CubicFarm Systems Corp.

Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022

Notice of No Auditor Review

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

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

Financial Statements **Page**

CubicFarm Systems Corp.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(Amounts expressed in Canadian dollars)

	Notes	September 30, 2023	December 31, 2022
		$	$
Assets			
Current			
Cash		581,994	2,944,924
Trade and other receivables	7	993,867	1,986,579
Inventory	8	9,568,072	13,310,727
Prepaid expenses and deposits		4,474,031	2,575,580
Net investment in finance lease	10	206,152	-
		15,824,117	**20,817,810**
Non-current			
Property, plant and equipment	9	405,892	1,006,044
Investment in associates		20	20
Right-of-use assets	10	2,632,911	1,944,643
Prepaid expenses and deposits		8,722	9,367
		3,047,545	**2,960,074**
Total assets		**18,871,662**	**23,777,884**
Liabilities			
Current			
Trade and other payables		8,025,553	7,514,621
Earn-out payable	19	1,387,520	1,386,396
Customer deposits	11	11,316,436	10,931,330
Lease liability	10	707,744	709,228
Loans and borrowings	12	1,912,838	2,081,125
Warranty provision	13	112,106	123,784
		23,462,197	**22,746,484**
Non-current			
Lease liability	10	3,060,270	2,249,940
Restoration provision	10	110,009	123,032
Loans and borrowings	12	10,630,768	8,626,506
		13,801,047	**10,999,478**
Total liabilities		**37,263,244**	**33,745,962**
Shareholders' equity (deficiency)			
Share capital	15	101,353,686	99,045,198
Equity reserves	15	10,418,353	10,269,041
Accumulated other comprehensive income/(loss)		661,307	640,691
Deficit		(130,824,928)	(119,923,008)
Total equity (deficiency)		**(18,391,582)**	**(9,968,078)**
Total liabilities and shareholders' equity		**18,871,662**	**23,777,884**

Approved on behalf of the Board

"Daniel Burns" — **Director**

"Michael Kyne" — **CFO**

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

CubicFarm Systems Corp.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(Amounts expressed in Canadian dollars)

		For the three months ended		For the nine months ended	
	Notes	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
				$	$
Revenue	17				
Systems		21,273	47,058	3,703,840	2,826,146
Consumables		4,950	278,422	50,382	532,272
Services		32,877	-	83,015	101,467
		59,100	**325,480**	**3,837,237**	**3,459,885**
Cost of sales	8	(130,554)	(315,706)	(3,967,707)	(3,228,911)
Gross margin		**(71,454)**	**9,774**	**(130,470)**	**230,974**
General and administrative expenses		(1,499,041)	(4,096,455)	(6,023,680)	(12,124,204)
Selling expenses		(181,908)	(1,579,609)	(1,128,761)	(5,214,410)
Research and development		(468,857)	(2,824,938)	(1,752,917)	(8,579,026)
Gain (Loss) on impairment	9	-	(3,456,083)	131,539	(3,456,083)
		(2,149,838)	**(11,957,085)**	**(8,773,851)**	**(29,373,723)**
Loss before other income (expense)		**(2,221,292)**	**(11,947,311)**	**(8,904,321)**	**(29,142,749)**
Gain (Loss) on debt modification		-	(242,842)	-	(242,842)
Finance income	10	6,831	423	25,361	1,628
Finance expense	12	(326,886)	(201,217)	(1,236,476)	(361,401)
Accretion expense	10,12	(332,170)	(138,498)	(907,971)	(324,279)
Net finance (expense) income		**(652,225)**	**(582,134)**	**(2,119,086)**	**(926,894)**
Other income (expense)					
Other income		149,662	4,006	228,225	4,006
Fair value change for earn-out payments		-	115,325	-	200,058
Foreign exchange loss		660,262	(420,299)	55,474	(603,760)
Gain on disposal of property, plant and equipment	9	-	-	7,948	1,907
Provision for expected credit gain/(loss)	7	(147,968)	(78,063)	(170,161)	(853,570)
		661,956	**(379,031)**	**121,486**	**(1,251,359)**
Loss before income taxes		**(2,211,560)**	**(12,908,476)**	**(10,901,920)**	**(31,321,002)**
Income taxes recovery (expense)		-	232,921	-	793,352
Net loss for the period		**(2,211,560)**	**(12,675,555)**	**(10,901,920)**	**(30,527,650)**
Other comprehensive income (loss)					
Items that may be reclassified to profit or loss:					
Foreign currency translation income (loss)		(727,342)	1,360,386	20,616	1,738,048
Total comprehensive loss		**(2,938,902)**	**(11,315,169)**	**(10,881,304)**	**(28,789,602)**
Basic and diluted loss per share		**(0.01)**	**(0.06)**	**(0.05)**	**(0.16)**
Weighted average number of shares outstanding		**221,258,648**	**183,214,313**	**237,376,004**	**181,581,638**

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

(Amounts expressed in Canadian dollars)

	Notes	***Number of shares***	***Share capital***	***Equity reserves***	***Accumulated other comprehensive income (loss)***	***Deficit***	***Total equity (deficiency)***
		#	$	$	$	$	$
Balance, December 31, 2021		**178,093,404**	**94,701,922**	**6,125,986**	**(183,977)**	**(59,552,719)**	**41,091,212**
Net loss for the period		-	-	-	-	(30,527,650)	(30,527,650)
Exercise of stock options		253,800	89,596	(41,373)	-	-	48,223
Issuance of shares, net of share issuance costs		7,361,000	3,671,140	-	-	-	3,671,140
Equity component of convertible debenture, net of taxes		-	-	1,029,072	-	-	1,029,072
Warrants issued		-	-	850,203	-	-	850,203
Foreign currency translation		-	-	-	1,738,048	-	1,738,048
Share-based payments		-	-	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**
Balance, December 31, 2022		**207,136,774**	**99,045,198**	**10,269,041**	**640,691**	**(119,923,008)**	**(9,968,078)**
Net loss for the period		-	-	-	-	(10,901,920)	(10,901,920)
Issuance of shares, net of share issuance costs	15	56,027,000	2,402,722	-	-	-	2,402,722
Warrants issued	16	-	(94,234)	94,234	-	-	-
Foreign currency translation		-	-	-	20,616	-	20,616
Share-based payments	16	-	-	55,078	-	-	55,078
Balance, September 30, 2023		**263,163,774**	**101,353,686**	**10,418,353**	**661,307**	**(130,824,928)**	**(18,391,582)**

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

CubicFarm Systems Corp.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)
(Amounts expressed in Canadian dollars)

	For the nine months ended	
	September 30, 2023	September 30, 2022
	$	$
Cash provided by (used for) the following activities		
Operating activities		
Net loss for the period	(10,901,920)	(30,527,650)
Adjustments for:		
Depreciation and amortization	656,747	1,504,526
Gain on disposal of property, plant and equipment	(7,948)	(1,907)
(Gain) Loss on lease extinguishment	(68,090)	94,092
Loss on debt modification	-	242,842
Provision for expected credit loss	170,161	853,570
Foreign exchange (gain) loss	(105,853)	603,760
Finance expense	1,236,476	361,401
Accretion expense	907,971	324,279
Finance income	(25,361)	(1,628)
Loss on impairment	(131,539)	3,456,083
Income tax recovery	-	(793,352)
Change in fair value of earnout payable	-	(200,058)
Earnout payment	-	(325,104)
Share-based payments expense	135,585	1,601,622
Cash used in operations before changes in non-cash working capital	(8,133,771)	(22,807,524)
Changes in non-cash working capital:		
Trade and other receivables	731,726	(916,929)
Inventories	3,742,655	(4,900,521)
Prepaid expenses and deposits	(1,897,806)	(1,455,406)
Trade and other payables	508,333	849,662
Customer deposits	503,394	5,761,237
Warranty provision	(11,678)	(268,764)
Cash used in operating activities	(4,557,147)	(23,738,245)
Interest paid	(790,856)	(201,074)
Interest received	7,906	1,628
Net cash used in operating activities	**(5,340,097)**	**(23,937,691)**
Investing activities		
Additions to property, plant, and equipment	20,402	(4,448,058)
Proceeds from sales of property, plant, and equipment	439,752	-
Additions to intangible assets	-	(450,183)
Net cash used in investing activities	**460,154**	**(4,898,241)**
Financing activities		
Issuance of shares, net of issuance cost	2,402,722	3,671,140
Exercise of stock options	-	48,223
Principal and interest payments on lease	(691,708)	(723,512)
Proceeds from loans and borrowings, net of financing fees	1,416,415	11,794,562
Principal payments on loans	(752,409)	(207,537)
Proceeds from net investment in finance lease	117,600	-
Net cash from financing activities	**2,492,620**	**14,582,876**
Increase (Decrease) in cash and cash equivalents	**(2,387,323)**	**(14,253,056)**
Effect of movements in exchange rates on cash held	24,393	14,363
Cash and cash equivalents, beginning of period	2,944,924	21,381,366
Cash and cash equivalents, end of period	**581,994**	**7,142,673**

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

1. Reporting entity

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

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

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

2. Going concern

To date, the Company has financed its operations primarily through share issuances and debt. The development of modular growing systems and animal feed systems, as well as the production processes 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 $2,938,902 for the three months and total comprehensive loss of $10,881,304 for the nine months ended September 30, 2023 (September 30, 2022 - $11,315,169 and $28,789,602). Net cash used in operating activities was $5,340,097 for the nine months ended September 30, 2023 (September 30, 2022 - $23,937,691). As at September 30, 2023, the Company has accumulated deficit of $130,824,928. The Company's current liabilities exceed current assets by $7,638,080 as of September 30, 2023, compared with $1,928,674 as of December 31, 2022.

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

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

3. Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (IFRSs). As such, they should be read in conjunction with the annual audited consolidated financial statements for the period ended December 31, 2022, and the notes thereto. However, selected notes are included that are significant to understanding the Company's financial position and performance since the last annual consolidated financial statements for the year ended December 31, 2022. These condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency. The amounts in the tables are expressed in Canadian dollars and rounded to the nearest dollar, unless otherwise stated.

(Expressed in Canadian dollars, unless otherwise stated)

3. Basis of presentation (continued)

The Audit Committee of the Board of Directors approved these condensed interim consolidated financial statements on November 14, 2023.

Basis of measurement

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

Basis of consolidation

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

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

4. Material accounting policy information

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

Significant estimates, assumptions, and judgments

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

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

5. New accounting standards issued and effective

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

Classification of liabilities as current or non-current

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

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

(Expressed in Canadian dollars, unless otherwise stated)

5. New accounting standards issued and effective (continued)

Disclosure of accounting policies

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

6. Cyclicality of operations

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

7. Trade and other receivables

	September 30, 2023	December 31, 2022
	$	$
Trade accounts receivable	1,487,588	2,274,591
Less: Provision for expected credit loss	(1,016,489)	(1,144,106)
Goods and services tax receivable	107,903	722,515
Other receivable	414,865	133,579
	993,867	**1,986,579**

Aging

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

	September 30, 2023	December 31, 2022
	$	$
Current or under 30 days	260,786	193,269
Past due 31 to 90 days	19,160	41,081
Past due 91 to 360 days	367,855	537,234
Past due more than 360 days	839,787	1,503,007
	1,487,588	**2,274,591**

Continuity for provision for expected credit loss on trade accounts receivables

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	1,144,106	568,063
Net addition during the period	(127,617)	576,043
	1,016,489	**1,144,106**

(Expressed in Canadian dollars, unless otherwise stated)

7. Trade and other receivables (continued)

Continuity for provision for expected credit loss on trade accounts receivables *(continued)*

For the three and nine months ended September 30, 2023, expected credit loss of $147,968 and $170,161, respectively, (September 30, 2022 - $78,063 and $853,570), was recognized and recorded under other income (expense) in the condensed interim consolidated statements of loss and comprehensive loss. None of the expected credit gain or loss was related to related parties.

8. Inventories

	September 30, 2023	December 31, 2022
	$	$
Hydroponic growing systems	6,471,565	8,979,946
Work in progress	3,053,356	4,253,166
Seeds and other supplies	22,381	56,845
Packaging and other	20,770	20,770
	9,568,072	**13,310,727**

Hydroponic growing systems ("Systems") are finished goods on hand and available for sale by the Company. The net realizable value of inventory as of September 30, 2023, and December 31, 2022, is higher than the cost. Accordingly, the Company has reported the inventory at cost in the condensed interim consolidated statements of financial position. For the three and nine months ended September 30, 2023, inventory in the value of $97,368 and $3,808,450 relating to Systems has been recognized as cost of sales in the condensed interim consolidated statement of loss and comprehensive loss (September 30, 2022 - $190,854 and $2,637,282).

9. Property, plant and equipment

During the nine months ended September 30, 2023, the Company acquired assets with a cost of $20,578 (September 30, 2022 - $5,888,344) and disposed assets with a net book value of $314,800 (September 30, 2022 - $149,315). During the nine months ended September 30, 2023, the Company realized gains of $7,948 on the disposal of assets and gains of $131,539 on impairment reversal in the period. Depreciation for the nine months ended September 30, 2023, was $279,485 (September 30, 2022 - $741,112).

10. Leases

Right-of-use assets

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	1,944,643	2,628,770
Amendments	6,153	330,954
Additions	2,162,125	2,015,828
Termination of lease	(1,136,425)	(1,209,727)
Impairment	-	(1,025,453)
Depreciation	(377,262)	(894,345)
Foreign exchange adjustment	33,677	98,616
	2,632,911	**1,944,643**

(Expressed in Canadian dollars, unless otherwise stated)

10. Leases (continued)

Net investment in finance lease

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	-	-
Additions	306,297	-
Interest accretion	17,455	-
Lease receipts	(117,600)	-
	206,152	**-**
Current portion	206,152	-
Non-current portion	-	-

Lease liabilities

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	2,959,168	2,381,690
Amendments	7,862	333,086
Additions	2,162,125	2,015,828
Termination of lease	(886,408)	(1,124,506)
Accretion expense	180,458	191,360
Payments	(691,708)	(989,034)
Foreign exchange adjustment	36,517	150,744
	3,768,014	**2,959,168**
Current portion	707,744	709,228
Non-current portion	3,060,270	2,249,940

Restoration provision

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	123,032	133,171
Termination of lease	(13,519)	(12,675)
Accretion	820	1,640
Foreign exchange adjustment	(324)	896
	110,009	**123,032**

(Expressed in Canadian dollars, unless otherwise stated)

11. Customer deposits

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	10,931,330	2,233,946
Additions	4,087,696	11,350,418
Recognized into revenue	(2,930,188)	(2,809,612)
Refund of deposit with equity	(513,050)	-
Foreign exchange adjustment	(259,352)	156,578
	11,316,436	**10,931,330**

Customer deposits consist of funds paid by customers in advance of delivery for Systems based on the sales agreement. A customer may cancel the order prior to shipping of the equipment, subject to certain restocking fees as set in the sales agreement. An order is not cancellable after shipping of the Systems. There are no external restrictions on the use of these deposits. As at September 30, 2023, customer deposits of $4,297,299 were received more than twelve months ago (December 31, 2022 - $2,237,188).

12. Loans and borrowings

Continuity for all loans and borrowings

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	10,707,631	2,156,711
Additions	-	9,121,936
Accretion expense	726,693	443,014
Interest expense	1,236,093	736,902
Interest paid	(790,856)	(724,996)
Net of principal redraw (payment)	664,006	(1,276,548)
Loss on debt modification	-	242,842
Foreign exchange adjustment	39	7,770
	12,543,606	**10,707,631**
Current portion	1,912,838	2,081,125
Non-current portion	10,630,768	8,626,506

Agriculture interest-free loan

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	79,541	74,321
Foreign exchange adjustment	65	5,220
	79,606	**79,541**
Current portion	79,606	79,541
Non-current portion	-	-

(Expressed in Canadian dollars, unless otherwise stated)

12. Loans and borrowings (continued)

Government relief loan

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	40,000	40,000
Addition	-	-
	40,000	**40,000**
Current portion	40,000	40,000
Non-current portion	-	-

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

Business loan

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	2,128,215	2,009,283
Accretion expense	14,254	114,670
Interest expense	110,622	253,524
Interest paid	(119,252)	(242,104)
Principal payment	(744,423)	(250,000)
Loss on debt modification	-	242,842
	1,389,416	**2,128,215**
Current portion	1,389,416	1,951,598
Non-current portion	-	176,617

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

(Expressed in Canadian dollars, unless otherwise stated)

12. Loans and borrowings (continued)

Vehicle Loan

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	25,482	33,107
Interest expense	1,226	2,265
Interest paid	(1,226)	(2,307)
Principal payment	(7,986)	(10,133)
Foreign exchange adjustment	(26)	2,550
	17,470	**25,482**
Current portion	11,416	9,986
Non-current portion	6,054	15,496

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

Convertible debenture

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	4,226,932	-
Initial recognition, net of transaction costs	-	4,048,157
Accretion expense	267,274	178,247
Interest expense	392,400	302,264
Interest paid	-	(301,736)
	4,886,606	**4,226,932**
Current portion	392,400	-
Non-current portion	4,494,206	4,226,932

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

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

(Expressed in Canadian dollars, unless otherwise stated)

12. Loans and borrowings (continued)

Convertible debenture *(continued)*

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

As at September 30, 2023, the Company has accrued interest payable of $392,400 on these convertible debentures (December 31, 2022 - $nil). The convertible loan is in default and terms of repayment are currently in discussion.

Senior secured term loan

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	4,207,461	-
Initial recognition, net of transaction costs	-	5,073,779
Accretion expense	445,165	150,097
Interest expense	731,845	178,849
Interest paid	(670,378)	(178,849)
Principal redraw (payment)	1,416,415	(1,016,415)
	6,130,508	**4,207,461**
Current portion	-	-
Non-current portion	6,130,508	4,207,461

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

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

The fair value of the liability component of the loan on the date of issuance was assessed to be $5,537,329 based on an estimated market discount rate of 19.7% less the pro-rata portion of transaction costs of $463,550. The liability component will be measured at amortized cost using the effective interest rate method. The residual value of $862,671 was allocated to the equity component less the pro-rata portion of transaction costs of $72,217. Income tax recovery of $232,921 associated with the warrants included in the loan was recognized, resulting in a net increase of $557,532 in equity. As at September 30, 2023, the senior secured term loan is in default and terms of repayment are currently in discussion.

(Expressed in Canadian dollars, unless otherwise stated)

13. Warranty provision

	September 30, 2023	December 31, 2022
	$	$
Balance - beginning of period	123,784	388,093
Additions	-	69,096
Fulfillment	(11,678)	(333,405)
	112,106	**123,784**

14. Related party transactions

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

Key management compensation

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

	Three months Ended		Nine months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	$	$	$	$
Wages and salaries	59,327	482,882	340,959	835,132
Consulting fees	-	239,750	-	683,894
Share-based compensation	(202,509)	192,825	134,954	508,571
	(143,182)	**915,457**	**475,913**	**2,027,597**

(Expressed in Canadian dollars, unless otherwise stated)

15. Share capital

The Company has authorized share capital consisting of:

- an unlimited number of Common Shares without par value or special rights or restrictions attached;
- an unlimited number of Class A Preferred Shares without par value and with certain rights and restrictions attached; and
- an unlimited number of Class B Preferred Shares without par value and with certain rights and restrictions attached. As of September 30, 2023, the Company has no Class A Preferred Shares or Class B Preferred shares issued and outstanding (December 31, 2022 – Nil).

	Common Shares	Share Capital
	#	$
Balance December 31, 2022	207,136,774	99,045,198
Issuance of shares[1]	56,027,000	2,801,349
Share issuance costs[1]	-	(398,627)
Transfer from equity reserves	-	(94,234)
Balance September 30, 2023	**263,163,774**	**101,353,686**

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

16. Share based compensation

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

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

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

Share purchase options and warrants continuity schedule:

	Options and warrants	Weighted average exercise price
Balance December 31, 2022	38,689,275	0.70
Granted	10,817,202	0.08
Forfeited	(4,459,069)	0.39
Expired	(6,392,369)	0.51
Balance September 30, 2023	**38,655,039**	**0.19**

(Expressed in Canadian dollars, unless otherwise stated)

16. Share based compensation (continued)

Share purchase options outstanding as of September 30, 2023:

Range of Exercise Price	Outstanding	Exercisable	Average remaining life	Weighted average exercise price
$	#	#	Years	$
0.01 - 0.50	6,002,098	2,143,984	6.04	0.08
0.51 - 1.00	1,449,000	1,383,000	1.35	0.76
1.01 - 1.50	760,000	415,000	3.91	1.33
	8,211,098	**3,941,984**		

Share purchase warrants outstanding as of September 30, 2023:

Range of Exercise Price	Outstanding	Exercisable	Weighted average remaining life	Weighted average exercise price
$	#	#	Years	$
0.01 - 0.50	27,827,941	27,827,941	1.72	0.10
0.51 - 1.00	2,616,000	2,616,000	1.67	0.71
	30,443,941	**30,443,941**		

In January 2023, the Company issued share appreciation rights ("SARs") to board members. The fair value of the eligible SARs was calculated using the Black-Scholes option valuation model at the end of each reporting period date. For the three and nine months ended September 30, 2023, the SARs were recognized as share-based compensation ("SBC") expense of $15,692 and $304,493, respectively, in the condensed interim consolidated statement of loss and comprehensive loss (September 30, 2022 - $nil).

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

	September 30, 2023	Nine months ended September 30, 2022
Share price volatility	112%	58 - 63%
Expected dividend yield	$nil	$nil
Employees forfeiture rate	27%	27%
Board of Directors forfeiture rate	0 - 13%	13%
Risk free interest rate	2.95 - 4.83%	1.41 - 3.14%

The details of SBC expense are as follows:

	Three months Ended		Nine months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	$	$	$	$
Vendors	(1,538)	61,700	(4,614)	133,283
Employees and directors	631	405,207	220,001	974,980
	(907)	**466,907**	**215,387**	**1,108,263**
General and administrative expenses	495	360,185	219,593	877,952
Selling expenses	-	58,077	-	130,537
Research and development	(1,402)	48,645	(4,206)	99,774
	(907)	**466,907**	**215,387**	**1,108,263**

(Expressed in Canadian dollars, unless otherwise stated)

17. Operating segments

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

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

Three months ended September 30, 2023	Fresh	Feed	Total
	$	$	$
Revenue	7,754	51,346	59,100
Gross margin	(50,351)	(21,103)	(71,454)
Net loss	(1,177,392)	(1,034,168)	(2,211,560)
Total assets	5,267,223	13,604,438	18,871,662
Total liabilities	(27,867,285)	(9,395,959)	(37,263,244)

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
Total liabilities	(27,191,876)	(4,742,967)	(31,934,843)

Nine months ended September 30, 2023	Fresh	Feed	Total
	$	$	$
Revenue	3,644,494	192,743	3,837,237
Gross margin	(145,796)	15,326	(130,470)
Net loss	(8,313,462)	(2,588,458)	(10,901,920)
Total assets	5,267,223	13,604,438	18,871,662
Total liabilities	(27,867,285)	(9,395,959)	(37,263,244)

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	(13,573,644)	(4,278,451)	(17,852,095)
Total assets	22,744,946	28,691,767	51,436,713
Total liabilities	(27,191,876)	(4,742,967)	(31,934,843)

(Expressed in Canadian dollars, unless otherwise stated)

18. Capital management

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

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

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

During the period, the Company's strategy was unchanged from the prior period. The net equity ending balance as of September 30, 2023, and December 31, 2022:

	September 30, 2023	December 31, 2022
	$	$
Total Assets	18,871,662	23,777,884
Total Liabilities	(37,263,244)	(33,745,962)
Net Equity	**(18,391,582)**	**(9,968,078)**

19. Financial instruments and risk management

Fair value measurement

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

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

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

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

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

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

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, 2023, the discount rate was estimated to be 31% (December 31, 2022 – 31%).

(Expressed in Canadian dollars, unless otherwise stated)

19. Financial instruments and risk management (continued)

Fair value measurement *(continued)*

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

			Level 2	Level 3
Balance September 30, 2023	**FVTPL**	**Amortized cost**	**Fair value**	**Fair value**
	$	**$**	**$**	**$**
Cash and cash equivalents	-	581,994	-	-
Trade and other receivables	-	993,867	-	-
Trade and other payables	-	(8,025,553)	-	-
Earn out payable	(1,387,520)	-	-	(1,387,520)
Loans and borrowings	-	(12,543,606)	(11,949,969)	-

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

Earn-out payable continuity

	September 30, 2023	**December 31, 2022**
	$	**$**
Balance - beginning of period	1,386,396	1,762,812
Payments	-	(325,104)
Foreign exchange	1,124	93,090
Fair value change during the period	-	(144,402)
	1,387,520	**1,386,396**
Current portion	1,387,520	1,386,396
Non-current portion	-	-

Financial risk management objectives and policies

The Company is exposed to certain risks relating to its financial instruments. The Company does not use derivative financial instruments to manage these risk exposures. As at September 30, 2023, the primary risks relating to the use of financial instruments were as follows:

19. Financial instruments and risk management (continued)

Financial risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge any obligations. The Company's cash and cash equivalents and receivables are exposed to credit risk. The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness and the loans and advances will be secured by the assets of the Company which mitigates the credit risk. The Company provides allowances for potentially uncollectible accounts receivables from customers and receivables from associates. As at September 30, 2023, three customers accounted for 27%, 24% and 21% of gross trade accounts receivable, respectively (December 31, 2022 - 40%, 27% and 11%).

Liquidity risk

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

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

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

Market risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

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

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

(Expressed in Canadian dollars, unless otherwise stated)

19. Financial instruments and risk management (continued)

Financial risk management objectives and policies (continued)

The table below summarizes the Company's exposure to the various currencies denominated in the foreign currency as at September 30, 2023, and December 31, 2022, as listed below:

	September 30, 2023		December 31, 2022	
	US dollar	**Chinese renminbi**	**US dollar**	**Chinese renminbi**
	$	**¥**	**$**	**¥**
Cash and cash equivalents	62,802	423,251	500,276	8,627,405
Trade and other receivables	421,054	407,004	825,032	-
Trade and other payables	(2,832,652)	(2,861,741)	(2,866,745)	(11,739)
Customer deposits	(3,308,731)	(17,656,008)	(4,346,496)	(15,759,855)
Earn out payable	(1,021,775)	-	(1,021,775)	-
Loans payable	(71,730)	-	(77,402)	-
	(6,751,032)	**(19,687,494)**	**(6,987,110)**	**(7,144,189)**

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

Based on the balances as at September 30, 2023, a 1% increase or decrease in the value of the Canadian dollar exchange rate against all other currencies on this date would result in an increase or decrease of approximately $128,575 (December 31, 2022 – $108,846) in earnings or losses before taxes.