CubicFarm Systems Corp.

Condensed Consolidated Interim Financial Statements

For The Three Months and Nine Months Ended September 30, 2022, and 2021

(Unaudited)

	Page

CubicFarm Systems Corp.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(Amounts expressed in Canadian dollars)

	Notes	September 30, 2022	December 31, 2021
		$	$
Assets			
Current			
Cash and cash equivalents		7,142,673	21,381,366
Trade and other receivables	7	2,166,187	2,126,752
Inventories	8	13,333,982	8,433,461
Prepaid expenses and deposits		4,889,762	3,405,838
		27,532,604	**35,347,417**
Non-current			
Goodwill		2,025,248	1,874,879
Property, plant and equipment	10	12,204,527	9,431,561
Investment in associates		20	20
Intangible assets		5,488,137	5,371,307
Right-of-use assets	11	4,162,982	2,628,770
Prepaid expenses and deposits		23,195	23,195
		23,904,109	**19,329,732**
Total assets		**51,436,713**	**54,677,149**
Liabilities			
Current			
Trade and other payables		6,607,616	4,529,514
Earn-out payable	21	339,120	1,762,812
Customer deposits	12	7,884,150	2,233,946
Lease liability		898,600	493,794
Loans and borrowings	13	1,626,318	371,960
Warranty provision	14	119,329	388,093
		17,475,133	**9,780,119**
Non-current			
Lease liability		3,276,301	1,887,896
Restoration provision		122,742	133,171
Loans and borrowings	13	10,051,104	1,784,751
Earn-out payable	21	1,009,563	-
		14,459,710	**3,805,818**
Total liabilities		**31,934,843**	**13,585,937**
Equity			
Share capital	17	98,462,658	94,701,922
Equity reserves		9,565,510	6,125,986
Accumulated other comprehensive income/(loss)		1,554,071	(183,977)
Deficit		(90,080,369)	(59,552,719)
Total equity		**19,501,870**	**41,091,212**
Total liabilities and equity		**51,436,713**	**54,677,149**

Going Concern - Note 2

Approved on behalf of the Board

(s) Daniel Burns
Director

(s) G. David Cole
Director

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

CubicFarm Systems Corp.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)
(Amounts expressed in Canadian dollars)

	Notes	For the three months ended September 30, 2022	For the three months ended September 30, 2021	For the nine months ended September 30, 2022	For the nine months ended September 30, 2021
		$	$	$	$
Revenue	19				
Systems		47,058	10,259	2,826,146	3,827,015
Consumables		278,422	147,902	532,272	432,093
Services		-	32,996	101,467	194,864
		325,480	**191,157**	**3,459,885**	**4,453,972**
Cost of sales		(315,706)	(306,217)	(3,228,911)	(3,832,861)
Gross margin		**9,774**	**(115,060)**	**230,974**	**621,111**
General and administrative expenses		(4,096,455)	(5,051,894)	(12,124,204)	(11,559,886)
Selling expenses		(1,579,609)	(1,892,644)	(5,214,410)	(4,266,554)
Research and development		(2,824,938)	(1,825,097)	(8,579,026)	(4,286,451)
Impairment loss	9	(3,456,083)	-	(3,456,083)	-
		(11,957,085)	**(8,769,635)**	**(29,373,723)**	**(20,112,891)**
Loss before other income (expense)		**(11,947,311)**	**(8,884,695)**	**(29,142,749)**	**(19,491,780)**
(Loss) Gain on debt modification	13	(242,842)	-	(242,842)	497,287
Finance income		423	62	1,628	1,795
Finance expense		(201,217)	(66,338)	(361,401)	(198,491)
Accretion charges		(138,498)	(57,692)	(324,279)	(139,542)
Net finance income (expense)		**(582,134)**	**(123,968)**	**(926,894)**	**161,049**
Other income (expense)					
Other income		4,006	2,150	4,006	658,261
Fair value change for earn-out payments		115,325	126,254	200,058	(5,307)
Foreign exchange (loss)/gain		(420,299)	113,442	(603,760)	(153,468)
Change in fair value of derivative liability		-	-	-	(63,576)
Gain on disposal of property, plant and equipment		-	-	1,907	-
Provision for expected credit (loss)/gain	7	(78,063)	801,868	(853,570)	784,712
		(379,031)	**1,043,714**	**(1,251,359)**	**1,220,622**
Loss before income taxes		**(12,908,476)**	**(7,964,949)**	**(31,321,002)**	**(18,110,109)**
Income taxes recovery (expense)		232,921	-	793,352	(3,969)
Net loss for the period		**(12,675,555)**	**(7,964,949)**	**(30,527,650)**	**(18,114,078)**
Other comprehensive loss					
Items that may be reclassified to profit or loss:					
Foreign currency translation gain		1,360,386	174,921	1,738,048	35,455
Total comprehensive loss		**(11,315,169)**	**(7,790,028)**	**(28,789,602)**	**(18,078,623)**
Basic and diluted loss per share		**(0.06)**	**(0.05)**	**(0.16)**	**(0.12)**
Weighted average number of shares outstanding		**183,214,313**	**160,381,366**	**181,581,638**	**147,871,361**

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

(Amounts expressed in Canadian dollars)

	Notes	*Number of Shares* #	*Share capital* $	*Equity reserves* $	*Accumulated other comprehensive income (loss)* $	*Deficit* $	*Total equity* $
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		-	-	-	-	(18,114,078)	(18,114,078)
Exercise of stock options		4,055,299	1,512,273	(740,120)	-	-	772,153
Issuance of shares, net of share issuance costs		20,205,364	25,383,914	-	-	-	25,383,914
Issuance of shares on settlement of loan bonus		128,205	200,000	-	-	-	200,000
Foreign currency translation		-	-	-	35,455	-	35,455
Share-based payments		-	-	3,067,050	-	-	3,067,050
Balance, September 30, 2021		**162,093,404**	**76,136,495**	**5,286,686**	**(29,696)**	**(48,309,414)**	**33,084,071**
Balance, December 31, 2021		**178,093,404**	**94,701,922**	**6,125,986**	**(183,977)**	**(59,552,719)**	**41,091,212**
Net loss for the period		-	-	-	-	(30,527,650)	(30,527,650)
Exercise of stock options	17	253,800	89,596	(41,373)	-	-	48,223
Issuance of shares, net of share issuance costs	17	7,361,000	3,671,140	-	-	-	3,671,140
Equity component of convertible debenture		-	-	1,029,072	-	-	1,029,072
Warrants issued		-	-	850,203	-	-	850,203
Foreign currency translation		-	-	-	1,738,048	-	1,738,048
Share-based payments	18	-	-	1,601,622	-	-	1,601,622
Balance, September 30, 2022		**185,708,204**	**98,462,658**	**9,565,510**	**1,554,071**	**(90,080,369)**	**19,501,870**

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

(Amounts expressed in Canadian dollars)

	Notes	For the nine months ended September 30, 2022	September 30, 2021
Cash provided by (used for) the following activities			
Operating activities			
Net loss for the period		(30,527,650)	(18,114,078)
Adjustments for:			
Depreciation - property, plant and equipment	10	741,112	547,042
Depreciation - right-of-use assets	11	651,346	456,530
Amortization of intangible assets		112,068	11,545
Gain on disposal of property, plant and equipment		(1,907)	-
Loss on lease extinguishment		94,092	-
Provision for expected credit loss (gain)		853,570	(784,712)
Foreign exchange loss		603,760	153,468
Finance expense		361,401	198,491
Accretion charges		324,279	139,542
Finance income		(1,628)	(1,795)
Impairment loss	9	3,456,083	-
Income tax (recovery) expense		(793,352)	3,969
Change in fair value of earnout payable		(200,058)	5,307
Earnout payment		(325,104)	-
Share-based payments expense	18	1,601,622	3,067,050
Loss (Gain) on debt modification		242,842	(497,287)
Change in fair value of derivative liability		-	63,576
Cash used in operations before changes in non-cash working capital		(22,807,524)	(14,751,352)
Changes in non-cash working capital:			
Trade and other receivables		(916,929)	(469,004)
Contract assets		-	605,279
Inventories		(4,900,521)	(1,953,114)
Prepaid expenses and deposits		(1,455,406)	(2,984,210)
Trade and other payables		849,662	1,371,882
Customer deposits		5,761,237	(2,547,486)
Warranty provision		(268,764)	(14,328)
Cash used in operating activities		(23,738,245)	(20,742,333)
Interest paid		(201,074)	(188,525)
Interest received		1,628	1,795
Income taxes paid		-	(3,969)
Net cash used in operating activities		**(23,937,691)**	**(20,933,032)**
Investing activities			
Additions to property, plant, and equipment	10	(4,448,058)	(5,906,611)
Additions to intangible assets		(450,183)	(265,878)
Loans to associates		-	(37,250)
Net cash used in investing activities		**(4,898,241)**	**(6,209,739)**
Financing activities			
Issuance of shares, net of issuance cost		3,671,140	25,383,914
Exercise of stock options	17	48,223	772,153
Principal and interest payments on lease		(723,512)	(470,273)
Proceeds from loans and borrowings, net of financing fees	13	11,794,562	59,570
Principal payments on loans	13	(207,537)	(79,931)
Cash payment of loan bonus		-	(225,000)
Net cash from financing activities		**14,582,876**	**25,440,433**
Decrease in cash and cash equivalents		**(14,253,056)**	**(1,702,338)**
Effect of movements in exchange rates on cash held		14,363	(12,633)
Cash and cash equivalents, beginning of period		21,381,366	16,206,535
Cash and cash equivalents, end of period		**7,142,673**	**14,491,564**

The accompanying notes are an integral part of these condensed consolidated interim 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 through research and development, manufacture and sale of hydroponic growing systems (and ancillary products and services) that provide independent and efficient fresh produce and livestock feed supply. On January 1, 2020, the Company completed the acquisition of all of the issued and outstanding shares of Hydrogreen Inc., (formerly named CubicFeed Systems U.S. Corp.), a manufacturer of fully automated hydroponic growing systems that produce live, green animal feed prioritizing animal health and performance.

2. Going concern

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

The Company incurred a total comprehensive loss of $11,315,169 for the three months and $28,789,602 for the nine months ended September 30, 2022 ($7,790,028 and $18,078,623 for three months and nine months ended September 30, 2021). Net cash used in operating activities was $23,937,691 for the nine months ended September 30, 2022, ($20,933,032 for the nine months ended September 30, 2021), and the Company has accumulated a deficit of $90,080,369 as at September 30, 2022. The Company has current assets exceeding current liabilities by $10,057,471 as at September 30, 2022, compared with $25,567,298 as at December 31, 2021.

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.

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

3. Basis of presentation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting.* They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (IFRSs). As such, they should be read in conjunction with the annual audited consolidated financial statements for the period ended December 31, 2021 and the notes thereto. However, selected notes are included that are significant to understanding the Company's financial position and performance since the last annual consolidated financial statements for the year ended December 31, 2021. The interim financial statements are presented in Canadian dollars, which is the Company's functional currency. The amounts in the tables are expressed in Canadian dollars and rounded to the nearest dollar, unless otherwise stated.

(Expressed in Canadian dollars, unless otherwise stated.)

3. Basis of presentation (continued)

The Audit Committee of the Board of Directors approved these condensed consolidated interim financial statements on November 14, 2022.

Basis of measurement

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

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated upon consolidation. The principal subsidiaries of the Company and associates to which it is a party are as follows at September 30, 2022.

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

4. Significant accounting policies

All accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements for the year ended December 31, 2021. The annual consolidated statements are available on SEDAR at www.sedar.com. These policies have been applied throughout the periods reported.

5. Significant estimates, assumptions, and judgments

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

Impairment assessment

At the end of each fiscal year or whenever there is an indicator of impairment, the Company performs an impairment assessment by comparing the carrying amount to the recoverable amount. The recoverable amount is the higher of the value in use and the fair value less cost to sell. The determination of the value in use and the fair value less cost to sell requires management to apply some judgement and estimates. These include the pre-tax discount rate, the terminal growth rate, the duration of cash flows to be used, the cost to sell and the market value.

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

(Expressed in Canadian dollars, unless otherwise stated.)

6. Cyclicality of operations

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

7. Trade and other receivables

Current:	September 30, 2022	December 31, 2021
	$	$
Trade accounts receivable	2,927,790	2,238,447
Less: Provision for expected credit loss	(1,446,278)	(568,063)
Goods and services tax receivable	684,675	386,094
Other receivable	-	70,274
	2,166,187	**2,126,752**

Aging

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

	September 30, 2022	December 31, 2021
	$	$
Current or under 30 days	284,372	1,233,872
Past due 31 to 90 days	201,597	103,036
Past due 91 to 360 days	1,553,173	588,303
Past due more than 360 days	888,648	313,236
	2,927,790	**2,238,447**

Continuity for provision for expected credit loss on trade accounts receivable

	September 30, 2022	December 31, 2021
Opening	568,063	538,212
Net addition during the period	878,215	29,851
Closing balance	**1,446,278**	**568,063**

For the three months and nine months ended September 30, 2022, expected credit loss of $78,063 and $853,570 was recognized and recorded under Other income (expense). None of the expected credit loss was related to related parties. For the three months and nine months ended September 30, 2021, bad debt recovery of $801,868 and $784,712, respectively, was recognized under provision for expected credit loss, which was related to related parties.

8. Inventories

	September 30, 2022	December 31, 2021
	$	$
Hydroponic growing systems	10,680,491	7,408,547
Work in progress	2,550,860	997,812
Seeds and other supplies	83,963	10,692
Packaging and other	18,668	16,410
	13,333,982	**8,433,461**

(Expressed in Canadian dollars, unless otherwise stated.)

8. Inventories (continued)

Hydroponic growing systems ("Systems") are finished goods on hand and available for sale by the Company. In the nine months ended, September 30, 2022, there was an addition of $1,553,048 which relates to partially completed Systems for on-going projects. The net realizable value of inventory as of September 30, 2022, and December 31, 2021, is higher than the cost. Accordingly, the Company has reported the inventory at cost in the Consolidated Statement of Financial Position. For the three months and nine months ended September 30, 2022, inventories in the value of $190,854 and $2,637,282 respectively have been recognized as Cost of sales in the Consolidated Statement of Loss and Comprehensive Loss (for the three months and nine months ended September 30, 2021 - $92,131 and $2,720,473 respectively).

9. Impairment loss in relation to non-current assets

During the three and nine months ended September 30, 2022, the Company assessed indicators for impairment and observed that as at September 30, 2022, there was a significant decline in the Company's market value due to a general decline in the stock market, and the carrying amount of the Company's net asset exceeded its market capitalization. As at September 30, 2022, the Company also realized a higher net loss than forecast. It was therefore concluded that indicators of impairment exist which resulted in testing for impairment in the period. The Company has identified two Cash Generating Units (CGU's), which are the Fresh division and the Feed division.

The carrying amount of the Fresh division was determined to be higher than its recoverable amount and an impairment loss of $3,456,084 (nine months ended September 30, 2021: nil) was recognized. An impairment loss of $2,719,090 was allocated to property, plant and equipment, $589,166 to intangible assets, and $147,828 to right of use assets, while ensuring the carrying amount of each asset remained greater than or equal to its recoverable amount. The Company assessed the recoverable amount of the Fresh division as the fair value less cost to sell using level 3 inputs. The fair value of the Fresh division was determined by obtaining the market value of the CubicFarm containers based on recent sales market data and estimating the market price for other fixed assets based on the limited expected resale value.

The carrying amount of the Feed division was determined to be lower than its recoverable amount and therefore no impairment (nine months ended September 30, 2021: nil) was recognized. The recoverable amount of the Feed division CGU was determined based on value in use, using a discounted cash flow analysis. Where applicable, the Company used its market capitalization to corroborate discounted cash flow results. The significant assumptions applied in the determination of the recoverable amount are described below:

- Cash flows: Estimated cash flows were projected based on actual operating results from internal sources as well as industry and market trends but are primarily driven by internally forecasted revenues and operating costs. The forecasts are extended to a total of five years with a terminal period thereafter;
- Terminal value growth rate: The terminal growth rate was based on market development and industry growth, and historical and projected economic indicators;
- Pre-tax discount rate: The pre-tax discount rate is reflective of the Company's Weighted Average Cost of Capital ("WACC"). The WACC was estimated based on the risk-free rate, equity risk premium, beta adjustment to the equity risk premium using a direct comparison approach, an unsystematic risk premium, and after-tax cost of debt based on actual debt costs available to the Company;
- Tax rate: The tax rates used in determining the future cash flows were those substantively enacted at the respective valuation date.

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

Significant assumption	September 30, 2022	December 31, 2021
Terminal value growth rate	2%	2%
Pre-tax discount rate	21.25%	17%
Tax-rate	27%	27%

(Expressed in Canadian dollars, unless otherwise stated.)

9. Impairment loss in relation to non-current assets (continued)

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

10. Property, plant and equipment

During the nine months ended September 30, 2022, the Company acquired assets with a cost of $5,888,344 (September 30, 2021 - $6,738,907) and disposed of assets with a net book value of $149,315 (September 30, 2021 - $nil). Depreciation for the nine months ended September 30, 2022, was $741,112 (September 30, 2021 - $547,042). Impairment for the nine months ended September 30, 2022, was $2,719,090 (September 30, 2021 - $nil). Amount of $1,440,286 related to purchase of property plant and equipment is included under Trade and other payables (September 30, 2021 - $nil)

	Production equipment	Vehicle	Leasehold Improvements	Furniture and fixtures	Other equipment	Construction In Progress	Computer equipment	Total
Cost		**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance January 1, 2022	2,134,262	78,432	679,448	134,107	2,716,898	4,873,580	656,019	11,272,746
Additions	227,008	-	307,291	175,827	300,898	4,710,048	167,272	5,888,344
Transfer	-	-	-	-	(14,434)	-	-	(14,434)
Disposal	-	-	(53,995)	-	(91,385)	-	(3,935)	(149,315)
Foreign exchange adjustment	-	3,019	37,533	8,276	41,368	390,871	10,817	491,884
Balance September 30, 2022	**2,361,270**	**81,451**	**970,277**	**318,210**	**2,953,345**	**9,974,499**	**830,173**	**17,489,225**
Accumulated Depreciation	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance January 1, 2022	1,027,644	13,421	234,655	42,479	333,797	-	189,189	1,841,185
Depreciation	129,778	11,784	165,086	55,655	220,921	-	157,888	741,112
Disposal	-	-	(34,488)	-	(15,746)	-	(739)	(50,973)
Foreign exchange adjustment	-	1,019	16,609	3,484	9,098	-	4,074	34,284
Balance September 30, 2022	**1,157,422**	**26,224**	**381,862**	**101,618**	**548,070**	**-**	**350,412**	**2,565,608**
Impairment	725,753	10,694	313,416	83,154	1,391,378	-	194,695	2,719,090
Net book value, September 30, 2022	**478,095**	**44,533**	**274,999**	**133,438**	**1,013,897**	**9,974,499**	**285,066**	**12,204,527**

11. Right-of-use assets

During the nine months ended September 30, 2022, the Company acquired right-of-use assets with a cost of $2,346,782 (September 30, 2021 - $1,329,413). Depreciation for the nine months ended September 30, 2022, was $651,346 (September 30, 2021 - $456,530). Right-of-use assets in the period were reduced by $130,880 (September 30, 2021 - $nil) as the leases related to these assets were terminated. Loss on extinguishment of lease for the nine months ended September 30, 2022,

(Expressed in Canadian dollars, unless otherwise stated.)

11. Right-of-use assets (continued)

was $94,092 with $4,502 accounted for as general and administrative expenses and $89,590 accounted for as research and development expenses (September 30, 2021 - $nil). Impairment for the nine months ended September 30, 2022, was $147,828 (September 30, 2021 - $nil).

12. Customer deposits

Customer deposits consist of funds paid by customers in advance of delivery for Systems based on the sales agreement. The customers may cancel the order prior to shipping of the equipment, subject to certain restocking fees as set in the sales agreement. The order is not cancellable after shipping of the equipment. There are no external restrictions on the use of these deposits.

	September 30, 2022	December 31, 2021
	$	$
Balance - beginning of period	2,233,946	4,955,509
Additions	8,395,153	1,933,340
Recognized into revenue	(2,744,949)	(3,328,036)
Refund of deposit	-	(1,326,867)
Balance - end of period	**7,884,150**	**2,233,946**

Out of the balance of customer deposits, $2,232,225 is the amount of customer deposits that were received more than twelve months ago (December 31, 2021 - $1,866,673).

13. Loans and borrowings

Agriculture interest-free loan

	September 30, 2022	December 31, 2021
	$	$
Balance - beginning of period agriculture interest free loans	74,321	74,638
Foreign exchange adjustment	5,960	(317)
Balance - end of period agriculture interest free loans	80,281	74,321
Less: current portion	(13,380)	(12,387)
Non-current portion	**66,901**	**61,934**

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 nine months ended December 31, 2020. $20,000 of the loan is forgiven if repaid by December 31, 2022. On January 12, 2022, the repayment deadline to qualify for the partial loan forgiveness was extended to December 31, 2023.

(Expressed in Canadian dollars, unless otherwise stated.)

13. Loans and borrowings (continued)

Government relief loan

	September 30, 2022	December 31, 2021
	$	$
Balance - beginning of period government relief loans	40,000	30,000
Addition during the year	-	20,000
Loan forgiven transferred to other income	-	(10,000)
Balance - end of period government relief loans	40,000	40,000
Less: current portion	-	(40,000)
Non-current portion	**40,000**	**-**

Business loan

The Company obtained a business loan amounting to $2,500,000 on August 28, 2020. The interest is payable monthly and is currently at a fixed rate of 10% which is set at a base rate of 4.9% plus a variance of 5.1% per year. The variance will be decreased by 1% for the remaining term once the Company is able to complete two consecutive fiscal quarters with positive consolidated earnings before interest, taxes, depreciation, and amortization ("EBITDA") results. The loan is payable over 47 monthly instalments of $25,000 commencing July 15, 2021, with a balloon payment of $1,325,000 payable on June 15, 2025. On September 16, 2022, the Company modified the loan agreement where the principal payment for October 2022 to January 2023 was modified to $12,500 and the remaining balance is to be paid over 12 equal payments until the revised maturity date of January 15, 2024. The interest rate on the loan changes to 18% per annum from February 2023. The loss on debt modification for the three and nine months ended September 30, 2022, is $242,842. (Three months ended September 30, 2021 - $nil, nine months ended September 30, 2021- $568,417).

	September 30, 2022	December 31, 2021
	$	$
Balance - beginning of period	2,009,283	1,930,197
Accretion	80,643	85,984
Interest expense	170,099	10,301
Interest paid	(158,576)	(10,616)
Principal payment	(200,000)	(150,000)
Loss on debt modification	242,842	568,417
Cash payment of loan bonus	-	(225,000)
Issuance of shares on settlement of loan bonus	-	(200,000)
Loan payable - end of period	2,144,291	2,009,283
Less: current portion	(1,454,167)	(310,301)
Non-current portion	**690,124**	**1,698,982**

(Expressed in Canadian dollars, unless otherwise stated.)

13. Loans and borrowings (continued)

(Loss) Gain on debt modification continuity

	Three Months Ended September 30, 202	Three Months Ended September 30, 202	Nine Months Ended September 30 202	Nine Months Ended September 30 202
	$	$	$	$
Gain on extinguishment of derivative liability upon debt modification	-	-	-	1,065,704
Loss on debt modification	(242,842)	-	(242,842)	(568,417)
Gain on debt modification	**(242,842)**	-	**(242,842)**	**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.

	September 30, 2022	December 31, 2021
	$	$
Balance - beginning of period	33,108	-
Loan payable – initial recognition	-	39,570
Interest expense	1,743	-
Interest paid	(1,632)	-
Principal payment	(7,537)	(6,440)
Foreign exchange adjustment	2,598	(22)
Loan payable - end of period	28,280	33,108
Less: current portion	(10,079)	(9,273)
Non-current portion	**18,201**	**23,835**

Convertible debentures

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

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

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

(Expressed in Canadian dollars, unless otherwise stated.)

September 30, 2022, the Company has accrued interest payable of $131,158 (December 31, 2021 - nil) on these convertible debentures.

13. Loans and borrowings (continued)

	September 30, 2022	December 31, 2021
	$	$
Balance - beginning of period	-	-
Loan payable – initial recognition (June 2, 2022)	4,048,157	-
Accretion	99,669	-
Interest expense	171,294	
Interest paid	(40,136)	-
Loan payable - end of period	4,278,984	-
Less: Current	(131,158)	-
Non-current portion	**4,147,826**	**-**

Senior secured term loan

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

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

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

	September 30, 2022	December 31, 2021
	$	$
Balance - beginning of period	-	-
Loan payable – Initial recognition (September 20, 2022)	5,073,779	-
Accretion	14,273	-
Interest expense	17,534	-
Loan payable- end of period	5,105,586	-
Less: Current	(17,534)	-
Non-current portion	**5,088,052**	**-**

(Expressed in Canadian dollars, unless otherwise stated.)

13. Loans and borrowings (continued)

Continuity for all loans and borrowings

	September 30, 2022	December 31, 2021
	$	$
Balance - beginning of period	2,156,711	2,034,835
Additions	9,121,936	59,570
Loan forgiven transferred to other income	-	(10,000)
Accretion	194,585	85,984
Interest expense	360,670	10,301
Principal payments	(207,537)	(156,440)
Interest paid	(200,344)	(10,616)
Loss on debt modification	242,842	568,417
Cash payment of loan bonus	-	(225,000)
Issuance of shares on settlement of loan bonus	-	(200,000)
Foreign exchange adjustment	8,559	(340)
Balance - end of period	11,677,422	2,156,711
Less: current portion	(1,626,318)	(371,960)
Non-current portion	**10,051,104**	**1,784,751**

14. Warranty provision

	September 30, 2022	December 31, 2021
	$	$
Opening balance	388,093	191,342
Additions	59,593	276,530
Fulfillment	(328,357)	(79,779)
Ending balance	**119,329**	**388,093**

15. Lease liability

During the nine months ended September 30, 2022, the Company made principal and interest lease payments of $723,512 (Nine months ended September 30, 2021- $470,273). Lease payments to related party during the nine months ended September 30, 2022, amounted to $288,230 (Nine months ended September 30, 2021 - $88,400).

16. Related party transactions

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

(Expressed in Canadian dollars, unless otherwise stated.)

16. Related party transactions (continued)

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine months Ended September 30 2022	Nine months Ended September 30 2021
	$	$	$	$
Short term leases	13,500	12,000	41,562	55,561
Lease payments	157,580	61,300	288,230	88,400
Office expenses	9,742	17,983	42,968	72,263

	As at September 30, 2022	As at December 31, 2021
	$	$
Lease liability	1,156,687	382,930

Key management compensation

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine months Ended September 30 2022	Nine months Ended September 30 2021
	$	$	$	$
Wages and salaries	401,843	410,000	1,236,975	1,132,083
Consulting fees	86,833	222,767	770,727	817,679
Share-based compensation	214,345	286,140	722,916	1,261,365
Total	**703,021**	**918,907**	**2,730,618**	**3,211,127**

Share-based compensation is equal to the estimated fair value of the instruments granted and recognized over the vesting period.

Other related party balances as at September 30, 2022:

	As at September 30, 2022	As at December 31, 2021
	$	$
Accounts payable:		
Bevo Farms	6,301	18,291
Total Accounts payable	6,301	18,291

17. Share capital

The Company has authorized share capital consisting of: (i) an unlimited number of Common Shares without par value or special rights or restrictions attached; (ii) an unlimited number of Class A Preferred Shares without par value and with certain rights and restrictions attached; and (iii) an unlimited number of Class B Preferred Shares without par value and with certain rights and restrictions attached. As of September 30, 2022, the Company has no Class A Preferred Shares or Class B Preferred shares issued and outstanding (December 31, 2021 – Nil).

(Expressed in Canadian dollars, unless otherwise stated.)

17. Share capital (continued)

	Number of common shares	Impact on share capital
	#	$
Balance December 31, 2020	**137,704,536**	**49,040,308**
Issuance of shares (i)	36,205,364	47,189,365
Share issuance costs (i)	-	(3,240,024)
Shares issued to settle liability (ii)	128,205	200,000
Options and warrants exercised (iii)	4,055,299	772,153
Transfer from equity reserves	-	740,120
Balance December 31, 2021	**178,093,404**	**94,701,922**
Issuance of shares (iv)	7,361,000	4,048,551
Share issuance costs (iv)	-	(377,411)
Options and warrants exercised (iii)	253,800	48,223
Transfer from equity reserves	-	41,373
Balance September 30, 2022	**185,708,204**	**98,462,658**

i) 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.
ii) Shares issued for settlement of loan bonus component of BDC loan (Note 13)
iii) Options and warrants exercised at average price of $0.19 per share.
iv) Public offering of shares at net average price of $0.50 per share. Share issuance costs of $377,411 were accounted for as a deduction from equity.

18. 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 and warrant 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 and warrants carry neither right to dividends nor voting rights. Options and warrants may be exercised at any time from the date of vesting to the date of their expiry.

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

Share purchase options and warrants continuity schedule:

	Number of share purchase options and warrants	Weighted average exercise price
	#	**$**
Balance December 31, 2021	**24,977,042**	**0.66**
Granted	4,118,000	0.78
Exercised	(253,800)	0.19
Forfeited	(653,204)	0.36
Expired	(216,666)	0.45
Balance September 30, 2022	**27,971,372**	**0.70**

(Expressed in Canadian dollars, unless otherwise stated.)

18. Share based compensation (continued)

Share purchase options outstanding at September 30, 2022:

Range of Exercise Price	Options Outstanding	Weighted average remaining contractual life	Weighted Average Exercise price	Options Exercisable
$	#		$	#
$0.01-$0.50	1,835,667	3.44	0.20	1,272,333
$0.51-$1.00	13,112,000	3.56	0.79	10,968,333
$1.01-$1.50	3,555,000	3.78	1.30	1,050,000
$1.51-$2.00	300,000	3.50	1.59	-
	18,802,667			**13,290,666**

Share purchase warrants outstanding at September 30, 2022:

Range of Exercise Price	Warrants Outstanding	Weighted average remaining contractual life	Weighted Average Exercise price	Warrants Exercisable
$	#		$	#
$0.01-$0.50	6,552,705	2.21	0.19	6,552,705
$0.51-$1.00	2,616,000	2.67	0.71	2,616,000
	9,168,705			**9,168,705**

The fair value of the share purchase options and warrants granted was calculated using the Black-Scholes option valuation model at the grant date, with the following weighted average assumptions:

	Options	
	Nine months Ended September 30, 2022	**Nine months Ended September 30, 2021**
Share price volatility	63% - 116%	171%
Expected dividend yield	$nil	$nil
Employee forfeiture rate	27%	20%
Board of Directors forfeiture rate	13%	25%
Risk free interest rate	1.41%-3.14%	0.17%- 0.40%

	Warrants	
	Nine months Ended September 30, 2022	**Nine months Ended September 30, 2021**
Share price volatility	58%	NA
Expected dividend yield	$nil	NA
Risk free interest rate	2.50%	NA

(Expressed in Canadian dollars, unless otherwise stated.)

18. Share based compensation (continued)

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine months Ended September 30 2022	Nine months Ended September 30 2021
	$	$	$	$
SBC for vendors	62,361	1,447,160	195,644	1,481,798
SBC for employees & directors	430,998	416,990	1,405,978	1,585,252
Total	**493,359**	**1,864,150**	**1,601,622**	**3,067,050**

19. Operating segments

For management purposes, the Company is organized into divisions based on its products and services and these are comprised of two separate reportable segments: The Company's Fresh Division sells hydroponic equipment and services to promote leafy green production in a controlled environment. The Fresh division includes the head office function and operates in Canada. The Company's Feed Division sells hydroponic equipment and services to promote live green animal feed production in a controlled environment, and operates in the United States.

Three months ended September 30, 2022.

	Fresh	Feed	Total
	$	$	$
Revenue	311,386	14,094	325,480
Gross margin	29,613	(19,839)	9,774
Impairment loss	(3,456,083)	-	(3,456,083)
Net loss	(10,444,726)	(2,230,829)	(12,675,555)
Total assets	22,744,946	28,691,767	51,436,713

During the three months ended September 30, 2022, The Company earned a significant portion of its sales revenue from four customers in the amount of $273,154. The customers are located in Canada, with their entire revenue reported in the Fresh reportable segment.

Three months ended September 30, 2021.

	Fresh	Feed	Total
	$	$	$
Revenue	186,081	5,076	191,157
Gross margin	(81,524)	(33,536)	(115,060)
Net loss	(6,017,381)	(1,974,568)	(7,964,949)
Total assets (December 31, 2021)	27,719,772	17,267,208	44,986,980

During the three months ended September 30, 2021, The Company earned a significant portion of its sales revenue from four customers in the amount of $167,370. Three customers were located in Canada and one in the United States with each having their entire revenue reported in the Fresh reportable segment.

(Expressed in Canadian dollars, unless otherwise stated.)

19. Operating segments (continued)

Nine months ended September 30, 2022.

	Fresh	Feed	Total
	$	$	$
Revenue	3,213,294	246,591	3,459,885
Gross margin	160,483	70,491	230,974
Impairment loss	(3,456,083)	-	(3,456,083)
Net loss	(24,018,367)	(6,509,283)	(30,527,650)
Total assets	22,744,946	28,691,767	51,436,713

During the nine months ended September 30, 2022, The Company earned a significant portion of its sales revenue from one customer in the amount of $2,445,080. The customer is located in Canada, with its entire revenue reported in the Fresh reportable segment.

Nine months ended September 30, 2021.

	Fresh	Feed	Total
	$	$	$
Revenue	4,268,891	185,081	4,453,972
Gross margin	643,861	(22,750)	621,111
Net loss	(13,218,390)	(4,895,688)	(18,114,078)
Total assets (December 31, 2021)	35,388,719	19,288,430	54,677,149

During the nine months ended September 30, 2021, The Company earned a significant portion of its sales revenue from one customer in the amount of $3,511,554. The customer was located in Canada with its entire revenue reported in the Fresh reportable segment.

20. Capital management

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

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

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

During the period, the Company's strategy, which was unchanged from the prior year, was to maintain net equity at a positive amount. The net equity at September 30, 2022 and December 31, 2021 was as follows:

(Expressed in Canadian dollars, unless otherwise stated.)

20. Capital management (continued)

	September 30, 2022	December 31, 2021
	$	$
Total Assets	51,436,713	54,677,149
Total Liabilities	(31,934,843)	(13,585,937)
Net Equity	**19,501,870**	**41,091,212**

21. Financial instruments

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

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

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

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

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

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

The earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at September 30, 2022, the discount rate was estimated to be 21.15% (December 31, 2021 – 17%).

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

As at September 30, 2022

	FVTPL	Amortized Cost	Fair Value	
Asset (Liability)			**Level 2**	**Level 3**
Cash and cash equivalents	-	7,142,673	-	-
Trade and other receivables	-	2,166,187	-	-
Trade and other payables	-	(6,607,616)	-	-
Earn out payable	(1,348,683)	-	-	(1,348,683)
Loans and borrowings	-	(11,677,422)	(11,495,397)	-

(Expressed in Canadian dollars, unless otherwise stated.)

21. 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)
Loans and borrowings	-	(2,156,711)	(2,126,980)	-

Earn-out payable continuity

	September 30, 2022	December 31, 2021
	$	$
Balance – beginning of period	1,762,812	1,643,033
Less: payment	(325,104)	-
Foreign exchange	111,033	1,466
Fair value change during the period	(200,058)	118,313
Balance – end of period	**1,435,342**	**1,762,812**
Comprised of:		
Current earn-out payments	339,120	1,762,812
Non-current earn-out payments	1,009,563	-

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 September 30, 2022, the primary risks relating to the use of financial instruments were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. The Company provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at September 30, 2022, three customers accounted for 40%, 27% and 11% of gross trade accounts receivable, respectively (December 31, 2021 - 48%, 27% and 12%).

Liquidity risk

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

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

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

21. Financial instruments (continued)

Market risk

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

Interest rate risk

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

Foreign currency risk

The Company enters into transactions denominated in US dollars for which the related revenues, expenses, accounts receivable, and accounts payable balances are subject to exchange rate fluctuations. As at September 30, 2022, the following monetary items are denominated in US dollars:

	September 30, 2022	**December 31, 2021**
	$	**$**
Cash	244,711	166,656
Trade and other receivables	1,160,036	1,129,064
Trade and other payables	(2,083,236)	(1,039,306)
Customer deposits	(4,320,706)	(661,602)
Earn-out payable	(984,814)	(1,385,363)
Loans payable	(79,272)	(84,736)
Net exposure	**(6,063,281)**	**(1,875,287)**

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

A 10% increase in the value of the US dollar relative to the Canadian dollar would increase the Company’s comprehensive loss by approximately $606,000 (December 31, 2021 – increase of $188,000). A 10% decrease in the value of the US dollar relative to the Canadian dollar would decrease comprehensive loss by the same amount.

22. Contingent liability

The Company is party to a claim that arose in the ordinary course of business in August 2022, asserting that the Company was in breach of certain obligations pursuant to a purchase agreement.

The Company’s legal counsel is in the process of submitting a response to the notice of civil claim. As of the period end, the potential exposure the Company faces cannot be measured reliably.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2022

Dated: November 14, 2022

The following Management's Discussion and Analysis ("MD&A") is prepared as of November 14, 2022, and reports on the operating results and financial condition of CubicFarm Systems Corp., (the "Company" or "CubicFarms") for the three and nine months ended September 30, 2022. This MD&A is prepared by management and should be read in conjunction with the condensed consolidated interim financial statements for the three and nine months ended September 30, 2022, as well as the consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts herein are expressed in Canadian dollars unless stated otherwise.

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

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

Forward-Looking Statements

Certain statements contained in the following MD&A constitute forward-looking statements. These statements are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "plans", "forecasts", "budgets", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or management, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements related to future modules, 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. 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") and selling the CubicFarm System to farmers, licensing its technology, and providing industry-leading vertical farming expertise to its customers.

As of September 30, 2022, the Fresh division had 100 employees and full-time contractors, a decrease of 7% from 108 as of September 30, 2021.

Research and Development

The Company's 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.

Feed Division

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

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

As of September 30, 2022, the Feed Division had 36 employees and full-time contractors, a decrease of 14% from 42 as of September 30, 2021.

Manufacturing

HydroGreen products are manufactured at a 21,620 square foot warehouse and office space at HydroGreen's principal place of business located in Sioux Falls, South Dakota. 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 is used for R&D, product testing, customer visits, partner training, and feed trials.

A dozen of the larger Automated 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, Automated Vertical Pastures™ consisting of 12 GLS808 machines are 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, these Automated Vertical Pastures™, a beta-test project, are 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. LLLP operations include over 17,000 cattle located on 35,000 acres across the Midwestern and Western United States.

In May 2022, HydroGreen released a report on a trial conducted to determine if adding hydroponically sprouted grains grown in HydroGreen's Automated Vertical Pastures™ can reduce methane in cows and improve feed efficiency, and cow health, nutrition, and performance outcomes. During an observational comparison study with 344 jersey dairy cows and 244 beef cattle, gathering over 200,000 data points, study trials measured methane concentration in dairy cows and beef cattle. Eructation event methane concentration was assessed twice weekly with an open path infrared absorption spectroscopy device in different settings, using methods described in the Journal of Methane. Observations showed that including HydroGreen in the ration significantly increases dry matter intake (DMI), rumination activity, and nutrient digestibility. The results indicated 24% less methane emissions in dairy cows, preliminary data showing a similar if not greater reductions in beef cattle. The same trial found that by enabling better ration digestibility in the rumen, overall health and performance outcomes are also improved.

The Company plans to carry out additional research and development activities on several of its beta project customer sites.

Corporate and operational highlights for the three months ended September 30, 2022

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

On September 9, 2022, the Company announced management and strategic transitions. Dave Dineson and Jeff Booth both resigned from the Board of Directors, and Daniel Burns was appointed Chair of the Board. Edoardo De Martin was also appointed Interim Chief Executive Officer following the retirement of Dave Dinesen. Additionally, a Special Committee comprising independent Board directors was appointed to review strategic and tactical opportunities for the Company.

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

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

Environmental, Social, and Governance (ESG)

The Company's 2022 impact reporting is guided by the Sustainable Development Goals outlined by the United Nations and the Global Reporting Initiatives (GRI) Framework 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 uses a single row of light to reduce energy consumption
- Shortened supply chain needs by growing local, resulting in 80% less waste
- Zero pesticides or herbicides used
- Significantly less land required to grow the same amount of food
- 45% more nutrients found within produce grown locally compared to produce transported via long supply chains

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

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

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

Environmental Commitments

Sustainability

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

On September 7, 2021, the Company announced that the Business Intelligence Group named the HydroGreen indoor growing 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 January 12, 2022, the Company announced that Real Leaders® named CubicFarms as one of the newly selected winners of its 2022 Top Impact Companies from around the world.

On March 11, 2022, South by Southwest® ("SXSW") recognized the Company's HydroGreen Automated Vertical Pastures™ indoor growing technology for fresh livestock feed as one of five global finalists in the "New Economy" category of the 2022 SXSW Innovation Awards.

On May 3, 2022, CubicFarms received an honourable mention for its HydroGreen technology in the Best World Changing Idea – North America category in Fast Company's 2022 World Changing Ideas Awards. This recognition honours clean technology, innovative corporate initiatives, brave new designs for cities and buildings, and other creative works that are supporting the growth of positive social innovation, tackling social inequality, climate change, and public health crises. A panel of eminent Fast Company editors and reporters selected winners and finalists from a pool of nearly 3,000 entries across transportation, education, food, politics, technology, health, social justice, and more. The Company's HydroGreen Automated Vertical Pastures™ indoor growing technology for fresh livestock feed was recognized for helping farmers and ranchers grow commercial scale amounts of nutritious fresh fodder in any climate, 365 days a year.

On July 6, 2022, Real Leaders® announced that CubicFarm Systems Corp. was selected as one of the Top 50 winners in the 2022 Real Leaders Eco Innovation Awards. This distinction celebrates achievement in environmental impact. As a longtime advocate for businesses that build sustainability into their business models, Real Leaders® wanted to recognize the products, projects, and initiatives that are actively contributing to a healthier planet.

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.

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 nine months ended September 30, 2022

On October 24, 2022, the Company announced the appointment of John de Jonge as Interim Chief Executive Officer and President of Hydrogreen following the departure of former Interim Chief Executive Officer Edoardo De Martin and President Dan Schmidt at Hydrogreen. Edoardo De Martin will remain in an advisory role through the end of January 2023. As a former board member of CubicFarms, Mr. de Jonge was integral to the original acquisition of HydroGreen for the Company in 2019 and will focus on accelerating the growth of the Company's Feed Division.

Discussion of Operations

Three and nine months ended September 30, 2022, and 2021.

Revenue

Fresh Division	September 30, 2022	September 30, 2021	Change	%
Three months ended	$ 311,386	$ 186,081	$ 125,305	67%
Nine months ended	$ 3,213,294	$ 4,268,891	$ (1,055,597)	-25%

Feed Division	September 30, 2022	September 30, 2021	Change	%
Three months ended	$ 14,094	$ 5,076	$ 9,018	178%
Nine months ended	$ 246,591	$ 185,081	$ 61,510	33%

Total	September 30, 2022	September 30, 2021	Change	%
Three months ended	$ 325,480	$ 191,157	$ 134,323	70%
Nine months ended	$ 3,459,885	$ 4,453,972	$ (994,087)	-22%

The Company's sales fluctuate on a quarter-by-quarter basis, leading to financial results fluctuating from period to period. The Company has three main sources of revenue – 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. Sales within the Fresh Division for the three months ended September 30, 2022, included supply of parts of $32,964, and consumable revenue of $278,422. Sales within the Fresh Division for the nine months ended September 30, 2022, included System Sales of $2.6 million, consumable revenue of $532,272 and services revenue of $101,467. Sales within the Feed division for the three months ended September 30, 2022, included part sales of $14,094. Sales within the Feed Division for the nine months ended September 30, 2022, included System Sales of $246,591.

Gross margin

Fresh Division	September 30, 2022	September 30, 2021	Change	%
Three months ended	$ 29,613	$ (81,524)	$ 111,137	n.a.
Nine months ended	$ 160,483	$ 643,861	$ (483,378)	-75%

Feed Division	September 30, 2022	September 30, 2021	Change	%
Three months ended	$ (19,839)	$ (33,536)	$ 13,697	41%
Nine months ended	$ 70,491	$ (22,750)	$ 93,241	n.a.

Total	September 30, 2022	September 30, 2021	Change	%
Three months ended	$ 9,774	$ (115,060)	$ 124,834	n.a.
Nine months ended	$ 230,974	$ 621,111	$ (390,137)	-63%

Gross margin for the three months ended September 30, 2022, was $9,774 or 3% of revenue. The Company incurred approximately $51,000 related to retrofitting of previously sold systems during the three months ended September 30, 2022. Without retrofitting costs, gross margin for the three months ended September 30, 2022, would be 19%. Gross margin for the nine months ended September 30, 2022, was $230,974 or 7% of revenue. Without retrofitting costs, gross margin for the nine months ended September 30, 2022, would be 15%.

Gross margin for the three months ended September 30, 2021, was $(115,060) or -60% of revenue. The Company incurred approximately $64,000 in retrofitting expense during the three months ended September 30, 2021. Gross margin for the nine months ended September 30, 2021, was $621,111 or 14% of revenue. The Company incurred approximately $564,000 in retrofitting expense for the nine months ended September 30, 2021. Without retrofitting costs, gross margin for the nine months ended September 30, 2021, would be 27% of revenue.

General and administrative expenses

	September 30, 2022	September 30, 2021	Change	%
Three months ended	$ 4,096,455	$ 5,051,894	$ (955,439)	-19%
Nine months ended	$ 12,124,204	$ 11,559,886	$ 564,318	5%

For the three months ended September 30, 2022, general and administrative expenses reduced by $955,439 or 19%. This decrease was due to a one-time expense incurred in the three months ended September 30, 2021, relating to warrants vested which was not incurred in the current period. General and administrative staffing expense and consulting fees for the three months ended September 30, 2022, was $3,061,913 (compared to $4,061,244 for the three months ended September 30, 2021).

For the nine months ended September 30, 2022, general and administrative expenses increased by $564,318 or 5%. This increase was due mostly to an increase in office expenses and supplies, subscriptions, software licenses, shipping and logistics costs, and operational supplies.

Selling expenses

	September 30, 2022	September 30, 2021	Change	%
Three months ended	$ 1,579,609	$ 1,892,644	$ (313,035)	-17%
Nine months ended	$ 5,214,410	$ 4,266,554	$ 947,856	22%

For the three months ended September 30, 2022, selling expenses decreased by $313,035 or 17%. This was due to a decrease in office expenses and supplies, subscriptions, software licenses, shipping and logistics costs, and operational supplies; offset by an increase in advertising and promotion expenses, and sales and marketing staffing expense and consulting fees. In the three months ended September 30, 2022, cost reduction measures were implemented but the impact is not expected to be significant until the subsequent year.

For the nine months ended September 30, 2022, selling expenses increased by $947,856 or 22%. This was due to the expansion of the overall sales and marketing team and marketing capabilities implemented earlier in the year.

Research and development

	September 30, 2022	September 30, 2021	Change	%
Three months ended	$ 2,824,938	$ 1,825,097	$ 999,841	55%
Nine months ended	$ 8,579,026	$ 4,286,451	$ 4,292,575	100%

R&D expenses were for the continued automation of the Fresh and Feed growing systems, including hardware and software, as well as research and development associated with growing new crops and animal feed in the equipment.

For the three months ended September 30, 2022, research and development expenses increased by approximately $999,841 or 55%. This was mostly due to an increase in R&D staffing expense and consulting fees, and an increase in office expenses and supplies, subscriptions, software licenses, shipping and logistics costs, and operational supplies.

For the nine months ended September 30, 2022, research and development expenses increased by $4,292,575 or 100%. This was mostly due to an increase in R&D staffing expense and consulting fees, and an increase in office expenses and supplies, subscriptions, software licenses, shipping and logistics costs, and operational supplies.

Impairment loss

	September 30, 2022	September 30, 2021	Change	%
Three months ended	$ 3,456,083	$ -	$ 3,456,083	n.a.
Nine months ended	$ 3,456,083	$ -	$ 3,456,083	n.a.

During the three and nine months ended September 30, 2022, the Company assessed indicators for impairment and concluded that indicators of impairment exist which resulted in testing for impairment in the period. The Company has identified two Cash Generating Units (CGU's), which are the Fresh division and the Feed division.

In the three and nine months ended September 30, 2022, the Fresh division was impaired by $3,456,083. The impairment loss was allocated to property, plant and equipment, intangible assets, and right of use assets, while ensuring the carrying amount of each asset remained greater than or equal to its recoverable amount. No impairment was recognized in the Feed division.

Net finance expense (income)

	September 30, 2022	September 30, 2021	Change	%
Three months ended	$ 582,134	$ 123,968	$ 458,166	370%
Nine months ended	$ 926,894	$ (161,049)	$ 1,087,943	n.a.

The net finance expense relates to finance expenses and accretion charges incurred in the period. The net finance expense in the three and nine months ended September 30, 2022, also included the interest on the convertible debentures issued in the second quarter, interest on the senior term loan issued in the third quarter, and a loss on debt modification. The nine months ended September 30, 2021, included a gain on debt modification of $497,287.

Net loss

	September 30, 2022	September 30, 2021	Change	%
Three months ended	$ (12,675,555)	$ (7,964,949)	$ (4,710,606)	-59%
Nine months ended	$ (30,527,650)	$ (18,114,078)	$ (12,413,572)	-69%

The Company's net loss in the three and nine months ended September 30, 2022, reflects the Company's prior expansion of its business and staffing additions that were necessary to both develop and sell its manufactured products within the global controlled-environment agricultural market. Cost reduction measures were put in place in the third quarter; however, the related impact is expected to be more apparent in the fourth quarter and subsequent years. The net loss also reflects the impairment loss recognized in the period.

Use of Proceeds

The following table provides a comparison between the expected and actual use of proceeds from the Company's financing activities as of September 30, 2022:

Month	Expected Amount per Prospectus	Actual Amount Received	Use of Proceeds	Expected	%	Actual	%
Nov-21	$18,550,000	$18,550,000	Sales and marketing	$7,420,000	40.0%	$2,978,662	16.1%
			R&D	$9,275,000	50.0%	$4,477,816	24.1%
			Working capital and general corporate purposes	$1,855,000	10.0%	$11,093,522	59.8%
Jun-22	$10,560,000	$10,588,550	Sales and marketing	$1,056,000	5.7%	$1,579,609	15.0%
			R&D	$6,336,000	34.2%	$2,824,938	26.8%
			Working capital and general corporate purposes	$3,168,000	17.1%	$6,184,003	58.6%
Sep-22	$6,400,000	$6,400,000	Working capital and general corporate purposes	$6,400,000	100%	$305,639	4.8%

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

Summary of Quarterly Results

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

Period	Revenue $	Net income (loss) for the period $	Basic and fully diluted income (loss) per share $
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)
January 1, 2022 - March 31, 2022	243,912	(8,760,249)	(0.05)
April 1, 2022 - June 30, 2022	2,890,493	(9,652,277)	(0.05)
July 1, 2022 - September 30, 2022	325,480	(12,675,555)	(0.06)

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

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

During the three months ended September 30, 2022, the Company's revenues were primarily derived from consumables sales.

Liquidity and Capital Resources

Current assets in excess of current liabilities decreased from $25,567,298 as at December 31, 2021, to $10,057,471 as at September 30, 2022, a decrease of 61%. The decrease in current assets in excess of current liabilities is primarily due to cash and net working capital used towards the Company's operations. The Company's objective is to maintain liquidity so as to meet financial obligations when they come due, while actioning its strategic plan. The Company ensures its current assets exceed its current liabilities 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 outflow of $9,157,858 during the three months ended September 30, 2021, to an outflow of $9,213,007 during the three months ended September 30, 2022, a less than 1% increase. Cash used in operating activities changed from an outflow of $20,933,032 for the nine months ended September 30, 2021, to an outflow of $23,937,691 for the nine months ended September 30, 2022, an increase of 14%. While the Company initiated cost reduction measures in the third quarter, the Company incurred a larger operating cash outflow for the nine months ended September 30, 2022, compared to the prior year due to its overhead expansion earlier in the year. The Company expects down-trending of operating cash outflow in subsequent quarters.

Investing Activities

Cash used in investing activities changed from an outflow of $5,196,283 during the three months ended September 30, 2021, to an outflow of $940,726 during the three months ended September 30, 2022, an 82% decrease. The decrease is due to the purchase of the Swiss Leaf assets in the three months ended September 30, 2021. There was no similar investing activity in the three months ended September 30, 2022. Cash used in investing activities changed from an outflow of $6,209,739 during the nine months ended September 30, 2021, to an outflow of $4,898,241 during the nine months ended September 30, 2022, a 21% decrease. The decrease in cash outflow is primarily due a decrease in property, plant and equipment compared to the prior year, offset by an increase in intangible assets.

Financing Activities

Cash used in financing activities changed from an inflow of $367,919 during the three months ended September 30, 2021, to an inflow of $5,521,895 during the three months ended September 30, 2022. The increase is due to the senior term loan raised in the quarter. Cash from financing activities changed from an inflow of $25,440,433 for the nine months ended September 30, 2021, to an inflow of $14,582,876 during the nine months ended September 30, 2022, a 43% decrease. The decrease is due to less financing raised in the current period compared to the prior period.

Contractual Amounts Payable

As at September 30, 2022, the Company has financial liabilities which are due on a fiscal year basis as follows:

As at September 30, 2022	Carrying Amount	< 1 Year	1-5 years	5+ Years	Total
	$	$	$	$	$
Trade and other Payables	6,607,616	6,607,616	-	-	6,607,616
Earn-Out Payable	1,348,683	339,120	1,009,563	-	1,348,683
Lease liability	4,174,901	1,192,286	2,734,906	2,765,931	6,693,123
Loan payable	11,677,422	2,650,272	16,308,075	-	18,958,347
Total	**23,808,622**	**10,789,294**	**20,052,544**	**2,765,931**	**33,607,769**

Capital Management

To date, the Company has financed its operations primarily through issuances of debt and equity. The development of modular growing systems and animal feed systems as well as its production process 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 condensed consolidated interim financial statements have been prepared on the basis that the Company will continue as a going concern, as management believes that the Company will be able to raise sufficient capital to meet its obligations as and when they come due. The going concern basis of accounting assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business.

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

Transactions with Related Parties

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

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

	Three months ended September 30, 2022 $	Three months ended September 30, 2021 $	Nine months ended September 30, 2022 $	Nine months ended September 30, 2021 $
Short term leases	13,500	12,000	41,562	55,561
Lease payments	157,580	61,300	288,230	88,400
Office expenses	9,742	17,983	42,968	72,263

	As at September, 2022 $	As at December 31, 2021 $
Lease liability	1,156,687	382,930

Key management compensation

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

	Three months ended September 30, 2022 $	Three months ended September 30, 2021 $	Nine months ended September 30, 2022 $	Nine months ended September 30, 2021 $
Wages and salaries	401,843	410,000	1,236,975	1,132,083
Consulting fees	86,833	222,767	770,727	817,679
Share-based compensation	214,345	286,140	722,916	1,261,365
Total	**703,021**	**918,907**	**2,730,618**	**3,211,127**

Other related party balances

	As at September 30, 2022 $	As at December 31, 2021 $
Accounts payable:		
Bevo Farms	6,301	18,291
Total Accounts payable	**6,301**	**18,291**

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 November 9, 2022, the Company has no Class A preferred shares or Class B preferred shares issued and outstanding.

As at September 30, 2022, and November 9, 2022, the Company had the following number of common shares, options, and warrants outstanding:

	September 30, 2022	November 9, 2022
Common shares issued and outstanding	185,708,204	185,708,204
Options	18,802,667	13,986,000
Warrants	9,168,705	9,168,705
Total fully diluted shares	**213,679,576**	**208,862,909**

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 in August 2022, asserting that the Company was in breach of certain obligations pursuant to a purchase agreement.

The Company's legal counsel is in the process of submitting a response to the notice of civil claim. As of the period end, the potential exposure the Company faces cannot be measured reliably.

Financial Instruments

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

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

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

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

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

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

The earnout payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value is primarily driven by the Company's expectations of HydroGreen achieving certain revenue targets. The expected related cash flows were discounted to derive the fair value of the earnout payable. As at September 30, 2022, the discount rate was estimated to be 17% (December 31, 2021 – 17%).

There has been no change between levels during the year.

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

As at September 30, 2022				
	FVTPL	Amortized Cost	Fair Value	
Asset (Liability)			Level 2	Level 3
Cash and cash equivalents	-	7,142,673	-	-
Trade and other receivables	-	2,166,187	-	-
Trade and other payables	-	(6,607,616)	-	-
Earnout payable	(1,348,683)	-	-	(1,348,683)
Loans payable	-	(11,677,422)	(11,495,397)	-

The continuity for earn out payable is as follows:

	September 30, 2022 $	December 31, 2021 $
Balance – beginning of period	1,762,812	1,643,033
Less: payment	(325,104)	-
Foreign exchange	111,033	1,466
Fair value change during the year	(200,058)	118,313
Balance – end of period	**1,435,342**	**1,762,812**
Comprised of:		
Current earn-out payments	339,120	1,762,812
Non-current earn-out payments	1,009,563	-

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 September 30, 2022, the primary risks were as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. The Company provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at September 30, 2022, three customers accounted for 40%, 27% and 11% of gross trade accounts receivable, respectively (December 31, 2021 - 48%, 27% and 12%).

Liquidity risk

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

Market risk

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

Interest rate risk

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

Foreign currency risk

The Company 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 September 30, 2022, the following items are denominated in US dollars:

	September 30, 2022 $	December 31, 2021 $
Cash	244,711	166,656
Trade and other receivables	1,160,036	1,129,064
Trade and other payables	(2,083,236)	(1,039,306)
Customer deposits	(4,320,706)	(661,602)
Earn-out payable	(984,814)	(1,385,363)
Loans payable	(79,272)	(84,736)
Net exposure	**(6,063,281)**	**(1,875,287)**

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 September 30, 2022, a 10% increase in the US dollar exchange rate would increase the Company's comprehensive loss by approximately $606,000 (December 31, 2021 – increase of $188,000). A 10% decrease in the exchange rate would decrease comprehensive loss by the same amount.

Critical Accounting Estimates

The preparation of the Company's condensed consolidated interim 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.

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

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

Disclosure Controls and Internal Controls over Financial Reporting

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

For the nine months ended September 30, 2022, there were no material changes in the Company's internal controls over financial reporting or changes to disclosure controls and procedures that materially affect, or would be reasonably likely to affect, the Company's internal control systems.

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 September 30, 2022, the Company has not observed any material impairments of its assets or a significant change in the fair value of assets due to the COVID-19 pandemic. Due to the rapid developments and uncertainty surrounding COVID-19 it is not possible to predict the impact it will have on the Company's business, financial position, and operating results in the future. It is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

Additional Information & Approval

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

The Audit Committee of the Board of Directors has approved the disclosures contained in this MD&A as of November 14, 2022.