CubicFarm Systems Corp.

Consolidated Financial Statements

For the twelve months ended December 31, 2021, six months ended December 31, 2020, and twelve months ended June 30, 2020

Page

CubicFarm Systems Corp.
Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes	December 31, 2021	December 31, 2020	June 30, 2020
		$	$	$
Assets				
Current				
Cash and cash equivalents		21,381,366	16,206,535	3,604,412
Trade and other receivables	6	2,126,752	1,338,265	2,186,568
Inventories	7	8,433,461	4,866,641	2,702,344
Prepaid expenses and deposits	8	3,405,838	1,356,376	1,622,799
		35,347,417	**23,767,817**	**10,116,123**
Non-current				
Goodwill	9	1,874,879	1,920,826	1,834,755
Property, plant and equipment	10	9,431,561	2,256,814	2,596,770
Investment in associates	11	20	20	21
Intangible assets	12	5,371,307	5,032,905	5,090,972
Right-of-use assets	13	2,628,770	1,758,473	1,501,966
Prepaid expenses and deposits	8	23,195	-	-
		19,329,732	**10,969,038**	**11,024,484**
Total assets		**54,677,149**	**34,736,855**	**21,140,607**
Liabilities				
Current				
Trade and other payables	14	4,529,514	1,465,666	1,298,599
Earn-out payable	26	1,762,812	1,165,953	290,915
Customer deposits	15	2,233,946	4,955,509	1,709,666
Lease liability	13	493,794	409,122	170,558
Loans payable	16	371,960	335,615	60,531
Warranty provision	17	388,093	191,342	251,100
		9,780,119	**8,523,207**	**3,781,369**
Non-current				
Lease liability	13	1,887,896	1,164,197	1,219,084
Restoration provision	13	133,171	131,446	132,267
Loans payable	16	1,784,751	1,699,220	204,590
Derivative liability	26	-	1,002,128	-
Deferred tax liability		-	-	345,035
Earn-out payable	26	-	477,080	1,073,841
		3,805,818	**4,474,071**	**2,974,817**
Total liabilities		**13,585,937**	**12,997,278**	**6,756,186**
Equity				
Share capital	22	94,701,922	49,040,308	31,825,583
Shares issuable		-	-	270,778
Equity reserves		6,125,986	2,959,756	2,376,484
Accumulated other comprehensive income (loss)		(183,977)	(65,151)	(18,651)
Deficit		(59,552,719)	(30,195,336)	(20,069,773)
Total equity		**41,091,212**	**21,739,577**	**14,384,421**
Total liabilities and equity		**54,677,149**	**34,736,855**	**21,140,607**

Approved on behalf of the Board

Director **Director**

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

CubicFarm Systems Corp.
Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Notes	For the twelve months ended December 31, 2021	For the six months ended December 31, 2020	For the twelve months ended June 30, 2020
		$	$	$
Revenue				
Systems		4,765,818	477,084	4,658,839
Consumables		341,056	120,924	452,180
Services		166,292	26,766	56,469
		5,273,166	**624,774**	**5,167,488**
Cost of sales	18	(5,263,872)	(1,564,021)	(3,493,631)
Gross margin		**9,294**	**(939,247)**	**1,673,857**
General and administrative expenses	18	(16,644,987)	(5,630,856)	(7,210,810)
Selling expenses	18	(6,307,982)	(745,390)	(1,055,419)
Research and development	18	(7,518,489)	(2,355,931)	(2,247,362)
Impairment of investment in associate		-	-	(614,364)
		(30,471,458)	**(8,732,177)**	**(11,127,955)**
Loss before other income (expense)		**(30,462,164)**	**(9,671,424)**	**(9,454,098)**
Gain on debt modification	16	497,287	-	-
Finance income		3,323	18,169	110,708
Finance expense		(265,960)	(137,972)	(3,072)
Accretion charges	19	(226,439)	(61,848)	(22,797)
Net finance income (expense)		**8,211**	**(181,651)**	**84,839**
Other income (expense)				
Other income (expense)	20	868,043	595,964	310,595
Fair value change for earn-out payments	26	(118,313)	(367,977)	101,544
Foreign exchange gain (loss)		(91,451)	(74,906)	(140,223)
Change in fair value of derivative liability	16	(63,576)	(406,416)	-
Loss on disposal of property, plant and equipment		-	(1,213)	-
Loss on investment in associate		-	-	(311,908)
Public listing		-	-	(36,676)
Provision for expected credit recovery (loss)	6	505,836	(340,232)	(881,977)
		1,100,539	**(594,780)**	**(958,645)**
Loss before income taxes		**(29,353,414)**	**(10,447,855)**	**(10,327,904)**
Income taxes	27	(3,969)	322,292	235,803
Net loss for the period		**(29,357,383)**	**(10,125,563)**	**(10,092,101)**
Other comprehensive loss				
Items that may be reclassified to profit or loss:				
Foreign currency translation gain (loss)		(118,826)	(46,500)	(18,651)
Total comprehensive loss		**(29,476,209)**	**(10,172,063)**	**(10,110,752)**
Basic and diluted loss per share	28	**$ (0.19)**	**(0)**	**$ (0.11)**
Weighted average number of shares outstanding		**154,480,753**	**119,842,276**	**92,326,900**

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

(Expressed in Canadian dollars)

	Notes	*No of Shares* #	*Share capital* $	*Equity reserves* $	*Accumulated other comprehensive loss* $	*Shares Issuable* $	*Deficit* $	*Total equity* $
Balance, June 30, 2019		**84,179,714**	**22,740,341**	**1,411,110**	**-**	**-**	**(9,977,672)**	**14,173,779**
Net loss for the period		-	-	-	-	-	(10,092,101)	(10,092,101)
Exercise of stock options	22	238,000	84,266	(39,046)	-	-	-	45,220
Issuance of shares, net of share issuance costs	22	21,897,301	5,149,790	-	-	-	-	5,149,790
Issuance of shares for acquisition	22	10,000,000	3,851,186	-	-	270,778	-	4,121,964
Foreign currency translation		-	-	-	(18,651)	-	-	(18,651)
Share-based payments	23	-	-	1,004,420	-	-	-	1,004,420
Balance, June 30, 2020		**116,315,015**	**31,825,583**	**2,376,484**	**(18,651)**	**270,778**	**(20,069,773)**	**14,384,421**
Net loss for the period		-	-	-	-		(10,125,563)	(10,125,563)
Exercise of stock options	22	577,999	220,831	(98,944)	-	-	-	121,887
Issuance of shares, net of share issuance costs	22	19,884,677	16,637,045	-	-	-	-	16,637,045
Issuance of shares for acquisition of CubicFeed	22	926,845	356,849	-	-	(270,778)	-	86,071
Foreign currency translation		-	-	-	(46,500)	-	-	(46,500)
Share-based payments	23	-	-	682,216	-	-	-	682,216
Balance, December 31, 2020		**137,704,536**	**49,040,308**	**2,959,756**	**(65,151)**	**-**	**(30,195,336)**	**21,739,577**
Net loss for the period		-	-	-	-	-	(29,357,383)	(29,357,383)
Exercise of stock options	22	4,055,299	1,512,273	(740,120)	-	-	-	772,153
Issuance of shares, net of share issuance costs	22	36,205,364	43,949,341	-	-		-	43,949,341
Issuance of shares on settlement of loan bonus	22	128,205	200,000	-	-	-	-	200,000
Foreign currency translation		-	-	-	(118,826)	-	-	(118,826)
Share-based payments	23	-	-	3,906,350	-	-	-	3,906,350
Balance, December 31, 2021		**178,093,404**	**94,701,922**	**6,125,986**	**(183,977)**	**-**	**(59,552,719)**	**41,091,212**

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

(Expressed in Canadian dollars)

	Notes	For the twelve months ended December 31, 2021 $	For the six months ended December 31, 2020 $	For the twelve months ended June 30, 2020 $
Cash provided by (used for) the following activities				
Operating activities				
Net loss for the period		(29,357,383)	(10,125,563)	(10,092,101)
Depreciation - property, plant and equipment	10	821,878	275,338	468,674
Depreciation - right-of-use asset	13	661,975	245,246	88,557
Impairment of investment in associate		-	-	614,364
Amortization of intangible assets	12	169,742	58,352	101,006
Loss on disposal of property, plant and equipment		-	183,865	-
Provision for expected credit loss (recovery)		(505,836)	340,232	881,977
Foreign exchange loss (gain)		91,451	74,906	(43,287)
Finance expense		265,960	137,972	3,072
Accretion charges		226,439	61,848	22,797
Finance income		(3,323)	(18,169)	(110,708)
Deferred tax recovery		-	(322,292)	-
Current tax expense	27	3,969	-	-
Change in fair value of earnout payable	26	118,313	367,977	-
Share-based payments expense	23	3,906,350	682,216	1,004,420
Release of restricted cash		-	-	310,000
Loss on investment in associate		-	-	311,908
Gain on debt modification		(497,287)	-	-
Warranty provision		-	-	89,189
Change in fair value of derivative liability	16	63,576	406,416	-
Cash used in operations before changes in non-cash working capital		(24,034,176)	(7,631,656)	(6,350,132)
Changes in non-cash working capital:				
Trade and other receivables		(1,718,015)	1,397,092	(1,686,462)
Contract assets		605,279	(605,279)	-
Inventory		(3,576,928)	(2,164,297)	(1,951,736)
Prepaid expenses and deposits		(2,072,657)	266,423	76,249
Trade and other payables		3,046,837	177,218	38,838
Customer deposits		(2,657,991)	3,101,804	(570,639)
Warranty provision		196,751	(59,758)	(226,738)
Cash used in operating activities		(30,210,900)	(5,518,453)	(10,670,620)
Interest paid		(255,659)	(127,356)	(3,072)
Interest received		3,323	5,817	86,003
Income taxes paid	27	(3,969)	-	
Net cash used in operating activities		**(30,467,205)**	**(5,639,993)**	**(10,587,689)**
Investing activities				
Additions to property, plant, and equipment	10	(7,169,290)	(130,898)	(457,481)
Purchase of intangible assets	12	(603,830)	-	-
Loans to associates	11	(37,250)	(351,615)	(534,142)
Loss on investment in associate		-	-	(110,620)
Net cash used in investing activities		**(7,810,370)**	**(482,513)**	**(1,102,243)**
Financing activities				
Issuance of shares, net of issuance cost	22	43,949,341	16,637,045	5,149,790
Exercise of stock options	22	772,153	121,887	45,220
Principal and interest payments on lease	13	(864,795)	(365,452)	(91,410)
Proceeds from loans payable		59,570	2,339,517	265,121
Payment of loan		(156,440)	-	-
Cash payment of loan bonus	16	(225,000)	-	-
Net cash from financing activities		**43,534,829**	**18,732,997**	**5,368,721**
Increase (decrease) in cash and cash equivalents		**5,257,254**	**12,610,491**	**(6,321,211)**
Effect of movements in exchange rates on cash held		(82,423)	(8,368)	24,636
Cash and cash equivalents, beginning of period		16,206,535	3,604,412	9,900,987
Cash and cash equivalents, end of period		**21,381,366**	**16,206,535**	**3,604,412**

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

1. Reporting entity

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

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

The Company is a local chain agricultural technology company that provides unique automated on site commercial-scale food and livestock feed technologies. CubicFarms' technologies convert wasteful long supply chain agriculture into local chains to improve independent access to quality food and maximize crop yield all while reducing the environmental cost of food and feed production. These technologies can provide independent and efficient fresh produce and livestock feed supply in any climate, 365 days a year. 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.

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. As of December 31, 2021, the Company has not observed any material impairments of its assets or a significant change in the fair value of assets due to the COVID-19 pandemic. Due to the rapid developments and uncertainty surrounding COVID-19 it is not possible to predict the impact it will have on the Company's business, financial position, and operating results in the future. It is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

2. Going concern

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

The Company incurred a total comprehensive loss of $29,476,209 for the twelve months ended December 31, 2021 (six months ended December 31, 2020 - $10,172,063 and twelve months ended June 30, 2020 - $10,110,752). Net cash used in operating activities was $30,467,205 for the twelve months ended December 31, 2021 (six months ended December 31, 2020 - $5,639,993 and twelve months ended June 30, 2020 - $10,587,689), and the Company has accumulated a deficit of $59,552,719 as at December 31, 2021. The Company has current assets exceeding current liabilities by $25,567,298 as at December 31, 2021, compared with $15,244,610 as at December 31, 2020 and $6,334,754 as at June 30, 2020.

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

(Expressed in Canadian dollars, unless otherwise stated.)

2. Going concern (continued)

These 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 consolidated financial instruments, adjustments might be necessary in the carrying values of assets and liabilities, the statement of consolidated financial position classifications and the reported expenses. Such adjustment could be material.

3. Basis of presentation

These consolidated financial statements for the twelve months ended December 31, 2021, six months ended December 31, 2020, and twelve months ended June 30, 2020 have been prepared in accordance with International Financial Reporting Standard (IFRS).

The Board of Directors approved these consolidated financial statements on March 30, 2022.

Basis of measurement

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

Change in year-end

During the six months ended December 31, 2020, the Company changed its financial year-end to December 31, from June 30. The comparative periods for the Company are the six months ended December 31, 2020 and the twelve months ended June 30, 2020.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated upon consolidation. The principal subsidiaries of the Company and associates to which it is a party were as follows at December 31, 2021.

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 Services Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Purchase of materials for growth and sale of seeds, substrates and other nutrients used in agricultural companies
CubicFarm Capital Corp.	BC, Canada	100%	Subsidiary; Consolidation method	Research on new technologies for cubic farming systems
CubicFarm Systems U.S. Corp.	DE, USA	100%	Subsidiary; Consolidation method	Holding company
Hydrogreen Inc.	SD, USA	100%	Subsidiary; Consolidation method	Manufacture and sale of animal feed systems
1241876 B.C. Ltd.	BC, Canada	20%	Associate, Equity method	Growth and sale of lettuce, microgreens, and other products
CubicFarm Systems (Shanghai) Corp.	Shanghai, China	100%	Subsidiary, Consolidation method	Research on new technologies for cubic farming systems

4. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash held at financial institutions and highly liquid investments with the ability to be converted into cash within 90 days or less of their acquisition date.

Contract assets

Contract assets primarily relate to the Company's rights to consideration for goods or services provided but not billed at the reporting date. Contract assets are transferred to Trade receivables when the rights become unconditional. This usually occurs when the Company issues an invoice to the customer.

Inventory

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

Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Goodwill represents the excess of the purchase price paid for the acquisition of the subsidiaries over the fair value of the net assets acquired. Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses. Any bargain purchase gain is recognized immediately in the profit or loss. Transaction costs are expensed as incurred, except if related to the issuance of debt or equity securities. The consideration transferred does not include amounts relating to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in the profit or loss.

Business combinations require judgement and estimates to be made at the date of acquisition in relation to determining assets and liabilities fair values and the allocation of the purchase consideration over the fair value of the assets and liabilities and the determination of a bargain purchase gain on acquisition, if any. The information necessary to measure the fair values as at the acquisition date of assets acquired and liabilities assumed requires management to make certain judgements and estimates about future events, including but not limited to estimates of future earnings, future operating costs and capital expenditures, and discount rates. Changes to the provisional measurements of assets and liabilities acquired may be retrospectively adjusted when new information is obtained until the final measurements are determined.

Property, plant, and equipment

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

4. Significant accounting policies (continued)

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

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

Intangible assets

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

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

Development Costs

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

Impairment of long-lived assets

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

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

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

4. Significant accounting policies (continued)

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

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

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

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.

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

Leases

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

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant, and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

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

4. Significant accounting policies (continued)

Restoration provision

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

Revenue from contracts with customers

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

(i) Identify the contract(s) with the customer

(ii) Identify the performance obligations in the contract(s)

(iii) Determine the transaction price

(iv) Allocate the transaction price to the identified performance obligations

(v) Recognize revenue when the identified performance obligations are satisfied

The Company recognizes revenue from the sale of goods when it transfers the risks and control to the customer, which generally occurs upon delivery or transfer of title. Revenue from services is recognized when the related service is provided, and proper completion sign off is obtained from the customer. The Company recognizes license and subscription over the period covered by the license or subscription.

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

Warranty provision

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

Customer deposits

Customer deposits consist of funds paid by customers for Systems based on the sales agreement. The customer may cancel the order prior to shipping of the equipment, subject to the following restocking fees. Unless otherwise stated, if the customer cancels the order before the manufacturing of the equipment has commenced, the customer shall pay a restocking fee of 10% of the purchase price. If the customer cancels the order thereafter but prior to shipping of the equipment, the customer shall pay a restocking fee of 20% of the purchase price. The order shall not be cancellable after shipping of the equipment. These are accounted for as current liabilities in the Consolidated Statements of Financial Position.

4. Significant accounting policies (continued)

Income tax and deferred tax

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

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

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

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

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

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

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

Foreign exchange

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

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

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

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

Share based compensation

The Company records all share-based payments at their fair value. Share based payments to employees are measured at the fair value of the instruments issued and amortized over the relevant vesting periods. Share based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods

4. Significant accounting policies (continued)

or services are received. The fair value of options is determined using a Black Scholes option pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Financial instruments

Financial assets

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

(i) Amortized cost:

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

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

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

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

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

Financial liabilities

Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Loans are derecognized from the Consolidated Statement of Financial Position when the obligation specified in the contract is discharged, cancelled, or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as finance costs. Loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

4. Significant accounting policies (continued)

Financial liabilities also include derivative financial instruments that are entered into by the Company that are not designated as hedging instruments as defined by IFRS 9. Embedded derivatives are classified as held for trading and any gains and losses are recognized in profit or loss.

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

(i) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;

(ii) A separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and

(iii) The hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

Impairment of financial assets

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

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

Finance and investment income (expense) and interest expense

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

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

Loss per share

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

Related party transactions

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

4. Significant accounting policies (continued)

Government grants

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

5. Significant estimates, assumptions, and judgments

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

Going concern

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

Business combinations

In determining the fair value of assets acquired and liabilities assumed in a business combination, estimates were based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

Useful lives and impairment of property, plant and equipment

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

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

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

Fair value of financial instruments

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

(Expressed in Canadian dollars, unless otherwise stated.)

5. Significant estimates, assumptions, and judgments (continued)

Warranty provision

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

Provision for expected credit losses

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

6. Trade and other receivables

Current:	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Trade accounts receivable	2,238,447	880,185	2,461,080
Less: Provision for expected credit loss	(568,063)	(538,212)	(457,927)
Notes receivable[1]	-	437,190	434,142
Less: Provision for loss on short term receivable (Note receivable and Interest receivable)	-	(437,190)	(434,142)
Goods and services tax receivable	386,094	193,013	80,896
Other receivable[2]	70,274	803,279	102,519
	2,126,752	**1,338,265**	**2,186,568**

Non-Current:	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	
Notes receivable[1]	-	418,016	205,874
Interest receivable[1]	-	49,409	37,057
Less: Provision for loss on long term receivable (Note receivable and Interest receivable)	-	(467,425)	(242,931)
	-	-	-

Aging

The aging of trade receivable at December 31, 2021 and provision for expected credit loss is summarized as follows:

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Current or under 30 days	1,233,872	188,090	1,785,824
Past due 31 to 90 days	103,036	78,529	161,748
Past due 91 to 360 days	588,303	247,725	513,508
Past due more than 360 days	313,236	365,841	-
	2,238,447	**880,185**	**2,461,080**

For the twelve months ended December 31, 2021, there was a change in the receivable buckets disclosed compared to the previous years. In previous years, the trade receivables buckets disclosed were Current or under 30 days, Past due 61 to 90 days, and Past due more than 90 days.

(Expressed in Canadian dollars, unless otherwise stated.)

6. Trade and other receivables (continued)

Continuity for provision for expected credit loss on trade account receivable

	Twelve Months Ended December 31, 2021	Six Months Ended December 31, 2020	Twelve Months Ended June 30, 2020
	$	$	$
Opening	538,212	457,927	50,845
Net addition during the period	29,851	80,285	407,082
Closing balance	**568,063**	**538,212**	**457,927**

[1] All Notes receivable and Interest receivable were due from related party Swiss Leaf Farms Ltd., which was an associate of the Company.
[2]Other receivable balance at December 31, 2021 consists of government grant receivable amounting to $70,274. For December 31, 2020, the Other receivable balance consisted of government grant receivable amounting to $198,000 and contract assets amounting to $605,279 (June 30, 2020- government grant receivable amounting to $102,519). Contract assets occur when recognized revenue for the customer is higher than the amount the customer has been invoiced.

For the twelve months ended December 31, 2021, bad debt recovery of $505,836 was recognized under Other income (expense). For the six months ended December 31, 2020, bad debt expense of $340,232 (June 30, 2020 - $881,977) was recognized as expected credit losses and recorded under Other income (expense). There is no bad debt expense on amounts owing from related parties for the twelve months ended December 31, 2021 (For the six months ended December 31, 2020 - $326,933, June 30, 2020 - $ 618,789).

7. Inventory

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Systems	7,408,547	3,720,794	1,712,972
Work in progress	997,812	1,115,836	948,812
Seeds and other supplies	10,692	19,536	31,565
Packaging and other	16,410	10,475	8,994
	8,433,461	**4,866,641**	**2,702,344**

Systems are finished goods on hand and available for sale by the Company. The net realizable value of inventory as of December 31, 2021, December 31, 2020 and June 30, 2020, is higher than the cost. Accordingly, the Company has reported the inventory at cost in the Consolidated Statements of Financial Position. Inventory in the value of $4,669,815 has been recognized as Cost of Sales in the Consolidated Statement of Loss and Comprehensive Loss in 2021 (December 31, 2020- $486,796; June 30, 2020-$2,913,937). The Company has also written down inventory of $207,334 during the twelve months ended December 31, 2021 due to obsolescence resulting from engineering design changes (December 31, 2020 - $Nil; June 30, 2020 - $Nil).

8. Prepaid expenses and deposits

Current:

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Deposits for Systems inventory (i)	2,818,718	1,087,092	1,498,086
Prepaid expenses and deposits, other	587,120	269,284	124,713
	3,405,838	**1,356,376**	**1,622,799**

(Expressed in Canadian dollars, unless otherwise stated.)

8. Prepaid expenses and deposits (continued)

Non-Current:

	December 31, 2021	**December 31, 2020**	**June 30, 2020**
	$	**$**	**$**
Prepaid expenses and deposits, other	23,195	-	-
	23,195	**-**	**-**

(i) In general, the Company is required to pay a deposit for Systems. Such Systems are then shipped upon the purchase price being paid in full.

9. Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of the subsidiaries over the fair value of the net assets acquired.

The continuity for Goodwill is as follows:

	December 31, 2021	**December 31, 2020**	**June 30, 2020**
	$	**$**	**$**
Opening balance	1,920,826	1,834,755	1,834,755
Foreign exchange	(45,947)	86,071	-
	1,874,879	**1,920,826**	**1,834,755**

The recoverable amount of the Company's cash generating units (CGU) was based on a value in use calculation which uses cash flow projections based on financial forecasts covering a four-year period with a compound average growth rate of 62% and terminal growth rate of 2% and after tax discount rate of 17%.

(Expressed in Canadian dollars, unless otherwise stated.)

10. Property, plant, and equipment

December 31, 2021

	Production equipment	Vehicles	Leasehold Improvements	Furniture and fixtures	Other equipment	Construction In Progress	Computer equipment	Total
Cost	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance December 31, 2020	2,134,262	-	314,134	72,081	538,717	-	212,478	3,271,672
Additions	-	78,432	365,942	62,202	2,178,469	4,873,580	442,961	8,001,586
Foreign exchange adjustment	-	-	(628)	(176)	(288)	-	580	(512)
Balance December 31, 2021	**2,134,262**	**78,432**	**679,448**	**134,107**	**2,716,898**	**4,873,580**	**656,019**	**11,272,746**
Accumulated Depreciation	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance December 31, 2020	683,815	-	111,909	17,025	126,999	-	75,111	1,014,859
Depreciation	343,829	13,206	119,451	25,260	206,072	-	114,060	821,878
Foreign exchange adjustment	-	215	3,295	194	726	-	18	4,448
Balance December 31, 2021	**1,027,644**	**13,421**	**234,655**	**42,479**	**333,797**	**-**	**189,189**	**1,841,185**
Net book value, December 31, 2021	**1,106,618**	**65,011**	**444,793**	**91,628**	**2,383,101**	**4,873,580**	**466,830**	**9,431,561**

Out of the additions during the twelve months ended December 31, 2021, $7,169,290 was paid in cash. Balance of $832,296 is the amount that is being offset with Swiss Leaf's debt to the Company. Construction in progress is related to the construction of a HydroGreen Grow System being built at a customer site where once installed the customer will purchase all the daily feed production supply.

(Expressed in Canadian dollars, unless otherwise stated.)

10. Property, plant, and equipment (continued)

December 31, 2020

	Production equipment	Leasehold Improvements	Furniture and fixtures	Other equipment	Construction In Progress	Computer equipment	Total
Cost	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance June 30, 2020	2,134,262	308,300	30,279	363,985	320,278	183,901	3,341,005
Additions	-	15,188	41,864	39,130	-	34,716	130,898
Transfer	-	-	-	137,626	(137,626)	-	-
Disposal	-	-	-	-	(182,652)	(4,559)	(187,211)
Foreign exchange adjustment	-	(9,354)	(62)	(2,024)	-	(1,580)	(13,020)
Balance December 31, 2020	**2,134,262**	**314,134**	**72,081**	**538,717**	**-**	**212,478**	**3,271,672**
Accumulated Depreciation	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance June 30, 2020	507,162	73,533	7,531	101,408	-	54,601	744,235
Depreciation	176,653	40,802	9,713	25,815	-	22,356	275,338
Disposal	-	-	-	-	-	(1,846)	(1,846)
Foreign exchange adjustment	-	(2,426)	(219)	(224)	-	-	(2,869)
Balance December 31, 2020	**683,815**	**111,909**	**17,025**	**126,999**	**-**	**75,111**	**1,014,858**
Net book value, December 31, 2020	**1,450,447**	**202,225**	**55,056**	**411,718**	**-**	**137,367**	**2,256,814**

During the six months ended December 31, 2020, there was a transfer of Construction in Progress amounting to $137,626 to other equipment during the year and $182,652 to research and development. The expenses for research and development were for expansion of the research and development facility that was ultimately abandoned during the six months ended December 31, 2020.

June 30, 2020

	Production equipment	Leasehold Improvements	Furniture and fixtures	Other equipment	Construction In Progress	Computer equipment	Total
Cost	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance June 30, 2019	2,134,262	165,980	23,529	302,595	677,780	104,351	3,408,497
Additions	-	142,320	6,750	61,390	167,471	79,550	457,481
Transfer	-	-	-	-	(524,973)	-	(524,973)
Balance June 30, 2020	**2,134,262**	**308,300**	**30,279**	**363,985**	**320,278**	**183,901**	**3,341,005**
Accumulated Depreciation	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance June 30, 2019	180,486	16,598	2,353	60,486	-	15,638	275,561
Depreciation	326,676	56,935	5,178	40,922	-	38,963	468,674
Transfer	-	-	-	-	-	-	-
June 30, 2020	**507,162**	**73,533**	**7,531**	**101,408**	**-**	**54,601**	**744,235**
Net book value, June 30, 2020	**1,627,100**	**234,767**	**22,748**	**262,577**	**320,278**	**129,300**	**2,596,770**

(Expressed in Canadian dollars, unless otherwise stated.)

11. Investment in associates

The Company owned 50% of the common shares of Swiss Leaf Farms Ltd "Swiss Leaf" until Swiss Leaf was dissolved on November 8, 2021. Swiss Leaf was a farming operation in Alberta committed to growing fresh, clean, pesticide-free produce. On August 31, 2021, the Company acquired certain assets of Swiss Leaf for $1,582,296 and paid $750,000 in cash and the balance being offset with Swiss Leaf's debt to the Company. As all the investment and receivable from Swiss Leaf was fully provided for, the Company recorded the balance as recovery of bad debt expense under provision for expected credit loss. The Company performed the concentration test as per IFRS 3 and given substantially all the fair value of the gross assets are concentrated in a group of similar identifiable assets, the Company accounted for the purchase as an acquisition of assets and recognized the assets in the financial statements.

Particulars	Amount
Assets acquired	1,582,296
Less: cash payment	(750,000)
Less: bad debt recovery	(832,296)

Total Swiss Leaf Invested/Advanced is as follows:

Amounts Invested/Advanced during each period	Amount
Before year ended June 30, 2020	1,054,197
Twelve months ended June 30, 2020	434,142
Six months ended December 31, 2020	215,190
Twelve months ended December 31, 2021	37,250
Total	**1,740,779**

Prior to the dissolution of Swiss Leaf the entire amount of $1,740,779 was provided for. This amount, net of $832,296 bad debt recovery was written off upon the dissolution of Swiss Leaf on November 8, 2021.

The Company owns 20% of 1241876 B.C. Ltd which is a joint venture ("JV") with Pacific Maple Enterprise Group Ltd "PME" and Canada High-Tech Investment Group Co. Ltd "CHTI". The Company contributed $20 in share capital. There is a commitment to provide a $342,857 shareholder loan as per the shareholder agreement; however, the condition of this loan which is the timing to advance has not been met. On December 31, 2021, the investment in 1241876 B.C. Ltd has a carrying amount of $20 (December 31, 2020 - $20). There have been no transactions since incorporation.

(Expressed in Canadian dollars, unless otherwise stated.)

12. Intangible assets

December 31, 2021

	Patents	Development Assets	Intellectual Property	Total
Cost	**$**	**$**	**$**	**$**
Balance December 31, 2020	50,000	1,136,810	4,143,683	5,330,493
Additions	199,462	-	404,368	603,830
Foreign exchange adjustment	-	-	(94,509)	(94,509)
Balance December 31, 2021	249,462	1,136,810	4,453,542	5,839,814
Accumulated Depreciation	**$**	**$**	**$**	**$**
Balance December 31, 2020	11,797	277,381	8,410	297,588
Amortization	6,620	31,831	131,291	169,742
Foreign exchange adjustment	-	-	1,177	1,177
Balance December 31, 2021	18,417	309,212	140,878	468,507
Net book value, December 31, 2021	**231,045**	**827,598**	**4,312,664**	**5,371,307**

December 31, 2020

	Patents	Development Assets	Intellectual Property	Total
Cost	**$**	**$**	**$**	**$**
Balance June 30, 2020	50,000	1,136,810	4,143,683	5,330,493
Additions	-	-	-	-
Disposals	-	-	-	-
Balance December 31, 2020	50,000	1,136,810	4,143,683	5,330,493
Accumulated depreciation	**$**	**$**	**$**	**$**
Balance June 30, 2020	10,080	225,088	4,351	239,519
Depreciation	1,717	52,293	4,342	58,352
Disposals	-	-	-	-
Foreign exchange adjustment	-	-	(283)	(283)
Balance December 31, 2020	11,797	277,381	8,410	297,588
Net book value, December 31, 2020	**38,203**	**859,429**	**4,135,273**	**5,032,905**

(Expressed in Canadian dollars, unless otherwise stated.)

12. Intangible assets (continued)

June 30, 2020

	Patents	Development Assets	Intellectual Property	Total
Cost	**$**	**$**	**$**	**$**
Balance June 30, 2019	50,000	1,136,810	-	1,186,810
Additions	-	-	4,143,681	4,143,681
Disposals	-	-	-	-
Balance June 30, 2020	**50,000**	**1,136,810**	**4,143,681**	**5,330,491**
Accumulated Depreciation	**$**	**$**	**$**	**$**
Balance June 30, 2019	6,645	131,870	-	138,515
Amortization	3,435	93,218	4,351	101,004
Disposals	-	-	-	-
Balance June 30, 2020	**10,080**	**225,088**	**4,351**	**239,519**
Net book value, June 30, 2020	**39,920**	**911,722**	**4,139,330**	**5,090,972**

(Expressed in Canadian dollars, unless otherwise stated.)

13. Leases

			December 31, 2021
Lease Liabilities	**Canada**	**United States**	**Total**
	$	**$**	**$**
Balance as at June 30, 2020	415,471	1,157,848	1,573,319
Additions during the period	1,462,716	76,200	1,538,916
Payments	(637,973)	(226,822)	(864,795)
Accretion expense	62,382	76,245	138,627
Foreign exchange adjustment	-	(4,377)	(4,377)
Ending	**1,302,596**	**1,079,094**	**2,381,690**
Current	(313,474)	(180,320)	(493,794)
Long term	**989,122**	**898,774**	**1,887,896**

			December 31, 2020
Lease Liabilities	**Canada**	**United States**	**Total**
	$	**$**	**$**
Balance as at June 30, 2020	70,400	1,319,242	1,389,642
Additions during the period	588,744	-	588,744
Payments	(249,433)	(116,019)	(365,452)
Accretion expense	5,760	39,864	45,624
Foreign exchange adjustment	-	(85,239)	(85,239)
Ending	**415,471**	**1,157,848**	**1,573,319**
Current	(257,313)	(151,809)	(409,122)
Long term	**158,158**	**1,006,039**	**1,164,197**

			June 30, 2020
Lease Liabilities	**Canada**	**United States**	**Total**
	$	**$**	**$**
Balance as at June 30, 2019	-	-	-
Adoption of IFRS 16	79,974	-	79,974
Additions during the year	-	1,389,612	1,389,612
Payments	(10,000)	(81,409)	(91,409)
Accretion expense	426	20,781	21,207
Foreign exchange adjustment	-	(9,741)	(9,741)
Ending	**70,400**	**1,319,242**	**1,389,642**
Current	(8,927)	(161,631)	(170,558)
Long term	**61,473**	**1,157,611**	**1,219,084**

(Expressed in Canadian dollars, unless otherwise stated.)

13. Leases (continued)

			December 31, 2021
Right of Use Assets	**Canada**	**United States**	**Total**
	$	**$**	**$**
Balance as at December 31, 2020	600,507	1,157,966	1,758,473
Additions during the year	1,462,716	76,569	1,539,285
Depreciation	(478,008)	(183,967)	(661,975)
Foreign exchange adjustment	-	(7,013)	(7,013)
Ending	**1,585,215**	**1,043,555**	**2,628,770**

	December 31, 2021
	$
Cost	3,620,553
Less: accumulated depreciation	(991,783)
Net Book Value	**2,628,770**

			December 31, 2020
Right of Use Assets	**Canada**	**United States**	**Total**
	$	**$**	**$**
Balance as at June 30, 2020	163,806	1,338,160	1,501,966
Additions during the period	588,745	-	588,745
Depreciation	(152,044)	(93,202)	(245,246)
Foreign exchange adjustment	-	(86,992)	(86,992)
Ending	**600,507**	**1,157,966**	**1,758,473**

	December 31, 2020
	$
Cost	2,086,842
Less: accumulated depreciation	(328,369)
Net Book Value	**1,758,473**

			June 30, 2020
Right of Use Assets	**Canada**	**United States**	**Total**
	$	**$**	**$**
Balance as at July 1, 2019	-	-	-
Adoption of IFRS 16	184,268	-	184,268
Additions during the year	-	1,415,996	1,415,996
Depreciation	(20,462)	(68,095)	(88,557)
Foreign exchange adjustment	-	(9,741)	(9,741)
Ending	**163,806**	**1,338,160**	**1,501,966**

	June 30, 2020
	$
Cost	1,590,523
Less: accumulated depreciation	(88,557)
Net Book Value	**1,501,966**

(Expressed in Canadian dollars, unless otherwise stated.)

13. Leases (continued)

			December 31, 2021
Restoration Provision	**Canada**	**United States**	**Total**
	$	**$**	**$**
Balance as December 31, 2020	106,443	25,003	131,446
Accretion	1,429	398	1,827
Foreign exchange adjustment	-	(102)	(102)
Ending	**107,872**	**25,299**	**133,171**

			December 31, 2020
Restoration Provision	**Canada**	**United States**	**Total**
	$	**$**	**$**
Balance as at June 30, 2020	105,723	26,544	132,267
Accretion	720	211	931
Foreign exchange adjustment	-	(1,752)	(1,752)
Ending	**106,443**	**25,003**	**131,446**

			June 30, 2020
Restoration Provision	**Canada**	**United States**	**Total**
	$	**$**	**$**
Balance as at July 1, 2019	-	-	-
Adoption of IFRS 16	104,294	-	104,294
Additions during the year	-	26,924	26,924
Accretion	1,429	161	1,590
Foreign exchange adjustment	-	(541)	(541)
Ending	**105,723**	**26,544**	**132,267**

Bevo Farms Ltd is the lessor of two facilities in Canada and is a related party to the Company through key management personnel of the Company. The amounts related to Bevo Farms Ltd. are Lease Liabilities of $382,930 and Right-of-use assets of $752,824 as at December 31, 2021 (December 31, 2020 Lease liabilities $65,859 and Right of use assets $153,492; June 30, 2020 Lease liabilities $70,400 and Right of use assets $158,649).

14. Trade and other payables

Trade and other payables consist of:

	December 31, 2021	**December 31, 2020**	**June 30, 2020**
	$	**$**	**$**
Trade payables [1]	1,387,539	860,730	978,860
Payroll payable	1,280,820	52,541	8,726
Sales and payroll tax payable	136,537	39,023	27,322
Accrued expenses	1,724,618	513,372	283,691
Ending balance	**4,529,514**	**1,465,666**	**1,298,599**

[1] Related party Trade payables is disclosed in Note 21.

(Expressed in Canadian dollars, unless otherwise stated.)

15. Customer deposits

Customer deposits consist of funds paid by customers for Systems based on the sales agreement.

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

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Opening balance	4,955,509	1,709,666	2,280,305
Additions	1,933,340	3,577,870	2,182,070
Recognized into revenue	(3,328,036)	(332,027)	(2,399,097)
Refund of deposit	(1,326,867)	-	-
Deposit forfeited, recognized as revenue	-	-	(350,936)
Foreign exchange adjustment	-	-	(2,674)
Ending balance	**2,233,946**	**4,955,509**	**1,709,666**

As at December 31, 2021 customer deposits amounting to $1,866,673 was received more than twelve months ago (December 31, 2020-$1,709,666, June 30, 2020-$1,377,310).

16. Loans payable

The Company received an interest free loan of $60,000 for COVID-19 relief from the Canada Emergency Business Account program; $20,000 of which was received in the twelve months ended December 31, 2021 and $40,000 during the six months ended December 31, 2020. $20,000 of the loan is forgiven if repaid by December 31, 2022, and $10,000 was recognized in other income for the twelve months ended December 31, 2021 (December 31, 2020 - $10,000). If not repaid, the loan may be extended from January 1, 2023 to December 31, 2025. The Hydrogreen subsidiary also received a COVID-19 relief loan of US$112,731 from the Paycheck Protection Program, which bears interest of 1% and is payable in 18 installments starting December 6, 2020 through May 6, 2022. The conditions for loan forgiveness were met by the Company as of December 31, 2020, and $150,383 was recognized in other income. Hydrogreen also has an Agriculture Loan obtained from South Dakota Value Added Finance Authority (“VAFA”) for 45% of HydroGreen’s Patent cost, which is payable in sixty monthly installments beginning on March 1, 2022. The loan is interest free if paid before the due date and 12% per annum if not paid when due or if the Company is in default of the terms and conditions of the loan. Currently the Company is in compliance with the loan agreement. As the Company intends to repay the loan when due, no interest has been accrued on the loan. The Company granted VAFA a first priority security interest in the feasibility study for the project proposed in the loan application and any accompanying reports, documents or other information.

(Expressed in Canadian dollars, unless otherwise stated.)

16. Loans payable (continued)

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Opening balance agriculture interest free loans	74,638	70,258	73,141
Foreign exchange adjustment	(317)	4,380	(2,883)
Ending balance agriculture interest free loans	74,321	74,638	70,258
Less: current portion	(12,387)	-	-
Non-current portion	**61,934**	**74,638**	**70,258**

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Opening balance government relief loans	30,000	194,863	-
Addition during the year	20,000	-	194,863
Loan forgiven transferred to other income	(10,000)	(160,383)	-
Foreign exchange adjustment	-	(4,480)	-
Ending balance government relief loans	40,000	30,000	194,863
Less: current portion	(40,000)	-	(60,531)
Non-current portion	**-**	**30,000**	**134,332**

Business loan

On July 20, 2020, the Company signed an agreement with the Business Development Bank of Canada (“BDC”) for a loan up to $5,000,000. The interest is payable monthly and is currently at a fixed rate of 10% which is set at a base rate of 4.9% plus a variance of 5.1% per year. The variance will be decreased by 1% for the remaining term once the Company is able to complete two consecutive fiscal quarters with positive consolidated earnings before interest, taxes, depreciation, and amortization (“EBITDA”) results. On August 28, 2020, the Company received the first tranche payment of $2,500,000. The second tranche of $2,500,000 was to be provided by BDC when the stipulated conditions in the agreement are met by the Company. Commencing six months after July 10, 2020, the Company shall pay BDC a non-refundable standby fee calculated at a rate of 6.00% per annum on the portion of the loan which has not been advanced or cancelled. The principal amount of loan is payable in monthly installments of $50,000 commencing on July 15, 2021, and continuing up to the maturity date of June 15, 2025, on which one balloon payment of $2,650,000 is required.

The loan may be prepaid at any time for all or part of the outstanding principal plus all interest and any other fees that are applicable plus the prepayment bonus which consists of an interest differential charge and prepayment indemnity. The prepayment option was considered to be an embedded derivative with a fair value of nil at the date of issuance. In addition to the scheduled payments, principal of the BDC Financing shall be reimbursed by way of annual payments representing 30% of Excess Available Funds as determined at the end of the last fiscal year to the maximum of $700 thousand for each annual payment (“Annual ECFS limit") payable on September 15 each year commencing in September 2021 (ECFS date). For greater certainty, any such annual payment is payable only if Excess Available funds as determined at the end of the last fiscal year, is a positive figure. The loan is secured by general security agreement granting a general and continuing security interest in all present and after acquired personal property without limiting the foregoing, on all present and future assets related to intellectual property including, without limitation, patents, trademarks, domain names, source codes, licenses, and any other forms of intellectual property of the Company. This security interest shall rank in first position with respect to the Intellectual

(Expressed in Canadian dollars, unless otherwise stated.)

16. Loans payable (continued)

Property but subordinated in rank to any other security granted i) on receivable and inventory ii) previously to financial institutions except intellectual property and iii) on specific assets in connection with the financing of equipment needed by the Company.

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

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

The initial fair value of the embedded derivative liability related to the variable bonus was estimated to be $595,712 and the residual amount of proceeds of $1,904,288 was allocated to the loan. As a result of debt modification, the Company derecognized the derivative liability. See Note 26.

Business loan

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Balance - beginning of period	1,930,197	-	-
Loan payable – Initial recognition (July 20, 2020)	-	1,904,288	-
Accretion	85,984	15,293	-
Accrued interest	10,301	10,616	-
Accrued interest paid	(10,616)	-	-
Payment	(150,000)	-	-
Loss on debt modification	568,417	-	-
Cash payment of loan bonus	(225,000)	-	-
Issuance of shares on settlement of loan bonus	(200,000)	-	-
Loan payable - end of period	2,009,283	1,930,197	-
Less: current portion	(310,301)	(335,615)	-
Non-current portion	**1,698,982**	**1,594,582**	**-**

Derivative liability

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

(Expressed in Canadian dollars, unless otherwise stated.)

16. Loans payable (continued)

Gain on debt modification continuity

	For the twelve months ended December 31, 2021	For the six months ended December 31, 2020	For the twelve months ended June 30, 2020
	$	$	$
Gain on extinguishment of derivative liability upon debt modification	1,065,704	-	-
Loss on debt modification	(568,417)	-	-
Gain on debt modification	**497,287**	**-**	**-**

Vehicle Loan

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

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Balance- beginning of period	-		
Loan payable – Initial recognition (February 26, 2021)	39,570	-	-
Payment	(6,440)		
Foreign exchange adjustment	(22)	-	-
Loan payable - end of period	33,108	-	-
Less: current portion	(9,273)	-	-
Non-current portion	**23,835**	**-**	**-**

Continuity for all the loans

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Balance - beginning of period	2,034,835	265,121	73,141
Addition	59,570	1,904,288	194,863
Loan forgiven transferred to other income – Note 16	(10,000)	(160,383)	-
Accretion	85,984	15,293	-
Accrued interest	10,301	10,616	-
Payment	(156,440)	-	-
Interest paid	(10,616)	-	-
Loss on debt modification	568,417	-	-
Cash payment of loan bonus	(225,000)	-	-
Issuance of shares on settlement of loan bonus	(200,000)	-	-
Foreign exchange adjustment	(340)	(100)	(2,883)
Balance - end of period	2,156,711	2,034,835	265,121
Less: current portion	(371,960)	(335,615)	(60,531)
Non-current portion	**1,784,751**	**1,699,220**	**204,590**

(Expressed in Canadian dollars, unless otherwise stated.)

17. Warranty provision

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Opening balance	191,342	251,100	388,649
Additions	276,530	-	89,190
Fulfillment	(79,779)	(59,758)	(226,739)
Ending balance	**388,093**	**191,342**	**251,100**

18. Total expenses by nature

The table shows expenses of the Company by nature.

	Twelve Months Ended December 31, 2021	Six Months Ended December 31, 2020	Twelve Months Ended June 30, 2020
	$	$	$
Depreciation and amortization	1,653,595	578,936	658,237
Consulting and professional fees	3,709,250	1,712,871	2,669,992
Salary, wages, and benefits	14,918,537	3,764,380	4,332,292
Share based payments	3,906,350	682,216	1,004,420
Other expenses	11,547,598	3,557,795	5,956,645
Total expenses by nature	**35,735,330**	**10,296,198**	**14,621,586**

19. Accretion charges

	Twelve Months Ended December 31, 2021	Six Months Ended December 31, 2020	Twelve Months Ended June 30, 2020
	$	$	$
Accretion on lease	140,454	46,555	-
Accretion on loan	85,985	15,293	-
Total	**226,439**	**61,848**	**-**

20. Other income

Other income of the Company consists of government grants received by the Company and loan forgiveness for COVID-19 relief.

Government grants relate to the Canada Emergency Wage Subsidy amounts from the Canadian government and loan forgiveness for COVID-19 relief from the Canada Emergency Business Account program from the Canadian government and Paycheck Protection Program from the United States government. There are no unfulfilled conditions and contingencies attached to the government grants.

(Expressed in Canadian dollars, unless otherwise stated.)

20. Other income (continued)

	Twelve Months Ended December 31, 2021	Six Months Ended December 31, 2020	Twelve Months Ended June 30, 2020
	$	$	$
Loan forgiveness income	10,000	160,383	-
Government grants	858,043	435,581	310,595
Total	**868,043**	**595,964**	**310,595**

21. 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 including the members of Board of Directors and Key management personnel, as well as close family members and enterprises that are controlled by these individuals and shareholders.

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

	Twelve Months Ended December 31, 2021	Six Months Ended December 31, 2020	Twelve Months Ended June 30, 2020
	$	$	$
Short term leases	71,561	31,561	-
Lease payments	313,800	5,000	10,000
Office expenses	93,213	37,570	-

	As at December 31, 2021	As at December 31, 2020	As at June 30, 2020
	$	$	$
Lease liability	382,930	65,859	70,400

Key management compensation

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

	Twelve Months Ended December 31, 2021	Six Months Ended December 31, 2020	Twelve Months Ended June 31, 2020
	$	$	$
Wages and salaries	1,596,583	472,500	953,287
Consulting fees	1,280,873	508,694	401,977
Share-based compensation	1,782,606	445,154	851,982
Total	**4,660,062**	**1,426,348**	**2,207,246**

(Expressed in Canadian dollars, unless otherwise stated.)

21. Related party transactions (continued)

Other related party balances as at year end:

Swiss Leaf Farms Ltd. was a related party as it was an associate of the Company for the six months ended December 31, 2020, but it is no longer a related party as at December 31, 2021 as it was dissolved on November 8, 2021.

	As at December 31, 2021	As at December 31, 2020	As at June 30, 2020
Accounts payable:			
Bevo Farms	18,291	12,034	4,716
Swiss Leaf Farms	-	11,360	6,759
Total Accounts payable	**18,291**	**23,394**	**11,475**

(Expressed in Canadian dollars, unless otherwise stated.)

22. Share Capital

The Company has an 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 December 31, 2021, the Company has no Class A Preferred Shares or Class B Preferred shares issued and outstanding (December 31, 2020 – Nil; June 30, 2020 - Nil).

	Number of common shares	Impact on share capital
	#	$
Balance June 30, 2019	**84,179,714**	**22,740,341**
Issuance of shares (i)	31,897,301	9,000,990
Share issuance costs (i)	-	(14)
Options exercised (ii)	238,000	45,220
Transfer from equity reserves	-	39,046
Balance June 30, 2020	**116,315,015**	**31,825,583**
Issuance of shares (iii)	19,884,677	17,536,899
Share issuance costs (iii)	-	(899,853)
Holdback shares adjustment(iv)	926,845	356,849
Options exercised (v)	577,999	121,886
Transfer from equity reserves	-	98,944
Balance December 31, 2020	**137,704,536**	**49,040,308**
Issuance of shares (vi)	36,205,364	47,189,365
Share issuance costs (vi)	-	(3,240,024)
Shares issued to settle liability (vii)	128,205	200,000
Options and warrants exercised (viii)	4,055,299	772,153
Transfer from equity reserves	-	740,120
Balance December 31, 2021	**178,093,404**	**94,701,922**

i) Private placement of shares at net average price of $0.2352 and 10,000,000 shares issued for Hydrogreen Inc's acquisition of $0.3851 per share. Share issuance costs of $14 were accounted for as a deduction from equity.
ii) Options exercised at average price of $0.35 per share.
iii) Financing arrangement with institutional investors and some key management employees of the Company at net average price of $0.8367 per share. Share issuance costs of $899,853 were accounted for as a deduction from equity.
iv) Issue of 926,845 holdback shares to Hydrogreen Inc. at price of $0.3851 per share.
v) Options exercised at average price of $0.21 per share.
vi) Public offering and private placement of shares at net average price of $1.21 per share. Share issuance costs of $3,240,024 were accounted for as a deduction from equity.
vii) Shares issued for settlement of loan bonus component of BDC loan (Note 16)
viii) Options and warrants exercised at average price of $0.19 per share.

(Expressed in Canadian dollars, unless otherwise stated.)

23. Share based compensation

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

Each share option 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.

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

Share purchase options and warrants continuity schedule:

	Number of share purchase options and warrants	Weighted average exercise price
	#	$
Balance June 30, 2019	29,655,766	0.45
Granted	3,790,000	0.63
Exercised	(238,000)	0.19
Cancelled	(2,572,000)	0.86
Balance June 30, 2020	**30,635,766**	**0.44**
Granted	50,000	0.78
Exercised	(577,999)	0.21
Cancelled	(940,000)	0.83
Forfeited	(411,667)	0.24
Expired	(300,000)	1.00
Balance December 31, 2020	**28,456,100**	**0.43**
Granted	4,738,000	1.26
Exercised	(4,055,299)	0.19
Cancelled	(4,067,759)	0.19
Forfeited	(94,000)	1.14
Balance December 31, 2021	**24,977,042**	**0.66**

(Expressed in Canadian dollars, unless otherwise stated.)

23. Share based compensation (continued)

Share purchase options outstanding at December 31, 2021:

Range of Exercise Price	Options Outstanding	Weighted average remaining contractual life	Weighted Average Exercise price	Options Exercisable
$	#		$	#
$0.00-$0.50	2,209,337	4.40	0.19	1,237,600
$0.51-$1.00	12,621,000	4.27	0.79	3,872,067
$1.01-$1.50	3,244,000	4.54	1.34	291,667
$1.51-$2.00	350,000	4.25	1.59	-
	18,424,337			**5,401,334**

Share purchase warrants outstanding at December 31, 2021:

Range of Exercise Price	Warrants Outstanding	Weighted average remaining contractual life	Weighted Average Exercise price	Warrants Exercisable
$	#		$	#
$0.00-$0.50	6,552,705	2.96	0.19	6,552,705
	6,552,705			**6,552,705**

The fair value of the share purchase options granted during the twelve months ended December 31, 2021, was calculated using the Black-Scholes option valuation model at the grant date, with the following weighted average assumptions. No warrants were issued during the period.

	Options		
	Twelve Months Ended December 31, 2021	Six Months Ended December 31, 2020	Twelve Months Ended June 30, 2020
Share price volatility	171%	171%	113%
Expected dividend yield	$nil	$nil	$nil
Employee forfeiture rate	20%	20%	20%
Board of Directors forfeiture rate	25%	25%	25%
Risk free interest rate	0.17% - 0.40%	0.26%	1.47% - 1.49%

(Expressed in Canadian dollars, unless otherwise stated.)

23. Share based compensation (continued)

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

	Twelve Months Ended December 31, 2021	Six Months Ended December 31, 2020	Twelve Months Ended June 30, 2020
	$	$	$
SBC for vendors	1,669,054	200,937	25,882
SBC for employees and directors	2,237,296	481,279	978,538
Total SBC	**3,906,350**	**682,216**	**1,004,420**

24. Operating segments

IFRS 8 Operating Segments defines 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 Executive Officer to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

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

Twelve months ended December 31, 2021.

	Fresh	Feed	Total
	$	$	$
Revenue	3,611,093	1,662,073	5,273,166
Gross Margin	(293,652)	302,946	9,294
Net Loss	(22,371,484)	(6,985,899)	(29,357,383)
Total Assets	35,388,719	19,288,430	54,677,149

During the twelve months ended December 31, 2021, The Company earned significant sales revenue from two customers in the amount of $3,022,821 (December 31, 2020-$Nil, June 30, 2020-$Nil) and $1,501,866 (December 31, 2020-$Nil, June 30, 2020-$Nil). The two customers were located in Canada and United States, with each having their entire revenue reported in Fresh and Feed reportable segments, respectively.

Six months ended December 31, 2020.

	Fresh	Feed	Total
	$	$	$
Revenue	486,678	138,096	624,774
Gross Margin	(966,051)	26,804	(939,247)
Net Loss	(8,165,584)	(1,959,979)	(10,125,563)
Total Assets	26,344,523	8,392,332	34,736,855

(Expressed in Canadian dollars, unless otherwise stated.)

24. Operating segments (continued)

During the six months ended December 31, 2020, The Company earned significant sales revenue from three customers in the amount of $364,376 (June 30, 2020-$3,757,383) , $104,010 (June 30, 2020-$Nil) and $83,302 (June 30, 2020-$56,469). Two customers were located in Canada and one customer in United States, with each having their entire revenue reported in Fresh and Feed reportable segments, respectively.

Twelve months ended June 30, 2020.

	Fresh	**Feed**	**Total**
	$	**$**	**$**
Revenue	5,006,231	161,257	5,167,488
Gross Margin	1,642,804	31,053	1,673,857
Net Loss	(9,147,824)	(944,277)	(10,092,101)
Total Assets	12,916,209	8,224,398	21,140,607

During the twelve months ended June 30, 2020, The Company earned significant sales revenue from one customer in the amount of $3,757,383. The customer was located in Canada with its entire revenue reported in Fresh segments.

25. Capital management

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

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

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

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

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Total Assets	54,677,149	34,736,855	21,140,607
Total Liabilities	(13,585,937)	(12,997,278)	(6,756,186)
Net Equity	**41,091,212**	**21,739,577**	**14,384,421**

26. Financial instruments

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

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

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

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

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

The earnout payable represents future payments by the Company of up to US$1.5 million over five years, that are contingent on the achievement of certain revenue targets. The fair value of contingent consideration liabilities is based on the estimated future financial performance of the acquired business. The estimated earnout consideration was fair valued by assessing the probabilities of achieving these milestones and discounting the revenue cash flow over the life of the payment period of five years and recognized as at the acquisition date of Hydrogreen Inc. The earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. As at December 31, 2021, the discount rate was estimated to be 17% (December 31, 2020 – 17%, June 30, 2020 – 24%). If the discount rate decreased by 5%, the estimated fair value of the earnout payable would increase by approximately $38,808 (December 31, 2020 - $70,018, June 30, 2020 - $120,710). If the discount rate increased by 5%, the estimated fair value of the earnout payable would decrease by approximately $36,113 (December 31, 2020 - $64,502, June 30, 2020 - $101,902).

The fair value of the Company's Loans payable is the carrying value discounted at the effective interest rate. As at December 31, 2021 the fair value of the Loans payable is $2,126,980 and the carrying value is $2,156,711. As at December 31, 2020 the fair value of the Loans payable was $1,990,278 and the carrying value was $2,034,835. As at June 30, 2020 the fair value of the Loans payable was $194,853 and the carrying amount was $ 265,121.

The derivative liability was measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expected earnings before interest, taxes, depreciation, and interest ("EBITDA") in 2024. The expected related cash flows were discounted to derive the fair value of the derivative liability. There is no derivative liability as at December 31, 2021. As at December 31, 2020, the discount rate was estimated to be 47% (June 30, 2020 - Nil). If 2024 EBITDA changed by 25%, the estimated fair value of the derivative liability would increase or decrease by approximately $191,219. If discount rates decreased by 5%, the estimated fair value of the derivative liability would increase by approximately $167,232. If discount rates increased by 5%, the estimated fair value of the derivative liability would decrease by approximately $138,870.

There has been no change between levels during the year.

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

(Expressed in Canadian dollars, unless otherwise stated.)

26. Financial instruments (continued)

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

As at December 31, 2020				
	FVTPL	**Amortized Cost**	**Fair Value**	
Asset (Liability)			**Level 2**	**Level 3**
Cash and cash equivalents	-	16,206,535	-	-
Trade and other receivables	-	1,338,265	-	-
Trade and other payables	-	(1,465,666)	-	-
Earn out payable	(1,643,033)	-	-	(1,643,033)
Loan payable	-	(2,034,835)	(1,990,278)	-
Derivative liability (Note 17)	(1,002,128)	-	-	(1,002,128)

As at June 30, 2020				
	FVTPL	**Amortized Cost**	**Fair Value**	
Asset (Liability)			**Level 2**	**Level 3**
Cash and cash equivalents	-	3,604,412	-	-
Trade and other receivables	-	2,186,568	-	-
Trade and other payables	-	(1,298,598)	-	-
Earn out payable	(1,364,756)	-	-	(1,364,756)
Loan payable	-	(265,121)	(194,853)	-

The continuity for the Earnout payable is as follows:

	December 31, 2021	**December 31, 2020**	**June 30, 2020**
	$	**$**	**$**
Opening balance	1,643,033	1,364,756	-
Fair Value on acquisition of Hydrogreen Inc.	-	-	1,397,473
Foreign exchange	1,466	(89,700)	68,827
Fair Value change during the year	118,313	367,977	(101,544)
Ending balance	**1,762,812**	**1,643,033**	**1,364,756**
Comprised of:			
Current Earn-out payments	1,762,812	1,165,953	290,915
Non-Current Earn-out payments	-	477,080	1,073,841

(Expressed in Canadian dollars, unless otherwise stated.)

26. Financial instruments (continued)

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, 2021 the primary risks relating to the use of financial instruments were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. The Company provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at December 31, 2021, one customer accounted for 27% (December 31, 2020 - 29%; June 30, 2020 – 78%) of the trade accounts receivable and the Company expects to collect the balance in full.

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 research and development activities, and, from the other side, implement effective cost control measures to maintain adequate levels of working capital.

At December 31, 2021, December 31, 2020, and June 30, 2020, the Company has financial liabilities which are due on a fiscal year basis as follows:

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

As at December 31, 2020	**< 1 Year**	**1-5 Years**	**5+ Years**	**Total**
	$	**$**	**$**	**$**
Trade and other payables	1,465,666	-	-	1,465,666
Earn-out payable	1,336,860	572,940	-	1,909,800
Leases payable	514,988	841,952	678,434	2,035,374
Loans payable	648,534	3,601,336	-	4,249,870
Derivative liability	-	5,575,533	-	5,575,533
Total	**3,966,048**	**10,591,761**	**678,434**	**15,236,243**

26. Financial instruments (continued)

As at June 30, 2020	< 1 Year	1-5 Years	5+ Years	Total
	$	$	$	$
Trade and other Payables	1,298,599	-	-	1,298,599
Earn-Out Payable	340,692	1,703,461	-	2,044,153
Leases payable	253,813	810,837	738,700	1,803,350
Loans payable	-	262,315	-	262,315
Total	**1,893,104**	**2,776,613**	**738,700**	**5,408,417**

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 analysed further below:

Interest rate risk

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

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As at December 31, 2021, the following items are denominated in US dollars:

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Cash	166,656	3,616,464	93,424
Trade and other receivables	1,129,064	1,251,269	1,446,332
Trade and other payables	(1,039,306)	(432,742)	(313,060)
Customer deposits	(661,602)	(524,941)	(243,883)
Earn-out payable	(1,385,363)	(1,290,475)	(1,001,457)
Loan payable	(84,736)	(58,622)	(165,194)
Net exposure	**(1,875,287)**	**2,560,954**	**(183,838)**

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

As at December 31, 2021, a 10% increase in the US dollar exchange rate would increase the Company’s net loss by approximately $188,000 (December 31, 2020 – increase of $256,000; June 30, 2020 – decrease of $18,000). A 10% decrease in the exchange rate would decrease net loss by the same amount.

(Expressed in Canadian dollars, unless otherwise stated.)

27. Deferred tax assets and liability

Tax note for the twelve months ended December 31, 2021

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

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Loss before income tax	(29,353,414)	(10,447,885)	(10,327,904)
Statutory tax rate	27%	27%	27%
Expected income tax (recovery)	(7,925,422)	(2,820,921)	(2,788,534)
Increase (decrease) in income tax recovery resulting from:			
Non-deductible items	(65,486)	49,812	258,259
Share based compensation	1,053,811	184,198	271,194
Change in Deferred tax assets not recognized	7,438,674	2,350,566	1,636,153
Financing fees capitalized to equity	(874,806)	(68,934)	-
Changes in estimates	(25,082)	(148,656)	322,309
Difference in tax rates in foreign jurisdictions	414,332	136,458	69,686
Tax effect of foreign exchange and other	(12,052)	(4,815)	(4,869)
Total income tax expense (recovery)	**3,969**	**$ (322,292)**	**$ (235,803)**
Current Income taxes	3,969	3,305	3,923
Deferred income taxes (recovery)	-	(325,597)	(239,727)
Total income tax expense recovery	**3,969**	**$ (322,292)**	**$ (235,803)**

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. Deferred tax assets (liabilities) at December 31, 2021, December 31, 2020 and June 30, 2020 are comprised of the following:

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Non-capital losses carryforward	1,577,263	1,172,625	1,098,779
Property, plant, and equipment	(279,438)	(95,161)	(170,231)
Intangible Assets	(650,670)	(672,154)	(948,342)
Right of Use Assets	(647,155)	(405,310)	(325,241)
Net deferred tax asset (liability)	**-**	**-**	**(345,035)**

(Expressed in Canadian dollars, unless otherwise stated.)

27. Deferred tax assets and liability (continued)

The unrecognized deductible temporary difference at December 31, 2021 and December 31, 2020 are comprised of the following:

	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Non-capital losses	47,908,323	22,391,658	16,932,035
Promissory note and investment in associate	-	1,469,231	2,193,664
Share issuance and financing costs	3,264,381	1,029,241	735,658
Trade and other receivables	-	383,527	50,845
Fixed assets and Intangibles	272,908	244,917	-
Warranty provision	388,093	191,342	255,394
Lease liabilities and restoration provision	2,514,860	1,704,765	1,495,381
Scientific research and experimental development and other	1,056,905	10,000	19,960
Total unrecognized deductible temporary differences	**$ 55,405,469**	**$ 27,424,681**	**$ 21,682,937**

The Company has non-capital loss carry forwards of approximately $42,910,613 (2020 - $22,499,229) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Canadian

EXPIRY	December 31, 2021	December 31, 2020	June 30, 2020
2034	46,950	73,753	-
2035	838,250	838,250	-
2036	1,491,182	1,491,182	837,745
2037	6,355,721	6,474,453	1,343,598
2038	9,606	9,606	5,237,830
2039	6,027,289	6,697,770	6,799,832
2040	6,874,601	6,771,496	-
2040	2,056,864	-	-
2041	19,210,150	-	-
TOTAL	**42,910,613**	**22,356,510**	**14,219,005**

The Company has net operating loss carry forwards of approximately $9,107,972 (2020 - $5,346,802) in the United States which can be applied to reduce future US taxable income which have an unlimited expiry period. The Company has tax loss carry forwards of approximately $142,783 (2020 - $Nil) in China which can be applied to reduce future Chinese taxable income which expires in 2026.

(Expressed in Canadian dollars, unless otherwise stated.)

28. Earnings per share

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year adjusting for the effect of dilutive convertible preferred shares and share options. The earnings used in the calculation for all diluted earnings per share measures are the same as those for the equivalent basic earnings per shares measures, as outlined below. The weighted average numbers of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

At year end diluted earnings per share is reported at the same value as basic earnings per share due to the anti-dilutive effect as the company is in a loss position.

	Twelve Months Ended December 31, 2021	**Six Months Ended December 31, 2020**	**Twelve Months Ended June 30, 2020**
	$	**$**	**$**
Numerator:			
Net loss for the period	(29,357,383)	(10,125,563)	(10,092,101)
Denominator:			
Weighted-average basic shares outstanding	154,480,753	119,842,276	92,326,900
Effect of dilutive securities (nil due to anti-dilutive nature)	-	-	-
Weighted-average diluted shares	154,480,753	119,842,276	92,326,900
Basic earnings (loss) per share	(0.19)	(0.08)	(0.11)
Diluted earnings (loss) per share	(0.19)	(0.08)	(0.11)

29. Contingent Liability

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

The Company's legal counsel is preparing a response to the lawsuit and as of the financial year end, 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.

30. Subsequent events

On January 1, 2022, the Company horizontally amalgamated CubicFarm Capital Corp. and CubicFarm Services Corp. into CubicFarm Produce (Canada) Corp.

Management's Discussion and Analysis

For the year ended December 31, 2021, and the six-month period ended December 31, 2020

Dated: March 30, 2022

The following Management's Discussion and Analysis ("MD&A") is prepared as of March 30, 2022, and reports on the operating results and financial condition of CubicFarm Systems Corp., (the "Company" or "CubicFarms") for the three and twelve months ended December 31, 2021. This MD&A is prepared by management and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2021, as well as the consolidated financial statements for the transition year ended December 31, 2020, and the consolidated financial statements for the year ended June 30, 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts herein are expressed in Canadian dollars unless stated otherwise.

In this discussion, unless otherwise indicated, a reference to the business and operations of the Company includes the business and operations of CubicFarm Systems Corp. and its wholly owned subsidiaries: CubicFarm Manufacturing Corp., CubicFarm Innovation Corp., CubicFarm Services Corp., CubicFarm Produce (Canada) Corp., CubicFarm Capital Corp. CubicFarm Systems U.S. Corp., HydroGreen, Inc., and CubicFarm Systems (Shanghai) Corp. The Company's most recent annual information form and other documents and information have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available under the Company's profile at www.sedar.com.

In order to simplify its corporate structure, on December 31, 2021, the Company vertically amalgamated former subsidiary CubicFarm Innovation Corp. into CubicFarm Capital Corp.; and on January 1, 2022, the Company horizontally amalgamated CubicFarm Capital Corp. and CubicFarm Services Corp. into CubicFarm Produce (Canada) Corp. The result is two Canadian operating companies: (1) CubicFarm Manufacturing Corp., which manufactures and sells CubicFarm Systems; and (2) CubicFarm Produce (Canada) Corp., which provides consumables, as well as consulting and brokerage services to both existing and potential CubicFarms customers.

Change in year-end

During the six months ended December 31, 2020, the Company changed its financial year-end to December 31, from June 30. The comparative period for the Company is the six months ended December 31, 2020.

Forward-Looking Statements

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

About the Company and Nature of Business

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

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

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

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

Fresh Division

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

As of December 31, 2021, the Fresh division had 120 employees and full-time contractors, an increase of 107% from 58 as of December 31, 2020. As of the date of this report, the Fresh Division had a total of 122 employees and full-time contractors.

Production

In May 2017, CubicFarms signed an agreement with Cubic Manufacturing, an entity not related to CubicFarm Systems Corp., or its subsidiaries, to establish dedicated manufacturing resources in China. Cubic Manufacturing acquired and assembled the main mechanical components of the containers. In August 2021, the Company terminated its agreement with Cubic Manufacturing.

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

Research and Development

CubicFarms operates growing facilities in Pitt Meadows, BC (referred to as the CubicFarms Innovation Centre), and Busby, AB, which are used primarily for R&D and product testing and growing protocol testing purposes. During the third quarter of 2021, the Company established the R&D facility in Busby, AB, known as the Alberta Grow Centre, by acquiring growing modules and assets with an estimated fair value of $1.5 million from related party Swiss Leaf Farms Ltd. ("Swiss Leaf Farms"). The Company paid $750 thousand in cash, with the remaining balance offset by CubicFarms' existing loans to Swiss Leaf Farms.

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

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

Within the last twelve months, the Fresh Division research and development team has developed:

- Improved method of germination and propagation by introducing technology that allows users to identify trays and treat them specific to the plant's needs.
- Re-designed hardware devices to increase crop yield and quality in growing module.
- Improved substrates to allow for automated seeding and more efficient process flow on production floor.
- Custom nutrient blends that provide crops the desired nutrient regimes during their grow cycles.
- Improved controls allowing users to interact more closely with the crop and address their needs during grow cycles.
- Expanded product offerings to meet the needs of retail, wholesale, and food service industries.

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

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

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

Feed Division

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

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

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

As of December 31, 2021, the Feed Division had 39 employees and full-time contractors, an increase of 63% from 24 as of December 31, 2020. As at the time of this report, the Feed Division had 41 employees and full-time contractors.

Manufacturing

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

Research and Development

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

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

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

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

Corporate and operational highlights for the year ended December 31, 2021

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

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

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

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

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

On April 6, 2021, the Company announced an agreement with Burnett, to supply 12 HydroGreen Automated Vertical Pastures™, daily feed production supply, and includes collaboration on a research program and feed analysis with HydroGreen. As part of the agreement, HydroGreen and Burnett will collaborate on the collection of data and research to quantify the livestock feed nutrition benefits, dry matter yield gain, performance of the herd, with special interest in fertility, milk production, and overall wellbeing of the animals.

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

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

On April 23, 2021, the Company announced an agreement to sell 18 modules of the CubicFarm System onsite indoor growing technology at a sale price of USD$2,700,000 to BoomA Food Group. BoomA Food Group will use these modules to grow commercial scale amounts of produce in New South Wales, Australia, specializing in herbs and microgreens. This purchase of equipment represents the first commercial sale in Australia. The Company has received the second deposit and expects to install the modules in the second quarter of 2022.

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

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

On May 17, 2021, the Company announced that wholesale distributor Dihl Gros International has agreed to purchase 12 HydroGreen Grow System modules for its beef cattle customers who require on farm fresh livestock feed for their herds.

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

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

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

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

Shareholders approved the setting of the number of Directors at seven. The seven candidates nominated for election to CubicFarms' Board of Directors and listed in the Company's Management Information Circular dated May 17, 2021 (the "Circular"), were elected by a majority of the votes cast at the Meeting. Shareholders elected David Dinesen, Leo Benne, Janet Wood, Michael McCarthy, Daniel Burns, Jeffrey D. Booth, and Christopher Papouras. Approximately 99% of the votes cast were in favour of the election of the Directors.

In addition, at the Meeting, shareholders approved the appointment of KPMG LLP as the auditor of the Company for the ensuing financial year with their remuneration to be fixed by the Board. Approximately 100% of the votes cast were in favour of the appointment. Shareholders also approved an amendment to the Company's stock option plan to increase the fixed number of shares that may be issued upon the exercise of all options granted under the plan, as more particularly described in the Circular. Approximately 92% of the votes cast were in favour of the amendment.

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

On August 31, 2021, the Company announced that it has selected Microsoft's technology to launch the next generation of indoor farming technologies for fresh food and fresh livestock feed. CubicFarms is working with Microsoft and using Microsoft Azure IoT ("Internet of Things") as a key part of the Company's enterprise level platform. CubicFarms selected Azure IoT to give the Company the flexibility necessary to develop custom modules that support diverse hardware and device requirements, while also delivering regulatory and compliance security to keep data secure.

On September 1, 2021, the Company announced that its common shares commenced trading on the TSX as of the opening of trading on Wednesday, September 1, 2021. The Company's common shares will continue to trade under the symbol "CUB," with its common shares to cease trading on the TSXV concurrent with the commencement of trading on the TSX.

The Company also announced that it renegotiated and cancelled 4,067,759 share purchase warrants held by Cubic Manufacturing Ltd. On August 20, 2021, Cubic Manufacturing Ltd. exercised 3,662,966 of its remaining 10,062,337 share purchase warrants.

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

On October 5, 2021, the Company announced the establishment of an Alberta Grow Centre by acquiring growing modules and assets with an estimated fair value of $1.5 million from Swiss Leaf Farms Ltd. The Company paid $750 thousand in cash, with the remaining balance offset by CubicFarms' existing loans to Swiss Leaf Farms. With 14 CubicFarm System modules currently in operation, the Company is using this expansion to further test its standard operating procedures and accelerate technological advancements for its indoor growing technologies.

On October 5, 2021, the Company announced two initial dealers of its HydroGreen Certified Dealer Network to meet increasing distribution demand for the Company's automated HydroGreen technology for on farm growing of fresh green livestock superfeed. Total Dairy Solutions US, LLC ("TDS") signed a non-binding letter of intent ("LOI") to become an official member of the HydroGreen Certified Dealer Network selling the HydroGreen Grow System indoor growing technologies to their customers, while Settje Agri Services & Engineering Inc. ("Settje") signed a LOI with HydroGreen to provide consulting and engineering services in building out this new Certified Dealer Network.

In aggregate, the HydroGreen Certified Dealer Network members TDS and Settje have forecasted to have an initial 54 HydroGreen Grow System modules under contract by the end of 2022, to be installed once customers have confirmed site readiness.

On October 18, 2021, the Company announced the appointment of Sandy Gerber as Chief Marketing Officer. Gerber will lead the Company's global marketing programs as CubicFarms continues its mission to create and deliver indoor farming technologies to feed a changing world. Gerber most recently served as Vice President of Marketing and Communications at CubicFarms and will continue delivering strategic marketing initiatives and accelerate the Company's digital marketing, advertising, sponsorships, promotions, awards, and international commercial scale opportunities for growth.

On October 21, 2021, the Company hosted CubicFarms AMPLIFIED, which was attended virtually and in-person by more than 1,600 journalists, influencers, tech insiders, and industry and government guests. This event marked the official launch of the local chain ag-tech industry category developed by the Company. Several sustainability ambassadors joined CubicFarms executives at the event, including Canadian astronaut Commander Chris Hadfield; Henry Gordon-Smith, Founder and CEO of the Agritecture consultancy; and Dr. Lenore Newman, Director of the Food and Agriculture Institute at the University of Fraser Valley and chair of the CubicFarms Scientific Advisory Board. Guests attending CubicFarms AMPLIFIED in person had the opportunity to sample ALLWays Local branded produce, see CubicFarms' technology, and learn more about the recently announced FreshHub, the Company's largest project to date. The first-ever renderings of this next-generation high-density system, which will include 96 modules occupying one acre of land, were also revealed at CubicFarms AMPLIFIED.

On October 25, 2021, the Company announced two additional dealers of its HydroGreen Certified Dealer Network to meet distribution demand for the Company's automated HydroGreen technology for on farm growing of fresh green livestock feed. Hansen Industries ("Hansen") and Dihl Grohs International ("DGI") signed non-binding LOIs to become official members of the HydroGreen Certified Dealer Network selling the HydroGreen indoor growing technologies to their customers. In aggregate, Hansen and DGI have forecasted to have an initial 30 HydroGreen machines under contract by the end of 2022, to be installed once the customers have confirmed site readiness.

On November 16, 2021, the Company announced a new HydroGreen Certified Dealer with initial sales commitments valued at $2.7 million. Total sales commitments as at November 2021 from the HydroGreen Certified Dealer Network include over 98 modules to be delivered in 2022, valued at over $20.2 million. The new dealer, HydroGreen CanWest, is a 50/50 joint venture between Bill Vanderkooi, founder of Nutriva and owner of Nutritech Solutions, a livestock technology company, and Ryan de Lange, owner of J&D Farmers Dairy Service, a leading supplier of dairy automation technology. HydroGreen CanWest signed a LOI to become a member of the HydroGreen Certified Dealer Network. In aggregate, HydroGreen CanWest has forecasted to have an initial 18 HydroGreen machines under contract by the end of 2022.

On November 24, 2021, the Company announced the closing of its previously announced bought deal public offering (the "Offering") of common shares of the Company. The Offering was conducted through a group of underwriters consisting of Raymond James Ltd., Stifel Nicolaus Canada Inc., Canaccord Genuity Corp., and Echelon Wealth Partners Inc., by way of the short form base shelf prospectus of the Company dated December 14, 2020, as amended and restated on April 20, 2021, and as further amended and restated on October 13, 2021, as supplemented by a shelf prospectus supplement dated November 19, 2021, prepared and filed in each of the provinces of Canada, other than the Province of Quebec, and by way of a private placement in the United States. Pursuant to the Offering, the Company issued a total of 16,000,000 common Shares at a price of $1.25 per common Share for gross proceeds to the Company of $20 million. The net proceeds from the Offering will be used for continued organic growth, technology development, working capital and general corporate purposes.

Environmental, Social, and Governance (ESG)

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

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

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

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

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

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

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

CubicFarms ESG Disclosure

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

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

Environmental Commitments

Sustainability

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

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

Climate change

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

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

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

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

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

Social Commitments

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

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

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

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

Local labour

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

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

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

Diversity

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

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

Animal welfare

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

Governance Commitments

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

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

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

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

Highlights subsequent to the year ended December 31, 2021

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

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

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

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

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

On March 10, 2022, the Company announced that it has appointed Daniel Burns, a member of the Company's Board of Directors, as interim Chief Financial Officer ("CFO"). He will step down as Chair of the Company's Audit Committee to serve as interim CFO, effective April 1, 2022.

Burns became the first certified director in British Columbia with an ICD.D designation granted by the Institute of Corporate Directors, and one of the first in Canada. He is Audit Committee Certified ("A.C.C.") from the Director's College. Burns is a member of the Law Society of British Columbia and the Chartered Professional Accountants of Ontario. Burns holds a Master of Business Administration ("MBA") from the University of Toronto and a Global Executive MBA from the University of St Gallen, Switzerland. He is well-versed in public markets and has served as chair of significant audit committees in both Canada and the United States, as well as formerly serving as CFO of a publicly listed issuer.

Tim Fernback will step down from his role serving as the Company's CFO but will continue as a Company advisor while overseeing several strategic projects over the next several months during this transition period. In addition, Fernback will continue serving as an active member of the Company's Scientific Advisory Board.

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

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

Forward-Looking Guidance

Sales and deposits

As of the date of this MD&A, the Company has a total of 203 modules under binding contract and deposit. The amount of CubicFarm System sales orders that are pending manufacturing and installation is approximately USD$27 million. The table below shows the projects under contract:

Geographic Territory	Project Name	Number of Modules	Contract Value, USD
Canada	Abbotsford	16	$2,129,815
Canada	Surrey	100	$12,561,538
Canada	Winnipeg	27	$4,039,764
USA	Indiana	20	$2,969,500
USA	Montana	21	$2,930,816
Australia	New South Wales	19	$2,746,000
Total	**Total**	**203**	**$27,377,433**

Based on discussions with the Company's clients and the expected readiness of each building site, the Abbotsford, New South Wales, and Indiana project installations are expected to be substantially completed by the end of the second quarter of fiscal year 2022. Delays in the installation for these projects are primarily due to the effects of COVID-19 and related supply chain delays realized in 2021, and a CubicFarms version upgrade for its equipment scheduled in early 2022. The Montana Project installation has been delayed until late 2022 or early 2023, and as mentioned in previous disclosures from the Company, the project in Surrey, British Columbia, is expected to be installed in 2023. This is due to the expected time for the chosen project site to be filled, pre-loaded and prepared for installation.

During the twelve months ended December 31, 2021, the Company signed a contract and received a deposit for the project below:

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

Subsequent to the fiscal year end and on March 7, 2022, the Company announced an agreement to sell 27 CubicFarm System modules in Winnipeg, Manitoba, at a sale price of $5.13 million. It is anticipated that this CubicFarm installation will be substantially completed by the end of the fourth quarter of 2022.

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

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

Additional Systems Sales

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

<u>Fresh Division</u>

CubicFarms has received a non-binding letter of intent to deliver 96 CubicFarm System modules in an innovative two-level cost-effective building design and controlled environment called a FreshHub, to be installed in Surrey, BC. This next generation high-density system is the next level of indoor growing aiming to significantly localize food production. Leveraging the land and water efficiencies of the CubicFarm System technology, the new stacked configuration of this FreshHub will include 96 modules occupying one acre of land. New features of this FreshHub include a new agricultural building design that reduces capital costs, new farm infrastructure, workflow design, automation components, and proprietary software. The Company anticipates that the installation of this first FreshHub project will commence in the late part of the 2022 calendar year and be substantially completed by the end of the 2023 calendar year.

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

Feed Division

During the twelve months ended December 31, 2021, wholesale distributor Dihl Grohs International purchased 12 HydroGreen machines for its beef cattle customers who require on farm fresh livestock feed for their herds.

The Company has noticed a "halo effect" involving heightened interest from neighbouring farms of recently completed HydroGreen installations. The effect of this positive nearby reference appears to accelerate the HydroGreen business development cycle in the immediate area of the Company's current HydroGreen customers. In the period ending December 31, 2021, the Company announced the HydroGreen Certified Dealer Network and the addition of six dealers to the network. Each dealer signed a non-binding letter of intent and initial sales forecasts include in aggregate over 100 HydroGreen machines to be delivered in 2022, valued at $20,200,000. CubicFarms has permitted the expiry of the non-binding letters of intent with the HydroGreen Certified Dealers in order to move forward with the signing of definitive Certified Dealer Agreements with binding sales commitments. In the first quarter of 2022, representatives of each dealer attended sales and product training at the HydroGreen Innovation Center to support third party sales efforts. HydroGreen Certified Dealers will support local sales, installations, and customer experience.

Subsequent to the end of the fiscal year ended December 31, 2021, the Company signed an additional Certified Dealer LOI with a Nebraska-based dealer, Central Confinement Service LLC, which has forecasted to have 12 HydroGreen machines valued at $2.25 million under contract in 2022.

Discussion of Operations

Three months ended December 31, 2021, and 2020, twelve months ended December 31, 2021, and six months ended December 31, 2020.

Revenue

Fresh Division	December 31, 2021	December 31, 2020	Change	%
Three months ended	$ (657,797)	$ 93,396	$ (751,193)	n.a.
Twelve and six months ended	$ 3,611,093	$ 486,678	$ 3,124,415	642%

Feed Division	December 31, 2021	December 31, 2020	Change	%
Three months ended	$ 1,476,992	$ 130,853	$ 1,346,139	1029%
Twelve and six months ended	$ 1,662,073	$ 138,096	$ 1,523,977	1104%

Total	December 31, 2021	December 31, 2020	Change	%
Three months ended	$ 819,195	$ 224,249	$ 594,946	265%
Twelve and six months ended	$ 5,273,166	$ 624,774	$ 4,648,392	744%

The Company is still in its early stages of operations which has resulted in fluctuating sales on a quarter-by-quarter basis. As such, the Company expects financial results to fluctuate from period to period in the near term. The Company has three main sources of revenue – revenue from sales of indoor growing technologies, revenue from services, and revenue from consumables. Consumables include produce sales, parts, seeds, nutrients, fertilizers, and substrates, and services include customer support subscriptions and consulting. As the Company matures, management expects to receive a larger percentage of overall sales as recurring revenue. Sales within the Fresh Division for the three months ended December 31, 2021, included consumables revenue of $259,976, and consulting revenue of $33,000.

1) During the three months ended December 31, 2021, the Company also derecognized revenue of $249,160 to reduce revenue originally recognized in prior quarters on a gross revenue-basis and adjusted to

recognition on a net revenue-basis. Going forward, CubicFarms Gardens produce brokerage revenue will continue to be stated on a net revenue-basis to more accurately reflect the nature of this brokerage business. Cost of sales was reduced by the same amount to record revenue on a net basis.

2) The Company voluntarily decided to reduce the purchase price of equipment to a CubicFarms customer while a hardware and software upgrade was performed to the latest version of the CubicFarms technology. As a result of this voluntary measure, the Company recorded a reduction in CubicFarm System sales revenue of $540,000 which represents consideration payable to a customer. This voluntary upgrade for one of our BC-based customers, while costly for the Company, will result in all CubicFarm System customers having access to the latest CubicFarms hardware and software technologies. Company management believes that having all customers on the same hardware platform will reduce warranty claims and increase overall client performance in the future. In addition to this, having all CubicFarms customers on the same hardware platform will allow for the full deployment of a new CubicFarms proprietary software platform that was conceived and developed throughout the fiscal year ending December 31, 2021. This new software platform will enable additional farm operating efficiencies and allow for the ready collection of performance data at each farmer location. When collected, this performance data will enhance future Company R&D efforts with respect to automation, machine learning, and artificial intelligence. It is envisioned by the Company that this new software platform will be sold as a standalone software product to controlled environment agriculture companies, generating the potential for SaaS revenue for the Company in the future.

Sales in the Fresh Division in the twelve months ended December 31, 2021, included CubicFarm Systems sales revenue of $3,103,745 from the additional installation and training services related to the Calgary project, as well as completion of the Armstrong, and San Diego projects. Revenue in the twelve months ended December 31, 2021, also included sales of consumables of $341,056 and services from seven consulting agreements totaling $166,292 in the period. Revenue in the Feed Division for the three months ended December 31, 2021, included 12 CubicFarm System sales of $1,476,992, and in the twelve months ended December 31, 2021, 14 CubicFarm System sales of $1,662,073.

CubicFarms management observed some supply chain related issues during the fourth quarter of 2021. The global supply of semi-conductor chips for CubicFarms equipment, primarily within the Feed Division, was reduced significantly during this period. Recognizing this shortage in supply early on, management was able to secure alternative sources of supply for the remaining 2021 and 2022 calendar years for its semi-conductor chip needs.

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

Steel prices also increased during calendar year 2021, which caused a commensurate increase in the cost of goods for equipment manufactured within both Fresh Division and Feed Division. As a result of this increased price for steel, the Company increased the purchase price to the consumer of its HydroGreen GLS808 machines in the Feed Division by 6% during this period. Management is considering possible equipment price increases and possible equipment design modifications in the Fresh Division to offset the increased steel component costs.

Gross margin

Fresh Division		December 31, 2021		December 31, 2020		Change	%
Three months ended	$	(937,512)	$	(1,279,365)	$	341,853	27%
Twelve and six months ended	$	(293,652)	$	(966,051)	$	672,399	70%

Feed Division		December 31, 2021		December 31, 2020		Change	%
Three months ended	$	325,696	$	31,996	$	293,700	918%
Twelve and six months ended	$	302,946	$	26,804	$	276,142	1030%

Total		December 31, 2021		December 31, 2020		Change	%
Three months ended	$	(611,816)	$	(1,247,369)	$	635,553	51%
Twelve and six months ended	$	9,294	$	(939,247)	$	948,541	101%

Gross margin for the three months ended December 31, 2021, was $(611,816) or -75% of revenue. The Company continues to invest in retrofitting certain existing customer equipment to the newest version of the equipment available, and while improving the throughput, reliability, and capabilities, it negatively affects the Company's gross margins. The Company made this decision to ensure these customers achieve the highest possible productivity and efficiency from its systems. The Company incurred approximately $744,000 related to retrofitting during the three months ended December 31, 2021. The Company also wrote down $207,334 of inventory due to engineering changes. Gross margin for the twelve months ended December 31, 2021, was $9,294 or 0.2% of revenue. The Company incurred approximately $1,309,000 related to retrofitting, and $207,334 of inventory write downs for the twelve months ended December 31, 2021. Without retrofitting costs and inventory write down, gross margin for the twelve months ended December 31, 2021, would be 26%, compared to -150% for the six months ended December 31, 2020. The Company expects that retrofitting will continue through the second quarter of 2022, and once completed, margins should improve.

General and administrative expenses

		December 31, 2021		December 31, 2020		Change	%
Three months ended	$	5,145,416	$	2,716,669	$	2,428,747	89%
Twelve and six months ended	$	16,644,987	$	5,630,856	$	11,014,131	196%

The increase in general and administrative expenses is in line with the Company's continued expansion of its business and staffing additions. General and administrative staffing expense and consulting fees for the three months ended December 31, 2021, was $3,766,215 (an increase of 144% compared to $1,544,112 for the three months ended December 31, 2020) and $12,816,219 for the twelve months ended December 31, 2021 (an increase of 256% compared to $3,597,963 for the six months ended December 31, 2020), which reflect the Company's additional headcount. Professional fees for the three months ended December 31, 2021, was $303,222 (a decrease of 13% compared to $347,869 for the three months ended December 31, 2020) and $533,888 for the twelve months ended December 31, 2021, (a decrease of 8% compared to $580,257 for the six months ended December 31, 2020). The Company hired in-house legal counsel which has reduced the need for external counsel.

Selling expenses

	December 31, 2021	December 31, 2020	Change	%
Three months ended	$ 1,981,118	$ 628,823	$ 1,352,295	215%
Twelve and six months ended	$ 6,307,982	$ 745,390	$ 5,562,592	746%

Advertising and promotions expense increased from $146,606 and $223,644 for the three and six months ended December 31, 2020, to $501,543 and $ 1,629,695 for the three and twelve months ended December 31, 2021, to support the Company's branding and expansion efforts associated with the roll out of the Company's Local Chain Ag-Tech industry category and the launch of the ALLWays Local™ produce packaging brand. Staffing expense and consulting fees for the three and twelve months ended December 31, 2021, were $1,256,818 and $4,125,425, compared to $667,612 and $669,506 for the three and six months ended December 31, 2020, due to the expansion of the overall sales and marketing team and marketing capabilities.

Research and development

	December 31, 2021	December 31, 2020	Change	%
Three months ended	$ 3,232,038	$ 1,688,536	$ 1,543,377	91%
Twelve and six months ended	$ 7,518,489	$ 2,355,931	$ 5,162,558	219%

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

During the year, the Company also added the Alberta Grow Centre, which will be used for R&D activities. The Alberta Grow Centre will enable the Company to effectively double its commercial R&D activities, allowing the Company to accelerate the development of standard operating procedures for new cultivars in a commercial setting. Staffing expense and consulting fees increased from $1,100,292 and $1,173,325 for the three and six months ended December 31, 2020, to $2,042,361 and $4,698,611 for the three and twelve months ended December 31, 2021. Materials and supplies used for R&D increased from $316,281 for the three months ended December 31, 2020, to $607,814 for the three months ended December 31, 2021. Materials and supplies used for R&D increased from $894,676 for the six months ended December 31, 2020, to $1,399,441 for the twelve months ended December 31, 2021.

Net finance income (expense)

	December 31, 2021	December 31, 2020	Change	%
Three months ended	$ (152,839)	$ (59,341)	$ (93,498)	- 158%
Twelve and six months ended	$ 8,211	$ (181,651)	$ 189,862	n.a

As previously stated, the Company amended its loan with BDC and recognized a gain on debt modification of $497,287 for the twelve months ended December 31, 2021. The amendment of the BDC loan was positive for the Company as it lowered the amount payable and eliminated the uncertainty of the variable loan bonus. The gain on debt modification was offset by finance expenses and accretion charges incurred in the period.

Net loss

		December 31, 2021		December 31, 2020	Change	%
Three months ended	$	(11,243,309)	$	(6,357,270)	$ (4,654,107)	-77%
Twelve and six months ended	$	(29,357,383)	$	(10,125,563)	$(19,231,821)	-190%

The Company's net loss in the three and twelve months ended December 31, 2021, reflect the Company's continued expansion of its business and staffing additions that management believes are necessary to both develop and sell its manufactured products within the global controlled-environment agricultural market. The Company has doubled its workforce, going to 159 full-time employees and contractors at December 31, 2021, from 82 full-time employees and contractors at December 31, 2020. Net loss for the twelve months ended December 31, 2021, also includes a recovery of $831,064 in expected credit loss that was the difference between the fair value of the assets received from Swiss Leaf, and the cash consideration paid, offset by bad debt of $325,684 recorded in the period. Also included was $626,750 in other income consisting of USD$500,000 from the South Dakota Small Business and Healthcare Grant, as well as other COVID-19 loan forgiveness and relief of $241,294. The Company continues to assess its eligibility for available grants and loans. The Company recorded a $113,006 loss on the change in fair value of the earnout payable related to the HydroGreen acquisition for the three months ended December 31, 2021, and a $118,106 loss for the twelve months ended December 31, 2021.The Company also recorded a $63,575 loss on the change in fair value of the derivative liability related to its BDC loan for the twelve months ended December 31, 2021.

Use of Proceeds

The following table outlines the use of proceeds from the Company's financing activities as of December 31, 2021:

Month	Expected Amount per Prospectus	Actual Amount Received	Use of Proceeds	Expected	%	Actual	%
Dec-20	$15,119,068	$15,475,595	Sales and marketing	$5,700,000	37.7%	$5,120,646	33.1%
			R&D	$5,225,000	34.6%	$5,533,207	35.8%
			Working capital and general corporate purposes	$4,194,068	27.7%	$4,821,741	31.2%
May-21	$23,532,000	$23,549,133	Sales and marketing	$7,765,560	33.0%	$1,178,664	7.9%
			R&D	$7,765,560	33.0%	$1,273,627	8.5%
			Working capital and general corporate purposes	$8,000,880	34.0%	$12,539,320	83.6%
Nov-21	$18,550,000	$18,550,000	Sales and marketing	$7,420,000	40.0%	$0	0.0%
			R&D	$9,275,000	50.0%	$0	0.0%
			Working capital and general corporate purposes	$1,855,000	10.0%	$0	0.0%

Summary of Quarterly Results

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

Period	Revenue $	Net income (loss) for the period $	Basic and fully diluted income (loss) per share $
January 1, 2020 – March 31, 2020	192,689	(6,357,264)	(0.04)
April 1, 2020 – June 30, 2020	4,063,022	(2,336,745)	(0.02)
July 1, 2020 – September 30, 2020	400,525	(3,768,293)	(0.03)
October 1, 2020 – December 31, 2020	224,249	(6,357,270)	(0.05)
January 1, 2021 – March 31, 2021	3,906,810	(3,677,088)	(0.03)
April 1, 2021 – June 30, 2021	356,005	(6,472,041)	(0.04)
July 1, 2021 – September 30, 2021	191,157	(7,964,949)	(0.05)
October 1, 2021 – December 31, 2021	819,195	(11,243,309)	(0.07)

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

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

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

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

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

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

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

During the three months ended September 30, 2021, the Company recorded revenue from consumables of $147,901, and revenue from consulting services of $32,996.

During the three months ended December 31, 2021, the Company recorded $1,476,992 in revenue from 12 HydroGreen system sales, offset by the consideration paid to a customer of the Fresh Division.

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.

	Twelve months ended December 31, 2021	Six months ended December 31, 2020	Twelve months ended June 30, 2020
	$	$	$
Sales	5,273,166	624,774	5,167,488
Cost of sales	5,263,872	1,564,021	2,928,981
Gross profit	9,294	(939,247)	2,238,507
Operating expenses	30,471,458	8,732,177	11,692,605
Loss before other income (expense)	(30,462,164)	(9,671,424)	(9,454,098)
Other income (expense)	1,100,539	(594,780)	
Net loss	(29,357,383)	(10,125,563)	(10,110,752)
Loss per share: Basic and diluted	(0.19)	(0.08)	(0.11)

	As at		
	December 31, 2021	December 31, 2020	June 30, 2020
	$	$	$
Total assets	54,677,149	34,736,855	21,140,607
Total non-current liabilities	3,805,818	4,474,071	2,974,817
Dividends declared	Nil	Nil	Nil

During the twelve months ended June 30, 2020, sales decreased slightly to $5,167,488 compared to 2019. The Company recorded initial revenue from a project in Calgary of 22 CubicFarm System modules, plus sales of six control rooms. The Company also recorded the first HydroGreen machine sale to a customer in Japan. Gross margin was 43%, due to improvements in the manufacturing process, as well as higher volume of high margin consumable sales. Operating and SG&A expense growth was driven mainly by continued efforts by the Company to expand the Operations team and by creating a dedicated Customer Experience team to support the continually growing customer base. Thus, salaries and benefits, and consulting and professional fees increased during 2020 to $7,002,284.

During the six months ended December 31, 2020, the Company recorded $624,774 in revenue, influenced by shipping income and one irrigation system for the Calgary project, as well as one HydroGreen machine sale. 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 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, such as: Calgary, Alberta; Armstrong, British Columbia; and Rensselaer, Indiana. 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.

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 related to the Calgary project, as well as completion of the Armstrong, and San Diego projects, sales of consumables and services from seven consulting agreements in the period, and sales in the Feed Division from a total of 14 machines sold. Operating expenses increased due to continued expansion of the Company. Total full-time employees and contractors grew from 82 at December 31, 2020, to 159 at December 31, 2021.

Liquidity and Capital Resources

Current assets over current liabilities increased from $15,244,610 as at December 31, 2020, to $25,561,588 as at December 31, 2021, an increase of 68%. The increase in current assets over current liabilities, in addition to an increase in cash from a recently completed equity financing on November 24, 2021, is primarily due to an increase in inventory, an increase in prepaid expenses and deposits, and a decrease in customer deposits, offset by an increase in trade and other payables. The Company's objective when managing its working capital and capital resources is to maintain liquidity so as to meet financial obligations when they come due, while actioning its strategic plan. The Company manages its working capital by monitoring operational and cash flow forecasts to identify cash flow needs for general corporate and working capital purposes.

Operating Activities

Cash used in operating activities changed from an inflow of $2,009,886 during the three months ended December 31, 2020, to an outflow of $9,534,173 during the three months ended December 31, 2021, a 574% increase. Cash used in operating activities changed from an outflow of $5,639,993 for the six months ended December 31, 2020, to an outflow of $30,467,205 for the twelve months ended December 31, 2021, an increase of 440%. This is mainly driven by a larger net loss incurred by the Company, an outflow in working capital related to inventory, prepaid expenses and deposits, and customer deposits.

Investing Activities

Cash used in investing activities changed from an inflow of $265,890 during the three months ended December 31, 2020, to an outflow of $1,600,631 during the three months ended December 31, 2021. Cash used in investing activities changed from an outflow of $482,513 during the six months ended December 31, 2020, to an outflow of $7,810,370 during the twelve months ended December 31, 2021. The increase in cash outflow is primarily due to increased capital expenditures.

Financing Activities

Cash from financing activities changed from an inflow of $10,294,441 during the three months ended December 31, 2020, to an inflow of $18,094,396 during the three months ended December 31, 2021, a 76% increase. The increase is primarily due to the completion of equity financing in the last quarter of the 2021. Cash from financing activities changed from an inflow of $18,732,997 for the six months ended December 31, 2020, to an inflow of $43,534,829 during the twelve months ended December 31, 2021, a 132% increase. The increase in cash flows from financing is primarily due to the completion of the equity financing in the second and fourth fiscal quarter of 2021.

Contractual Amounts Payable

At December 31, 2021, the Company has financial liabilities which are due on a fiscal year basis as follows:

	Carrying Amount	< 1 Year	1-5 Years	5+ Years	Total
	$	$	$	$	$
Trade and other payables	4,529,514	4,529,514	-	-	4,529,514
Earn-out payable	1,762,812	1,908,683	-	-	1,908,683
Lease liability	2,381,690	633,771	1,540,705	2,274,951	4,449,427
Loans payable	2,156,711	550,118	2,613,775	1,577	3,165,470
Total	**10,830,727**	**7,622,086**	**4,154,480**	**2,276,528**	**14,053,094**

Capital Management

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

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

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

Transactions with Related Parties

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

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

	Three months ended December 31, 2021 $	Three months ended December 31, 2020 $	Twelve months ended December 31, 2021 $	Six months ended December 31, 2020 $
Short term leases	16,000	12,912	71,561	31,561
Lease payments	225,400	2,500	313,800	5,000
Office expenses	20,950	27,539	93,213	37,570

	December 31, 2021 $	December 31, 2020 $
Lease liability	382,930	65,859

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, 2021 $	Three months ended December 31, 2020 $	Twelve months ended December 31, 2021 $	Six months ended December 31, 2020 $
Wages and salaries	388,500	236,667	1,596,583	472,500
Consulting fees	464,965	316,448	1,280,873	508,694
Share-based compensation	521,242	232,343	1,782,606	445,154
Total	**1,374,707**	**785,458**	**4,660,062**	**1,426,348**

All related party balances

Swiss Leaf Farms Ltd. was a related party as it was an associate of the Company until its dissolution on November 8, 2021.

	As at December 31, 2021 $	As at December 31, 2020 $
Accounts payable:		
Bevo Farms	18,291	12,034
Swiss Leaf Farms	-	11,360
Total Accounts payable	**18,291**	**23,394**

Outstanding Share Data

The Company has authorized share capital consisting of: (i) an unlimited number of common shares without par value or special rights or restrictions attached; (ii) an unlimited number of Class A preferred shares without par value and with certain rights and restrictions attached; and (iii) an unlimited number of Class B preferred shares without par value and with certain rights and restrictions attached. As of March 30, 2021, the Company has no Class A preferred shares or Class B preferred shares issued and outstanding.

As at December 31, 2021, and March 30, 2022, the Company had the following number of common shares, options, and warrants outstanding:

	December 31, 2021	March 30, 2022
Common shares issued and outstanding	178,093,404	178,347,204
Options	18,424,337	18,427,333
Warrants	6,552,705	6,552,705
Total fully diluted shares	**203,070,446**	**203,327,242**

Off-Balance Sheet Arrangements

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

Contingent Liability

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

The Company's legal counsel is preparing a response to the lawsuit and as of the financial year end, the potential exposure the Company faces cannot be measured reliably, and the claim is not expected to have a material effect on the Consolidated Financial Statements.

Financial Instruments

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

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

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

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

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

The earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at December 31, 2021, the discount rate was estimated to be 17% (December 31, 2020 – 17%). If the discount rate decreased by 5%, the estimated fair value of the earnout payable would increase by approximately $38,808 (December 31, 2020 - $70,018). If the discount rate increased by 5%, the estimated fair value of the earnout payable would decrease by approximately $36,113 (December 31, 2020 - $64,502).

The fair value of the Company's Loans payable is the carrying value discounted at the effective interest rate. As at December 31, 2021 the fair value of the Loans payable is $2,126,980 and the carrying value is $2,156,711. As at December 31, 2020 the fair value of the Loans payable was $1,990,278 and the carrying value was $2,034,835.

The derivative liability is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expected earnings before interest, taxes, depreciation, and interest ("EBITDA") in 2024. The expected related cash flows were discounted to derive the fair value of the derivative liability. There is no derivative liability as on December 31, 2021. As at December 31, 2020, the discount rate was estimated to be 47%. If 2024 EBITDA changed by 25%, the estimated fair value of the derivative liability would increase or decrease by approximately $191,219. If discount rates decreased by 5%, the estimated fair value of the derivative liability would increase by approximately $167,232. If discount rates increased by 5%, the estimated fair value of the derivative liability would decrease by approximately $138,870.

There has been no change between levels during the year.

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

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

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

The continuity for earn out payable is as follows:

	December 31, 2021 $	December 31, 2020 $
Balance – beginning of period	1,643,033	1,364,756
Foreign exchange	1,466	(89,700)
Fair value change during the year	118,313	367,977
Balance – end of period	**1,762,812**	**1,643,033**
Comprised of:		
Current earn-out payments	1,762,812	1,165,953
Non-current earn-out payments	-	477,080

The continuity for Derivative liability is as follows:

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

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at December 31, 2021, the primary risks were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. The Company provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at December 31, 2021, one customer accounted for 27% (2020 - 29%) of the trade accounts receivable and the Company expects to collect the balance in full.

Liquidity risk

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

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

Market risk

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

Interest rate risk

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

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As of December 31, 2021, the following items are denominated in US dollars:

	December 31, 2021	December 31, 2020
	$	$
Cash	166,656	3,616,464
Trade and other receivables	1,129,064	1,251,269
Trade and other payables	(1,039,306)	(432,742)
Customer deposits	(661,602)	(524,941)
Earn out payable	(1,385,363)	(1,290,475)
Loans payable	(84,736)	(58,622)
Net exposure	**(1,875,288)**	**2,560,954**

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

As at December 31, 2021, a 10% increase in the US dollar exchange rate would increase the Company's net loss by approximately $188,000 (December 31, 2020 – increase of $256,000). A 10% decrease in the exchange rate would decrease net loss by the same amount.

Critical Accounting Estimates

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

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

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

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

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

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

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

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

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

Disclosure Controls and Internal Controls over Financial Reporting

The Company takes all necessary steps to ensure that material information regarding the Company's reports filed or submitted under securities legislation fairly presents the financial information of the Company. Responsibility for this resides with management, including the Chief Executive Officer and the Chief Financial Officer. Management is responsible for establishing, maintaining, and evaluating disclosure controls and procedures as well as internal control over financial reporting. In the fiscal year 2021, the Company employed an external consultant to evaluate the disclosure controls and internal controls over financial reporting.

Disclosure controls and procedures ("DC&P")
The evaluation of the effectiveness of DC&P, as defined in National Instrument 52-109 Certification of Disclosures in Issuers' Annual and Interim Filings, was performed under the supervision of the Chief Executive Officer and the Chief Financial Officer. They conclude that these DC&P were adequate and effective as at December 31, 2021. The Company's management can therefore provide reasonable assurance that it receives material information relating to the Company in a timely manner so that it can provide investors with complete and reliable information.

Internal control over financial reporting ("ICFR")
Management has designed ICFR to provide reasonable assurance that the Company's financial reporting is reliable and that the Company's consolidated financial statements were prepared in accordance with IFRS. The design and effectiveness of ICFR was evaluated as defined in National Instrument 52-109 under the supervision of the Chief Executive Officer and the Chief Financial Officer. Based on the evaluations, they conclude that ICFR is adequate and effective to provide such assurance as at December 31, 2021. The design of ICFR is undertaken in accordance with the 2013 COSO framework.

COVID-19 Disclosure

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19," has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. As of December 31, 2021, the Company has not observed any material impairments of its assets or a significant change in the fair value of assets due to the COVID-19 pandemic. Due to the rapid developments and uncertainty surrounding COVID-19 it is not possible to predict the impact it will have on the Company's business, financial position, and operating results in the future. It is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

Additional Information & Approval

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

The Board of Directors has approved the disclosure contained in this MD&A as of March 30, 2022.