**	**$ -**	**$ 1,158,675**	**$ (5,155,126)**	**$ 4,029,227**
Balance, June 30, 2019	**$ 22,740,341**	**$ -**	**$ 1,411,110**	**$ (9,977,672)**	**$ 14,173,779**
Net loss for the period	-	-	-	(4,267,196)	(4,267,196)
Exercise of stock options	42,134	-	(19,524)	-	22,610
Issuance of shares, net of share issuance costs	149,804	-	-	-	149,804
Share-based payments	-	-	444,780	-	444,780
Balance, December 31, 2019	**$ 22,932,279**	**$ -**	**$ 1,836,366**	**$ (14,244,869)**	**$ 10,523,776**

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

(Expressed in Canadian dollars)

	For the six months ended	
	December 31, 2019	December 31, 2018
	$	$
Cash provided by (used for) the following activities		
Operating activities		
Net loss for the period	**(4,267,196)**	(2,808,078)
Depreciation - Property, plant and equipment	**217,826**	64,543
Depreciation - Right-of-use asset	**10,259**	-
Accretion charges	**845**	-
Amortization	**22,181**	51,543
Provision for bad debt	**322,441**	-
Non-cash Research and COGS	**-**	1,503,729
Share-based payments	**444,780**	945,566
Loss on investment in associate	**105,731**	-
Interest income	**(78,179)**	-
	(3,221,312)	(242,697)
Changes in working capital accounts		
Trade and other receivables	**84,981**	(1,497,717)
Inventories	**(689,904)**	322,812
Prepaid expenses and deposits	**(1,607,744)**	(1,890,424)
Trade and other payables	**(856,140)**	2,274,810
Customer deposits	**(157,875)**	140,891
Warranty provision	**(192,662)**	80,000
	(3,419,344)	(569,628)
Investing activities		
Purchases of property, plant, and equipment	**87,565**	(2,168,211)
Promissory note, associate	**(100,000)**	(398,323)
Interest Income	**78,179**	-
	65,742	(2,566,534)
Financing activities		
Issuance of shares	**149,804**	-
Exercise of stock options	**22,610**	-
Lease payments	**(5,000)**	-
Proceeds of Demand Loan	**-**	1,017,010
	167,414	1,017,010
Increase (decrease) in cash and cash equivalents	**(6,407,500)**	(2,361,849)
Cash and cash equivalents, beginning of period	**10,210,987**	2,509,946
Cash and cash equivalents, end of period	**3,803,487**	148,097

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 9440-202 Street, Unit 117, Langley, BC, V1M 4A6.

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

The Company is an agriculture technology and vertical farming company that develops, employs and sells modular growing systems with patented and patent-pending technologies (the "System") to provide high-quality, predictable crop yields for farms around the world. In addition, the Company leverages its technology by operating its own facility in Pitt Meadows, British Columbia.

2. Statement of compliance

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") applicable to the preparation of interim financial statements in compliance with the International Accounting Standard 34 Interim Financial reporting ("IAS 34") as issued by International Accounting Standard Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended June 30, 2019, and Condensed interim consolidated financial statements for the quarter ended December 31, 2019 which have been prepared in accordance with IFRS. The accounting policies adopted are consistent with those of the previous financial year except as described in Note 5 below.

The Board of Directors approved these condensed interim consolidated financial statements on February 21, 2020.

3. Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The management confirms their assumption that the company is a going concern and no significant uncertainty exists in this respect. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds there from, and to continue to obtain borrowings or issue equity from third parties sufficient to meet current and future obligations. These condensed interim consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the company were unable to continue its operations.

4. Basis of preparation

Basis of measurement

These interim condensed consolidated financial statements are presented in Canadian dollars. They are prepared on a historical cost basis, with the exception of Promissory note, associate, which is measured at fair value (Note 11).

Significant accounting judgements, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to select accounting policies and make estimates and judgments that may have a significant impact on the financial statements and accompanying notes. Estimates are continuously evaluated and are based on management's experience and expectations

(Expressed in Canadian dollars, unless otherwise stated.)

4. Basis of preparation (continued)

of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements for the year ended June 30, 2019, except for the judgments and assumptions applied by the Company for the adoption of IFRS 16 (Note 5).

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated upon consolidated.

The principal subsidiaries of the Company and joint arrangements to which it is a party were as follows at December 31, 2019.

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 Innovation Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Research on new technologies for cubic farming systems
CubicFarm Produce Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Growth and sale of produce
CubicFarm Services Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Purchase of materials for growth and sale of produce
CubicFarm Capital Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Investment company
Swiss Leaf Farms Ltd.	AB, Canada	50%	Equity method	Growth and sale of produce
Artex Feed Solutions Ltd.	BC, Canada	25%	Equity method	Authorized reseller of hydroponic animal feed system
CubicFarm Systems U.S. Corp	DE, USA	100%	Subsidiary; Consolidation method	Investment company
CubicFeed Systems U.S. Corp	SD, USA	100%	Subsidiary; Consolidation method	Growth and sale of animal feed system

5. Adoption of new and amended accounting standards

IFRS 16 Leases

IFRS 16 Leases sets out the principles for recognition, measurement, presentation, and disclosure of leases. It eliminates the classification of leases as either operating or finance leases required by IAS 17 and introduces a single lessee accounting model.

The Company adopted IFRS 16 retrospectively from July 1, 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. Therefore, the adjustments arising from the new leasing rules were recognized in the opening balance sheet on July 1, 2019.

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard.

- Account for leases with a remaining term of less than 12 months as of July 1, 2019 as short-term leases;
- Application of a single discount rate to a portfolio of leases with similar characteristics;
- Account for lease payments as an expense and not recognize a right-to-use asset if the underlying asset is of low dollar value ($5000 or lower); and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

(Expressed in Canadian dollars, unless otherwise stated.)

5.Adoption of new and amended accounting standards (continued)

The Company leases its office space, the farming facility in Pitt Meadows, British Columbia, and one vehicle. The office space and vehicle leases both have a term of one year. The farming facility is leased for five years, with an option to renew for a further five years. Until June 30, 2019, all leases of the Company were classified as operating leases and payments made were charged directly to profit or loss.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to its farming facility. The Company applied the practical expedient to the office space and vehicle lease, as they are for a period less than 12-months. The term of the lease of the farming facility is five years with an option to renew. The management of the Company expects that the facility will be used until 2028.

From July 1, 2019, leases are recognized as a right-to-use asset with a corresponding liability at the date at which the leased asset is available for use. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The liability pertaining to the lease of the farming facility was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 6.99%. The associated right-of-use asset was measured at the value of the lease liability plus the estimated cost of restoring the facility. As a result, on July 1, 2019, the Company recognized total lease liabilities of $79,974 and right-of-use assets of $184,268 which consists of total lease liabilities of $79,974 and estimated cost of restoring the facility at the end of lease term at $104,294. For the purpose of discounting the estimated cost of restoring the facility the company used time value of money rate (Rate of return on Government of Canada Bonds for 10 years) of 1.37%.

Here is the reconciliation of lease commitments as reported at June 30, 2019 to the lease liabilities recorded at July 1, 2019.

Particulars	**$**
Operating lease commitment as at June 30, 2019	123,727
Discounted using company's incremental borrowing rate at initial recognition	112,136
Less: Short term leases recognized on a straight-line basis as expense	(78,256)
Add: Additional estimated variable payments under IFRS 16	-
Add: Change in estimate for additional period (5 years)	46,094
Balance as at July 1, 2019	**79,974**

A continuity of the Company's lease liability and the right-of-use asset for the farming facility is as follows:

Lease liability	**December 31, 2019**
	$
Balance as at July 1, 2019	-
Adoption of IFRS 16	79,974
Payments	(5,000)
Accretion expense	129
	75,103
Less: Current portion	**(9,245)**
Long-term	**65,858**

(Expressed in Canadian dollars, unless otherwise stated.)

5.Adoption of new and amended accounting standards (continued)

Right-of-Use Asset	December 31, 2019
	$
Balance as at July 1, 2019	-
Adoption of IFRS 16	79.974
Restoration Provision	104,294
Depreciation	(10,259)
	174,009

Restoration Provision	December 31, 2019
	$
Balance as at July 1, 2019	-
Accrual for restoration of the facility	104,294
Accretion	716
	105,010

The lessor of the farming facility is a related party to the Company.

IAS 28 Interest in Associates and Joint Ventures

Amendments were made to IAS 28, clarifying that IFRS 9, Financial Instruments requirements, including its impairment requirements, apply to long-term interests. The expected credit loss impairment requirements in IFRS 9 are applied first to long-term interests, followed by the adjustments to their carrying amount required by IAS 28, i.e. the adjustments resulting from the allocation of losses of the investees. This is followed by the determination of whether there are indicators of impairment which require an impairment test to be applied to the entire remaining carrying amount of the investment in the associate or joint venture.

The Company adopted these amendments on July 1, 2019. The Company has 50% investment in Swiss Leaf Farms Ltd. (“Swiss Farm”) (Note 11), which is accounted for under the equity method. The Company has also provided loans to Swiss Farm. The promissory note receivable from Swiss Farm is measured at fair value and for additional loans to Swiss Farm, the Company has applied the impairment requirements of IFRS 9 and written off the related balances (Note 7). As at July 1, 2019 and December 31, 2019, the management of the Company determined that the balance remaining for the investment in associates was not impaired. As a result, the adoption of the amendments to IAS 28 did not have any impact on the consolidated financial statements of the Company.

6. Restricted Cash

Restricted cash pertains to the amount in GIC for the guarantee of Letter of Credit. The guarantee expired on Nov 30, 2019 upon which it was converted to cash and cash equivalent.

7. Accounts receivable

Current:	31-Dec-19	30-Jun-19
	$	$
Trade accounts receivable	**362,499**	362,588
Note receivable	**212,142**	205,874
Interest receivable	**-**	12,352
Less: Provision for loss on Short term receivable (Note Receivable & Interest Receivable)	**(212,142)**	(218,226)
Goods and services tax receivable	**200,000**	231,881
Other Receivable	**-**	375,451
	562,499	969,920

(Expressed in Canadian dollars, unless otherwise stated.)

7. Accounts receivable (continued)

Non-Current:	31-Dec-19	30-Jun-19
	$	$
Note receivable	**205,874**	-
Interest receivable	**24,704**	-
Less: Provision for loss on Long term receivable (Note Receivable & Interest Receivable)	**(230,578)**	-
	-	-

In January 2019, the Company accepted a short-term promissory note in the amount of $205,874 from its associate (Note 11) in exchange of the same amount of accounts receivable from associate. The note was payable in full on February 1, 2020 and bears an interest rate of 1% per month and it is further extended to another year so it's due in full on February 1, 2021 and bears an interest rate of 1% per month. The Company has fully provided for it and related interest receivable on it considering the inability of the associate to pay off by the due date of loan.

Further there are following promissory notes from Swiss leaf without interest which has also been provided in full.

Date	Amount
August 21, 2019	22,142
September 25, 2019	50,000
October 30, 2019	25,000
November 26, 2019	40,000
December 20, 2019	75,000
	212,142

The trade accounts receivable balance is net of provision for bad debt. Other Receivable consists of reimbursement of expenses by customers. The amount of $147,495 was provided for allowance for bad debt related to Swiss Leaf ($140,624) and Nu Skin ($6,871).

8. Inventory

	31-Dec-19	30-Jun-19
	$	$
Systems – in progress	832,744	140,604
Seeds and other supplies	40,964	47,720
Packaging and other	41,831	37,311
	915,539	**225,635**

System – in progress is the container in hand available for sale by the Company. The net realizable value of inventory as on December 31, 2019 and June 30, 2019 are higher than the cost accordingly the Company has reported the inventory at cost in the financial statement.

(Expressed in Canadian dollars, unless otherwise stated.)

9. Prepaid expenses

	31-Dec-19	30-Jun-19
	$	$
Deposits for Systems inventory (i)	3,245,732	1,648,288
Prepaid expenses and deposits, other	61,060	50,760
	3,306,792	**1,699,048**

(i) Current practice of the Company is to put down deposit for the containers. Such containers are shipped upon the purchase being paid in full.

10. Property, plant, and equipment

	Production equipment	Other Production Equipment	Leasehold Improvement	Furniture and fixtures	Other equipment	Construction In Progress	Computer equipment	Total
Cost	$	$	$	$	$	$	$	$
June 30, 2019	1,534,779	599,483	165,980	23,529	302,595	677,780	104351	3,408,497
Additions	-	-	-	5,805	30,590	29,845	37,958	104,198
Disposal/Transfer	-	-	-	-	-	(191,763)	-	(191,763)
December 31, 2019	1,534,779	599,483	165,980	29,334	333,185	515,862	142,309	3,320,932
Accumulated depreciation								
June 30, 2019	71,096	109,390	16,598	2,353	60,486	-	15,638	275,561
Depreciation	63,424	99,914	16,598	2,447	19,305	-	16,138	217,826
Disposal/Transfer	-	-	-	-	-	-	-	-
December 31, 2019	134,520	209,304	33,196	4,800	79,791	-	31,776	493,387
Net book value, December 31, 2019	1,400,259	390,179	132,784	24,534	253,395	515,862	110,533	2,827,545
Net book value, June 30, 2019	1,463,683	490,093	149,382	21,176	242,109	677,780	88,713	3,132,936

(Expressed in Canadian dollars, unless otherwise stated.)

11. Investment in associates

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

The Company contributed $848,323 in total, which consisted of $120 in share capital and balance in shareholder loan. The shareholders loan is in a form of an unsecured, non-interest-bearing promissory note, repayable in full on February 1, 2024. The fair value of the promissory note at December 31, 2019 was determined to be $306,043 (June 30, 2019 - $269,132). The rate of 25% is considered as the discounting rate as the promissory note is related to the unsecured loan and 25% is considered a required rate of return any venture capital investor will want on their investment. Allowance of $10,600 has also been provided for the promissory note.

The investment in associate has been accounted for by the equity method and as such was initially recognized at cost. The carrying amount was then adjusted to recognize the Company's share of the net income or loss in Swiss Leaf subsequent to the acquisition. At December 31, 2019, the investment in Swiss Leaf has a carrying amount of $418,405 (June 30, 2019 - $546,541).

The Company owns 25% of the Artex Feed Solutions, an animal feed solution company with registered address in British Columbia. The company contributed $100,000 in total cash which consisted of $250 in share capital and balance in investment in working capital. The company was incorporated in November 8, 2019. The investment in associate has been accounted for by the equity method and as such was initially recognized at cost. The carrying amount is adjusted to recognize the Company's share of the net income or loss in Artex Feed solutions subsequent to the acquisition. At December 31, 2019, the investment in Artex Feed Solutions has a carrying amount of $85,494 (June 30, 2019 - $Nil).

The loss on investment in these associates is as follows:

	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
	$	$	$	$
Swiss Leaf	50,885	-	91,225	-
Artex Feed Solutions	14,506	-	14,506	-
Total	**65,391**		**105,731**	**-**

12. Intangible assets

	Patent	Development Assets	Total
Cost	**$**	**$**	**$**
June 30, 2019	50,000	1,136,810	1,186,810
Additions	-	-	-
Disposals	-	-	**-**
December 31, 2019	**50,000**	**1,136,810**	**1,186,810**
Accumulated depreciation			
June 30, 2019	6,645	131,870	138,515
Amortization	1,718	20,463	22,181
Disposals	**-**	-	**-**
December 31, 2019	**8,363**	**152,333**	**160,696**
Net book value, December 31, 2019	**41,637**	**984,477**	**1,026,114**
Net book value, June 30, 2019	**43,355**	**1,004,940**	**1,048,295**

(Expressed in Canadian dollars, unless otherwise stated.)

13. Trade and other payables

Trade and other payables consist of:

	31-Dec-19	30-Jun-19
	$	$
Trade Payable	267,874	769,593
WCB Payable	21,028	10,838
PST Payable	12,924	10,002
Accrued Expenses	102,702	469,325
Ending balance	**403,621**	**1,259,758**

14. Customer deposits

Customer deposits consist of funds paid by customers for Systems based on the sales agreement. The customer may cancel the order prior to shipping of the equipment, subject to the following restocking fees. If the customer cancels the order before the manufacturing of the equipment has commenced, the customer shall pay a restocking fee equal to ten percent (10%) of the purchase price. If the customer cancels the order thereafter but prior to shipping of the equipment, the customer shall pay a restocking fee equal to twenty percent (20%) of the purchase price. The order shall not be cancellable after shipping of the equipment. During the quarter deposit from one of the customers were forfeited as per contract as they were not in compliance with the terms of the sales agreement. The forfeiture of $350,936 is included in other income.

There is no external restriction on the use of these deposits.

	31-Dec-19	30-Jun-19
	$	$
Balance – Opening	2,280,305	883,692
Additions	332,356	4,129,699
Recognized into revenue	(136,620)	(2,733,086)
Deposit forfeited, recognized as other income	(350,936)	-
FX Adjustment for deposit forfeited	(2,675)	-
Balance – Ending	**2,122,430**	**2,280,305**

15. Operating and general admin expenses

	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
	$	$	$	$
Depreciation and Amortization	115,580	108,654	250,266	116,086
Consulting	353,901	151,780	724,179	209,362
Salary and Benefits	631,450	161,872	1,260,521	293,684
Professional Fees	217,369	123,257	335,032	138,183
Other expenses	285,865	96,332	646,368	148,467
	1,604,165	**641,895**	**3,216,366**	**905,782**

(Expressed in Canadian dollars, unless otherwise stated.)

16. Related party transactions

All transactions with related parties have occurred in the normal course of operations. All amounts are unsecured, non-interest bearing and have no specific terms of settlement, unless otherwise noted.

Transactions with entities with significant influence over the Company

Rent paid to Bevo Farms (Note 5)

	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
	$	$	$	$
Rent	2,500	11,800	5,000	33,800

Accounts receivable from Bevo is $1,281 & Accounts Payable is $4,280 (June 30, 2019 - $160,036 and $145,413, respectively).

Company has made 50% investment in Swiss Leaf (Note 11). As at December 31, 2019, Accounts Receivable from Swiss Leaf was $0 and $3,800 is payable to Swiss Leaf (June 30, 2019 - $3,001 and $6,994, respectively).

On January 28, 2019 the Company completed a private placement with a strategic investor, pursuant to the investment agreement, Nu Skin has the pre-emptive right to participate in future equity financings of the Company to maintain its pro rata ownership of the Company up to a maximum 12.9% ownership interest. This right is available to Nu Skin for as long as it owns not less than 8% of the Company's shares. As at December 31, 2019, common shares transactions with Nu Skin have been as follows, for its total ownership interest in the Company on non-diluted basis of 12.88%:

Date	# of common shares	Share price ($)	Gross proceeds ($)
January 28, 2019	9,953,913	1.00463	10,000,000
May 8, 2019	767,503	1.00463	771,056
August 16, 2019	158,171	0.9471	149,804
	10,879,587		**10,920,860**

As at December 31, 2019, Accounts and other receivable from Nu Skin was $18,796 (June 30, 2019 - $487,254).

In January 2019, the Company accepted a short-term promissory note in the amount of $205,874 from its associate (Note 11) in exchange of the same amount of accounts receivable from associate. The note was payable in full on February 1, 2020 and bears an interest rate of 1% per month and it is further extended to another year so it's due in full on February 1, 2021 and bears an interest rate of 1% per month. The Company has fully provided for the short-term receivable from associate and related interest receivable on it considering the inability of the associate to pay off by the due date of loan.

Further there are promissory notes from Swiss leaf without interest which has also been provided in full which is reported in Note 7.

(Expressed in Canadian dollars, unless otherwise stated.)

16. Related Party Transactions (Continued)

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 December 31, 2019	Three Months Ended December 31, 2018	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
	$	$	$	$
Wages and consulting fees	267,917	139,000	661,667	227,000
Share-based compensation	87,441	198,728	182,260	198,728

17. Commitments

As at December 31, 2019, the Company had committed to purchase systems totalling $577,089 (June 30, 2019 - $458,716).

18. Share capital

As at December 31, 2019, the Company had 84,456,885 common shares outstanding (June 30, 2019 – 84,179,714). Common shares have no par value, carry one vote per share and carry a right to dividends. The Company is authorized to issue unlimited number of its common shares and preferred shares.

	Number of shares	Share capital
Common shares		**$**
Balance – June 30, 2018	**60,103,186**	**2,098,134**
Private placements	13,462,691	13,525,038
Cash share issuance costs	-	(43,343)
Options exercised	2,300,000	447,500
Preferred shares converted to common shares	7,175,448	5,927,544
Shares issued for services	1,138,389	1,000,000
Non-cash share issuance costs	-	(601,199)
Transfer from equity reserves	-	386,667
Balance – June 30, 2019	**84,179,714**	**22,740,341**
Private placements (i)	158,171	149,804
Options exercised	119,000	22,610
Transfer from equity reserves	-	19,524
Balance – December 31, 2019	**84,456,885**	**22,932,279**

(i) 158,171 shares purchased by Nu Skin @ 0.9471

(Expressed in Canadian dollars, unless otherwise stated.)

19. Stock options

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

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

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

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

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

Share purchase options continuity schedule:

	Number of share purchase options	Weighted average exercise price
		$
Balance, June 30, 2018	20,300,766	0.19
Granted	13,265,000	0.85
Exercised	(2,300,000)	0.19
Surrendered	(1,380,000)	0.83
Forfeited	(230,000)	0.83
Balance, June 30, 2019	29,655,766	0.45
Granted	150,000	1.0031
Exercised	(119,000)	0.19
Forfeited	(630,000)	0.94
Balance, December 31, 2019	**29,056,766**	**0.44**

During the period ended December 31, 2019, the weighted average price of share when options were exercised was $0.85 (June 30, 2019 - $1.00463).

Share purchase options outstanding at December 31, 2019:

(Expressed in Canadian dollars, unless otherwise stated.)

19.Stock options (continued)

Grant date - Expiry date	Options Outstanding (#)	Contractual life of options - years	Exercise price $	Options Exercisable (#)
May 3, 2017-April 1 2027	14,130,096	10	0.19	5,434,624
November 1, 2017 - January 30, 2023	230,000	5	0.19	92,000
November 1, 2017 - January 30, 2023	282,670	5	0.19	110,400
November 1, 2017 - January 30, 2023	1,560,000	5	0.19	1,100,000
November 1, 2017 - January 30, 2023	184,000	5	0.19	46,000
November 1, 2017 - January 30, 2023	230,000	5	0.19	46,000
November 1, 2017 - January 30, 2023	115,000	5	0.19	23,000
November 1, 2017 - January 30, 2023	92,000	5	0.19	-
November 1, 2017 - January 30, 2023	115,000	5	0.19	115,000
November 1, 2017 - January 30, 2023	184,000	5	0.19	138,000
November 1, 2017 - January 30, 2023	184,000	5	0.19	138,000
March 20, 2018 - March 30, 2023	115,000	5	0.19	23,000
March 20, 2018 - March 30, 2023	230,000	5	0.19	230,000
March 20, 2018 - March 30, 2023	230,000	5	0.19	230,000
July 15, 2018 – July 15, 2023	10,120,000	5	0.83	1,030,400
June 18, 2019 –September 15, 2020	300,000	1	1.00	-
June 18, 2019 – December 15, 2023	605,000	5	1.00	311,667
November 14, 2019 –November 13, 2024	150,000	5	1.00463	50,000
Total share purchase options	**29,056,766**			**9,118,091**

The fair value of the share purchase options granted during the year ended June 30, 2019 was calculated using the Black-Scholes option valuation model at the grant date, with the following weighted average assumptions: share price volatility – 75% for all options granted in FY 2018-19, Risk free interest rate – 2.03% (for options granted on 15 July 2018) & 1.33% other options granted in the year, expected dividend yield - $nil, expected forfeiture rate – 20% for employee and -25% for board of directors. For options granted in FY 2019-20 share price volatility – 113% Risk free interest rate – 1.47% & 1.49%, expected dividend yield - $nil, expected forfeiture rate – 20% for employee and -25% for board of directors.

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

	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
	$	$	$	$
SBC for vendors (included in Operating & GA expenses)	106,584	-	213,167	-
SBC for employees & directors	94,487	945,556	231,613	945,556
Total SBC	**201,071**	**945,556**	**444,780**	**945,556**

(Expressed in Canadian dollars, unless otherwise stated.)

20. Operating Segments

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

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

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

(c)for which discrete financial information is available.

Based on this guidance, the Company has determined it only has one operating segment.

21. Capital management

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

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

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

During the year, the company's strategy, which was unchanged from the prior year, was to maintain net equity as a positive amount. The net equity at December 31, 2019 and June 30, 2019 were as follows:

	December 31, 2019	June 30, 2019
	$	**$**
Total Assets	**13,425,927**	18,102,494
Total Liabilities	**(2,902,151)**	(3,928,715)
Net Equity	**10,523,776**	14,173,779

22. Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, trade payables, customers deposits, demand loan and amounts due from an associate. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.
The following summarizes fair value hierarchy under which the Company's financial instruments are valued:

Level 1 – fair values based on unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2 – fair values based on inputs that are observable for the asset or liability, either directly or indirectly; and
Level 3 – fair values based on inputs for the asset or liability that are not based on observable market data.

22. Financial Instruments and Other Instruments (continued)

As at December 31, 2019, the Company did not have any financial instruments measured at fair value, except for long-term note receivable from an associate (note 11), categorized within Level 2 of the fair value hierarchy.
The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at December 31, 2019 the primary risks were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. As at December 31, 2019, one customer accounted for 75% of the trade accounts receivable. The Company believes there is no unusual exposure associated with the collection of these receivables. The Company performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible accounts receivable and associates.

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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meets it financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. Accounts payable and accrued liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

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

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As at December 31, 2019, the following items are denominated in US dollars:

	31-Dec-19	**30-Jun-19**
	$	$
Cash	166,102	455,646
Accounts receivable	61,898	492431
Accounts payable	(57,307))	(43,205)
Customer deposits	(315,400)	(585,600)
Net exposure	**(144,707)**	**319,272**

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. As the only foreign currency the company transacts in is USD and it is not subject to significant variance; the company has not made any special arrangements to reduce the related currency risk. Net exposure is negative as on December 31, 2019 as compared to June 30, 2019.

A 10% increase or decrease in the US dollar exchange rate would not have a material impact on the Company's net loss.

23. Subsequent Events

1) Cubic Farms has completed the acquisition of Hydrogreen, Inc. (“Hydrogreen”), a south Dakota-based private company headquartered in South Dakota on January 1, 2020. The Acquisition was completed by way of a reverse triangular merger of CubicFeed Systems U.S. Corp., a wholly owned subsidiary of the Company, and HydroGreen, resulting in HydroGreen being renamed to "CubicFeed Systems U.S. Corp" and becoming an indirect and wholly owned subsidiary of the Company. The new CubicFarms subsidiary will operate the existing business of HydroGreen moving forward.

Under the terms of the merger agreement, holders of HydroGreen shares ("HydroGreen Shareholders") received 10,000,000 common shares of CubicFarms on the closing date, with a further 1,000,000 shares to be issued on the six-month anniversary of closing, subject to any set-off relating to indemnification (the "Consideration Shares"). The Acquisition did not result in any of the shareholders of HydroGreen holding more than 5% of the common shares of the Company.
In connection with the closing, principals of HydroGreen holding in excess of 80% of the Consideration Shares entered into a pooling agreement with respect to their Consideration Shares. Under the terms of the pooling agreement, 25% of their Consideration Shares were released on the closing of the Acquisition and an additional 25% will be released on each of the dates which are 6 months, 12 months and 18 months following closing of the Acquisition.

2) On January 30, 2020, the Company announced that it has increased its shareholding in Artex Feed Solutions from 25% to 50%. Artex Feed Solutions is a joint venture company which is now 50% owned by CubicFarms and 50% owned by Artex Dairy Services Ltd, a leader in agricultural supplies for over 40 years. Artex Feed Solutions is treated as an Investment in associate in the financial statements for the interim three and six months ended December 31, 2019.

Management's Discussion and Analysis

For the Three months and Six Months Ended December 31, 2019

Dated: February 21, 2020

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of the operations of CubicFarm Systems Corp., (the "Company" or "CubicFarms") constitutes management's review of the factors affecting the Company's financial and operating performance as at and for the three months and six months ended December 31, 2019. This MD&A is prepared by management and should be read in conjunction with the interim condensed consolidated financial statements for three months ended December 31, 2019 as well as the consolidated financial statement for the year end June 30, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements. All dollar amounts herein are expressed in Canadian dollars unless stated otherwise.

The effective date of this MD&A is on February 21, 2020.

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

Additional information, including news releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available under the Company's profile at www.sedar.com

Forward-Looking Statements

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

About the Company and Nature of Business

The Company was incorporated under the Business Corporations Act of British Columbia on October 8, 2015. The Company is domiciled in Canada and its principal address is 9440-202 Street, Unit 117, Langley, BC, V1M 4A6.

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

The Company is an agriculture technology and vertical farming company and through its wholly owned subsidiaries, develops, employs and sells modular growing systems with patented and patent-pending technologies (the "System") to provide high-quality, predictable crop yields for farms around the world. In addition, the Company leverages its technology by operating its own facility in Pitt Meadows, British Columbia.

CubicFarms' System addresses the two most difficult challenges in the vertical farming industry - high electricity and labor costs - using unique undulating path technology.

The System is a low-cost solution that enables farmers to grow high value crops, year-round, in close proximity to consumers, even in areas with limited access to water and arable land. The System uses less water, labour and land than traditional farming. The Company believes that the System grows better crops with higher yields at lower cost, delivering better profit margins and profits for farmers. Through this proprietary technology and its time-tested industry expertise, the Company helps farmers develop a sustainable local competitive advantage while providing consumers with fresh locally grown vegetables, animal feed and other products.

Corporate and Operational Highlights in Fiscal 2020

On July 9, 2019, the Company's common shares commenced trading on the TSX Venture Exchange as a Tier 1 issuer under the symbol "CUB".

On July 11, 2019, the Company announced that it signed an agreement for a large scale commercial CubicFarms System in the Calgary, Alberta area and received $412,764 in June 2019 from the customer as a deposit. The agreement and deposit cover the Calgary region where this customer will be the exclusive CubicFarms licensee. The System's plan includes 20 CubicFarms patented growing machines, 2 patented germination machines, along with CubicFarms' proprietary supporting irrigation system. The total sales agreement is valued at approximately USD$3.2 million and the Company expects to complete the installation of the System by the end of March 2020.

On September 24, 2019, the Company appointed Rodrigo Santana as its interim Chief Financial Officer (CFO). Supported by the rest of the CubicFarms finance team, Mr. Santana will continue his role as Chief Operating Officer (COO). Mr. Santana is very experienced in the dual role of COO and CFO where he held both positions in his previous employment at Sacré-Davey Engineering.

On October 8, 2019, the Company announced that it finalized an agreement for the sale of a large-scale CubicFarms System in Montana, USA and received the initial deposit of $332,356 in October 2019 from the customer. This was the Company's second large-scale farm in the US. The System's plan includes 18 CubicFarms patented growing machines, 2 patented germination machines, along with CubicFarms' proprietary supporting irrigation system. The total sales agreement is approximately USD$3 million, representing the second-largest sale agreement to date. CubicFarms expects to complete the installation of the System by the end of March 2020.

On October 28, 2019, the Company announced that ZenCube, its vertical-farming machine for growing hemp and cannabis, is fully operational at a showcase and R&D facility in Langley, Canada.

On November 6, 2019, the Company announced that it has entered into a global Reseller Agreement (the "Reseller Agreement") with Groviv (now Grōv Technologies), a leader in the science and technology of controlled-environment agriculture ("CEA"). Groviv, a division of Nu Skin Enterprises – a minority investor in CubicFarms – which will augment global sales for CubicFarms under the non-exclusive reseller agreement. Joe Huston, its Vice President of Business Development has been appointed to direct this effort. Mr. Huston has extensive retail sales and distribution experience, working with brands such as Walmart, Kroger and Costco.

On December 11, 2019, the Company announced that it has entered into a binding purchase agreement effective December 10, 2019 to acquire HydroGreen, Inc. ("HydroGreen"), an arm's-length private company headquartered in South Dakota (the "Acquisition"). HydroGreen is a manufacturer of fully-automated hydroponic growing systems that produce live, green animal feed, prioritizing animal health and performance. HydroGreen's unique process sprouts grains, such as barley and wheat, in a controlled environment with minimal use of land, labour and water. Its System performs all growing functions including seeding, watering, lighting, harvesting, and re-seeding – all with the push of a button – to deliver animal feed without the typical investment in fertilizer, chemicals, fuel, field equipment and transportation.

On December 23, 2019, the Company announced the appointment of Jeff Booth as a member of its Board of Directors effective immediately, which has already been approved by TSX Venture Exchange. Mr. Booth has more than 25 years of experience as an entrepreneur, responsible for growing innovative online marketplace BuildDirect.com to over $120 million in annual revenues.

On January 3, 2020, the Company announced that, further to its press release dated December 11, 2019, it has completed the acquisition of HydroGreen.

On January 8, 2020, the Company announced the appointment of Dino Accili as its Chief Revenue Officer. As Chief Revenue Officer at CubicFarms, Mr. Accili is responsible for overseeing all revenue generation aspects of the business. He has an extensive background in the hydroponic and horticulture supply industries, along with senior executive-level experience in manufacturing and distribution in various industrial environments. He has spent more than 25 years growing both small and large companies by contributing to a positive structure and encouraging sales teams across North America, Europe and Latin America to strive for ultimate customer satisfaction.

On January 13, 2020, the Company announced the appointment of Sana Talebi as Lead R&D (Produce). Mr. Talebi will lead the company's produce R&D program to research new crops that will perform well in CubicFarms' System, and optimize current growing for continued incremental performance improvements.

On January 22, 2020, the Company announced that at the Annual General Meeting of shareholders of the Company held in Vancouver, British Columbia, Canada on January 22, 2020, David Dinesen, Jeffrey D. Booth, John de Jonge, John Hoekstra, Leo Benne, Michael McCarthy, Christian Ericson and Daniel Burns were re-elected directors of the Company. The shareholders also reappointed MNP LLP as its auditors for the ensuing year and authorized directors to fix their remuneration.

On January 23, 2020, the Company announced the appointment of Jeff Booth as Chairman of its Board of Directors.

On January 30, 2020, the Company announced that it has increased its shareholding in Artex Feed Solutions from 25% to 50%. Artex Feed Solutions is a joint venture company which is now 50% owned by CubicFarms and 50% owned by Artex Dairy Services Ltd, a leader in agricultural supplies for over 40 years. Artex Feed Solutions is treated as associate in the financial statements for the interim three months ended December 31, 2019.

<u>Financial Results</u>

Three months ended December 31, 2019 and 2018, and six months ended December 31, 2019 and 2018.

Gross revenue

Three months ended	Q2 2020	$320,140	Q2 2019	$3,870,695	**Change: $(3,550,555)**
Six months ended	Q2 2020	$560,841	Q2 2019	$3,870,695	**Change: $(3,309,854)**

The Company is still in its early stage of operations and expects financial results to fluctuate from period to period in the near term. The Company has two main sources of revenue: Revenue from sales of machines and revenue from sale of seeds, nutrients, fertilizers, substrates and monthly customer support subscriptions. Higher revenue was reported in Q2 2019 due to completion of a higher number of installations of Systems (28), compared to the current quarter (3).

Operating and general administrative expenses

Three months ended	Q2 2020	$1,604,165	Q2 2019	$641,895	**Change: $ 962,270**
Six months ended	Q2 2020	$3,216,366	Q2 2019	$905,782	**Change: $2,310,584**

Total operating and general administrative expenses significantly increased during the current three months and six months ended for the same period in the previous year. This is in line with the Company's continued expansion of its business and staffing additions. Of the total operating and general administrative expenses for three months ended, salaries and consulting fees were $985,351 and $313,652 for the current year and previous year respectively, and for six months ended, salaries and consulting fees were $1,984,700 and $503,046 for the current year and previous year respectively.

Gross margin

Three months ended	Q2 2020	35%	Q2 2019	23%	**Change: 12%**
Six months ended	Q2 2020	42%	Q2 2019	24%	**Change: 18%**

The high proportion of other revenue from sales of seeds, nutrients, fertilizers, substrates and support subscriptions have caused overall gross margin to increase.

Research & Development

Three months ended	Q2 2020	$421,192	Q2 2019	$1,489,480	**Change: $(1,068,288)**
Six months ended	Q2 2020	$792,012	Q2 2019	$1,660,689	**Change: $ (868,677)**

The majority of research expenses for the automation of the leafy green Systems, ability to grow new crops in the Systems and further transformation of these crops through juicing, was incurred in 2019 as compared to the current year. These costs include salaries, materials, parts and consumables related to research activities.

Net loss and comprehensive loss

Three months ended	Q2 2020	$(1,989,433)	Q2 2019	$(2,339,301)	**Change: $ 349,868**
Six months ended	Q2 2020	$(4,267,196)	Q2 2019	$(2,808,078)	**Change: $(1,459,118)**

Overall net loss and comprehensive loss reflect the Company's continued expansion of its business and staffing additions.

Selected Summary of Quarterly Results

The following table sets out selected unaudited quarterly financial information of the Company and is derived from unaudited interim consolidated financial statements prepared by management. The Company's interim consolidated financial statements are prepared in accordance with IFRS applicable to interim financial statements and are expressed in Canadian dollars.

Period	Revenues	Income (loss) for the period $	Basic and fully diluted income (loss) per share $
2nd Quarter 2020	320,140	(1,989,433)	(0.02)
1st Quarter 2020	240,701	(2,277,762)	(0.03)
4th Quarter 2019	24,110	(3,153,030)	(0.04)
3rd Quarter 2019	1,461,226	(1,669,517)	(0.02)
2nd Quarter 2019	3,870,694	(2,339,301)	(0.04)
1st Quarter 2019	Nil	(468,777)	(0.01)
4th Quarter 2018	Nil	(433,864)	(0.01)
3rd Quarter 2018	Nil	(358,109)	(0.01)

Liquidity and Capital Resources

The Company's source of financing to date has been equity financings and sales of Systems and produce.

As at December 31, 2019, the Company had cash and cash equivalents of $3,803,487 ($9,900,987 as at June 30, 2019) and working capital of $5,857,034 ($9,176,875 as at June 30, 2019). Current liabilities that are to be settled in cash as at December 31, 2019 include trade and other payables, customer deposits and warranty provision.

During the period ended December 31, 2019, the Company used $6,640,656 in cash for operating activities and $65,742 in cash for investing activities. The Company received an aggregate net cash of $167,414 from its financing activities.

As at December 31, 2019, the Company has commitments in the amount of $577,089 for purchase orders in respect to Systems inventory.

Management expects that the Company's existing cash and cash equivalents balance will be adequate to meet the Company's expansion of facilities and operational activities for the next twelve months. However, the Company may seek additional financings through issuance of equity to support further expansion and research and development activities.

Forward-Looking Guidance

Systems

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

Sales and deposits

The Company does not book revenue until it has delivered and fully installed Systems at customer sites, and subsequently completing all invoicing. There are factors beyond the Company's control, such as the customer's ability to secure permitting, complete site preparations, as well as weather and transportation delays. As such, the Company expects it would need to complete an additional year of sales and installation activities to result in smoother sales cycles.

The Company provides the following guidance with respect to deposits, and an estimate on timing of project completion:

- Number of machines under deposit: 69;
- Estimated quarter when the installation will be completed: Q4 2020 (fiscal year) for 69 machines.

The amount of system sales orders that are pending installation is approximately USD $6.2 million. Revenue from machines is dependent on the completion of the sales and delivery process – consisting of the signing of the purchase agreement, deposit payments, manufacture of machines, customer's site preparation, shipping and installation of the System.

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The Company has set sales targets corresponding to:

- Approximate number of machines under deposit by the end of June 2020 (fiscal year end) – 220;
- Approximate number of machines under deposit by the end of December 2020 – additional 240.

In summary, the Company has a target of approximately 460 machines under deposit by the end of December 2020 with a total sales value of approximately CDN$86 million. This is an increase from the 150 to 200 machines stated

in the Company's Forward-Looking Guidance section of its year-end financial statements filed on November 14, 2019, to account for the growing customer demand that the Company has been experiencing as well as sales leads generated this quarter, and the 200 machines it expects to sell by December 2020 through its Reseller Agreement with Groviv.

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

Crops

CubicFarms growing machines can grow a wide variety of fresh produce. Each new crop that is optimized presents an opportunity for a new sales vertical. To facilitate research and development on new verticals, the Company is ramping up cultivation at the Pitt Meadows facility. This will allow the Company to actively pursue new vertical business lines in the nutraceutical and cosmeceutical space.

Additionally, growing styles that accommodate different methods of automation and harvesting are also being tested.

One specific area of focus at present is fine tuning the optimal conditions for germination, cloning, growing high-gross margin crops, and additionally optimizing for automated harvesting and processing to then transform these same crops into high quality ingredients for nutraceuticals and cosmeceuticals through juicing, powdering, and/or extraction. In the next twelve months, the Company expects to develop standard operating procedures for growing and transforming into ingredients for at least five high gross margin crops and expects to secure supply contracts for the products with at least one strategic customer.

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

Lastly, the Company expects to continue sales of leafy greens from its Pitt Meadows facility to the food sector market.

Acquisition of HydroGreen

In January 2020, CubicFarms completed the acquisition of HydroGreen, Inc. ("HydroGreen"), a south Dakota-based private company headquartered in South Dakota. The Acquisition was completed by way of a reverse triangular

merger of CubicFeed Systems U.S. Corp., a wholly owned subsidiary of the Company, and HydroGreen, resulting in HydroGreen being renamed "of CubicFeed Systems U.S. Corp" and becoming an indirect and wholly owned subsidiary of the Company. The new CubicFarms subsidiary will operate the existing business of HydroGreen moving forward.

Under the terms of the merger agreement, holders of HydroGreen shares ("HydroGreen Shareholders") received 10,000,000 common shares of CubicFarms on the closing date, with a further 1,000,000 shares to be issued on the six-month anniversary of closing, subject to any set-off relating to indemnification (the "Consideration Shares"). The Acquisition did not result in any of the shareholders of HydroGreen holding more than 5% of the common shares of the Company.

In connection with the closing, principals of HydroGreen holding in excess of 80% of the Consideration Shares entered into a pooling agreement with respect to their Consideration Shares. Under the terms of the pooling agreement, 25% of their Consideration Shares were released on the closing of the Acquisition and an additional 25% will be released on each of the dates which are 6 months, 12 months and 18 months following closing of the Acquisition.

Joint Venture with Artex Feed Solutions

CubicFarms acquired a 25% investment in Artex Feed Solutions Ltd., a company incorporated in November 8, 2019. The company further increased its ownership in Artex Feed to 50% on January 17, 2020. Artex Feed Solutions is a joint venture company which is now 50% owned by CubicFarms and 50% owned by Artex Dairy Services.

Transactions with Related Parties

All transactions with related parties have occurred in the normal course of operations. All amounts are unsecured, non-interest bearing and have no specific terms of settlement, unless otherwise noted.

Transactions with entities with significant influence over the Company

Rent paid to Bevo Farms (Note 5).

	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
	$	$	$	$
Rent	2,500	11,800	5,000	33,800

The Company has made a 50% investment in Swiss Leaf Farms Ltd. Details of the investment are provided in Note 11 of the Company's condensed interim consolidated financial statements.

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 December 31, 2019	Three Months Ended December 31, 2018	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
	$	$	$	$
Wages and consulting fees	267,917	139,000	661,667	227,000
Share-based compensation	87,441	198,728	182,260	198,728

On January 28, 2019, the Company completed a private placement with strategic investor Nu Skin. Pursuant to the Investment Agreement, Nu Skin has the pre-emptive right to participate in future equity financings of the Company to maintain its pro rata ownership of the Company up to a maximum 12.9% ownership interest. This right is available to Nu Skin for as long as it owns not less than 8% of the Company's shares. As at December 31, 2019, Nu Skin has 10,879,587 common shares.

Outstanding Share Data

As at the date of this MD&A, the Company had 94,456,885 outstanding common shares. The Company also had 29,256,766 share purchase options outstanding at weighted average exercise price of $0.45.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed. 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.

Adoption of New Accounting Standards

IFRS 16 Leases

IFRS 16 Leases sets out the principles for recognition, measurement, presentation, and disclosure of leases. It eliminates the classification of leases as either operating or finance leases required by IAS 17 and introduces a single lessee accounting model.

The Company adopted IFRS 16 retrospectively from July 1, 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. Therefore, the adjustments arising from the new leasing rules were recognized in the opening balance sheet on July 1, 2019.

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard.

- Account for leases with a remaining term of less than 12 months as of July 1, 2019 as short-term leases;
- Application of a single discount rate to a portfolio of leases with similar characteristics;
- Account for lease payments as an expense and not recognize a right-to-use asset if the underlying asset is of low dollar value; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

The Company leases its office space, the farming facility in Pitt Meadows, British Columbia, and one vehicle. The office space and vehicle leases both have a term of one year. The farming facility is leased for five years, with an option to renew for a further five years. Until June 30, 2019, all leases of the Company were classified as operating leases and payments made were charged directly to profit or loss.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to its farming facility. The Company applied the practical expedient to the office space and vehicle lease, as they are for a period of less than 12 months. The term of the lease of the farming facility is five years with an option to renew. The management of the Company expects that the facility will be used until 2028.

From July 1, 2019, leases are recognized as a right-to-use asset with a corresponding liability at the date at which the leased asset is available for use. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The details of the calculation are disclosed in Note 5 of the notes to accounts.

IAS 28 Interest in Associates and Joint Ventures

Amendments were made to IAS 28, clarifying that IFRS 9, Financial Instruments requirements, including its impairment requirements, apply to long-term interests. The expected credit loss impairment requirements in IFRS 9 are applied first to long-term interests, followed by the adjustments to their carrying amount required by IAS 28, i.e. the adjustments resulting from the allocation of losses of the investees. This is followed by the determination of whether there are indicators of impairment which require an impairment test to be applied to the entire remaining carrying amount of the investment in the associate or joint venture.

The Company adopted these amendments on July 1, 2019. The Company has a 50% interest in Swiss Leaf Farms Ltd. ("Swiss Farm") (Note 11), which is accounted for under the equity method. The Company has also provided loans to Swiss Farm. The promissory note receivable from Swiss Farm is measured at fair value and for additional loans to Swiss Farm, the Company has applied the impairment requirements of IFRS 9 and written off the related balances (Note 16). As at July 1, 2019 and December 31, 2019, the management of the Company determined that the balance remaining for the investment in associates was not impaired. As a result, the adoption of the amendments to IAS 28 did not have any impact on the consolidated financial statements of the Company.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, trade payables, customers deposits, a demand loan and amounts due from an associate. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The following summarizes the fair value hierarchy under which the Company's financial instruments are valued:

Level 1 – fair values based on unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – fair values based on inputs that are observable for the asset or liability, either directly or indirectly; and
Level 3 – fair values based on inputs for the asset or liability that are not based on observable market data.

As at December 31, 2019, the Company did not have any financial instruments measured at fair value, except for a long-term note receivable from an associate (note 11), categorized within Level 2 of the fair value hierarchy.

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at December 31, 2019, the primary risks were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. As at December 31,

2019, one customer accounted for 75% of the trade accounts receivable. The Company believes there is no unusual exposure associated with the collection of these receivables. The Company performs regular credit assessments on its customers and associates and provides allowances for potentially uncollectible accounts receivable & associates.

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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meets it financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. Accounts payable and accrued liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

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

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As at December 31, 2019, the following items are denominated in US dollars:

	31-Dec-19	**30-Jun-19**
	$	$
Cash	166,102	455,646
Accounts receivable	61,898	492431
Accounts payable	(57,307)	(43,205)
Customer deposits	(315,400)	(585,600)
Net exposure	**(144,707)**	**319,272**

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. As the only foreign currency the Company transacts in is USD and it is not subject to significant variance, the Company has not made any special arrangements to reduce the related currency risk. Net exposure is negative as at December 31, 2019 as compared to June 30, 2019.

A 10% increase or decrease in the US dollar exchange rate would not have a material impact on the Company's net loss.

Additional Information & Approval

Additional information relating to the Company is on SEDAR at www.sedar.com.
The Board has approved the disclosure contained in this MD&A as of February 21, 2020.